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Prime Minister's Visit to Washington, February 1985.

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10 DOWNING STREET

From the Private Secretary

6 March, 1985.

Prime Minister's Visit to Washington
Meetings in Congress

I enclose records of the Prime Minister's meetings in Washington on 20 February with leading Senators and Congressmen. The drafts were despatched from Washington on 22 February, but received here only on 5 March.

I am copying this letter and enclosures to Richard Mottram (Ministry of Defence), Rachel Lomax (HM Treasury), Callum McCarthy (Department of Trade and Industry), and Richard Hatfield (Cabinet Office).

(C.D. Powell)

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

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D8

Prime Minister (Washington Visit)

3.32 pm

The Prime Minister (Mrs. Margaret Thatcher): With permission, Mr. Speaker, I shall make a statement on the visit which I paid to the United States from 19 to 21 February, accompanied by my right hon. Friends the Foreign and Commonwealth Secretary and the Secretary of State for Defence.

In the course of my visit I delivered an address to a joint meeting of the United States Congress. I had a meeting with President Reagan and meetings with eight members of the United States Cabinet and with other senior members of the Administration, as well as with the Chairman of the Federal Reserve Board. I also met leading members of the Senate and House of Representatives.

My colleagues and I were guests at a luncheon at the White House and the President and Mrs. Reagan came to a dinner at the British Embassy to mark the 200th anniversary of the establishment of diplomatic relations between the United Kingdom and the United States.

The principal themes discussed in my talks with the President and other members of the Administration were East-West relations and arms control, economic issues and the middle east.

On East-West relations and arms control, we agreed that the West's objective in the negotiations which will open in Geneva on 12 March should be a sizeable and verifiable reduction in nuclear weapons, which would allow us to maintain security at a lower level of weaponry and at lower cost.

In our discussions on the strategic defence initiative we reaffirmed the four points agreed during my visit to Camp David in December; and, in particular, that research, as permitted under the anti-ballistic missile treaty, should go ahead, but that eventual deployment of a defensive system in space would be a matter for negotiation under the terms of tha treaty. I expressed the hope that British scientists would be associated with research into the strategic defence initiative.

In our discussion of economic issues I explained the concern in Europe at the continued rise of the United States dollar against other currencies. I found this concern widely shared within the United States Administration, not least because of the adverse effect on its own agricultural and manufacturing industries, but it was recognised that no easy remedy existed. The President and I agreed that the best contribution the United States could make to a long-term solution lay in a reduction of its budget deficit. The President has put specific proposals to Congress to this end. I argued strongly against protectionist measures as a way of dealing with the trade effects of the high dollar on the United States economy. I was assured that the Administration were not contemplating such measures.

On the middle east, the President and I both felt that the time was propitious for fresh efforts to arrive at a solution of the Arab-Israel problem. We both expressed our support for King Hussein's endeavours to arrive at a common position among moderate Arab Governments and I welcomed the result of King Fahd's recent visit to Washington. The President confirmed that his proposals of September 1982 remained on the table and that the Administration were ready to pursue them with the parties.

Our talks also dealt with central America; with co-operation against terrorism; and with Northern Ireland—where I thanked the President and members of Congress for their efforts to discourage the donation of funds to organisations which promote and sustain violence. In addition, I raised a number of bilateral issues, in particular the case for more American purchases of British defence equipment and the matter of unitary taxation.

The visit enabled my right hon. Friends and me to convey the British point of view on current issues, as well as the extent of Europe's contribution to the NATO Alliance and Britain's particular contribution to the defence of Western interests worldwide.

Mr. Neil Kinnock (Islwyn): May I commend the directness of the Prime Minister's statements in Congress and elsewhere in her condemnation of fund raising for terrorists in Northern Ireland, and also commend her refusal to endorse the American Administration's policy of so dangerously acting in central America in order to undermine and overthrow the democratically elected Government in Nicaragua?

Does the right hon. Lady recall saying in the Guildhall last November that there was an urgent need for negotiations between the superpowers

"because of the dangers of war and because we are on the verge of new technologies in space which would cost so much to develop"?

Why has the right hon. Lady done a complete U-turn and shown such pathetic haste to fall in behind the star wars initiative, when it can add absolutely nothing to movements towards peace, negotiations on disarmament or to more effective deterrence against war on this planet?

Does the right hon. Lady agree that the recent bout of speculation against the pound and other currencies was sparked off by the ill-timed comments of President Reagan at last Thursday's press conference? Is it not the case that the Prime Minister built up expectations that she could, with flattery and fawning, persuade the President to bail out the pound, and that her complete failure to do so is a direct reason for the current collapse of sterling? Will she now tell us what she intends to do to arrest the fall in the currency, with all its terrible consequences for interest rates and for import prices for Britain? Or, alternatively, is she just going to sit back helplessly and hopelessly and watch the pound shrivel to below the level of the dollar?

The Prime Minister: I thank the right hon. Gentleman for his initial comment about the importance of not allowing moneys to get through to the IRA in Northern Ireland. The right hon. Gentleman mentioned the strategic defence initiative. He will, I imagine, have observed that the Soviet Union is already well on the way to research and is, I believe, ahead of us in laser research and electronic pulse beams. It is also already ahead of the West in having an anti-satellite capability and in having experience of the anti-ballistic missile system around Moscow, which has been there for 20 years, and in having experience of updating it. It is absolutely vital for the United States to engage in research in order to catch up with the Soviet Union, to ensure that nuclear deterrence remains balanced, and to make absolutely certain that the Soviet Union does not leap ahead of us in research on anti-ballistic missile weapons when the United States is not doing any.

Therefore, right from the start, I supported President Reagan's initiative on strategic defence. I supported research right from the start — *[Interruption.]* I supported research on the strategic defence initiative right from the start. Right back in 1977 we were well aware that

£13 million since the onset of the damaging drought conditions. We shall bear in mind the great privations that those in the Sudan are suffering, as well as what we are doing for Ethiopia. Many refugees are coming into the Sudan from Ethiopia. I thank my hon. Friend's welcome for the Government's action.

Q5. **Mr. Tom Clarke** asked the Prime Minister if she will list her official engagements for Tuesday 26 February.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Clarke: Is the Prime Minister aware that, notwithstanding the interruptions of her right hon. and hon. Friends a few moments ago in response to a supplementary question about the teachers' strike, parents are deeply worried about the current teachers' dispute, specifically in Scotland? Will she agree to an independent pay review, which seems to be a fair way of settling the problem? Does she accept that parents are worried because they do not want to see the same intransigence on the teachers' dispute as the Prime Minister has shown over the miners' strike and other industrial issues?

The Prime Minister: The teachers' pay claim is a minimum flate rate increase of £1,200 per teacher, which would cost about £600 million. All of that money would have to come from other taxpayers, other parts of education or other parts of the Government system. Teachers' pay has kept pace with inflation since 1979. The employers have offered them arbitration and they have refused. I see no reason for an independent inquiry.

Q6. **Mr. Pawsey** asked the Prime Minister if she will list her official engagements for Tuesday 26 February.

The Prime Minister: I refer my hon. Friend to the reply that I gave some moments ago.

Mr. Pawsey: Has my right hon. Friend had an opportunity of reading the forecast made yesterday by the London Business School, which says that the economy will grow by 3½ per cent? Will she say what impact that growth will have on employment, industry and exports?

The Prime Minister: My hon. Friend is correct. The latest economic forecasts show optimism about growth in 1985. This follows on 1984 when, in spite of the miners' strike, we had growth of 2½ per cent. In spite of the miners' strike, output rose. Employment rose by about 342,000 in the year to September 1984. Investment reached an all-time record. An optimistic forecast on top of that good record is excellent news.

Q7. **Mr. Wareing** asked the Prime Minister if she will list her official engagements for Tuesday 26 February.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Wareing: Did the Prime Minister warn President Reagan on her visit to America that the overwhelming majority of the British people would regard any direct intervention or any proxy intervention by America in Nicaragua as a danger to world peace? Did she warn him that there would be no support from her Government because the British people realise that the support that is being sent to the Contras is contrary to all the interests of those in the western world?

The Prime Minister: I made it perfectly clear that we and the Americans firmly support the Contadora process and will continue to do so.

Mr. Sayeed: Will my right hon. Friend take time today to consider the proposition that it is better to lend to the EEC than to borrow from the IMF?

The Prime Minister: Yes. My hon. Friend makes his own point in his question.

Q8. **Mr. Frank Cook** asked the Prime Minister if she will list her official engagements for Tuesday 26 February.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Cook: Bearing in mind that the Prime Minister has established herself very firmly in the minds of the populace, and even some sections of the media, as history's greatest misleader of the nations, will she choose to explain to the House today how she can ask Americans to stop supporting insurgents in Northern Ireland and yet, at the same time, give succour and support, directly and indirectly, to the Contras in Nicaragua to undermine a democratically elected Government?

The Prime Minister: Replying to the hon. Gentleman's very carefully rehearsed question, I repeat that I had occasion to thank both President Reagan and Speaker Tip O'Neill and members of Congress for the way in which they have done everything to stop funding coming from the United States of America to aid terrorism in Northern Ireland. I also made it perfectly clear, as I have repeated, that we stand firmly for the Contadora process. To add one little thing—which the hon. Gentleman is so anxious that I should do—we regard those democratic elections to which the hon. Gentleman has referred as actually flawed in the run-up to the election, for reasons which my right hon. Friend the Foreign and Commonwealth Secretary has given many times.

the Soviet Union was ahead in lasers and electronic pulse beams, and we wondered why the United States did not embark on a programme to catch up. Therefore, we fully support that research programme. It is absolutely vital for balance between the Soviet Union and the United States. As President Reagan made perfectly clear in his statements and as was made perfectly clear at Geneva, if, as a result of that research, weapons were deployed, their deployment would come within the anti-ballistic missile treaty of 1972 and would have to be negotiated properly, as it would be, so that the balance and the deterrence would be maintained.

I understand that Opposition Members are not worried about keeping a balance between the Soviet Union and the West. The Government are anxious about that and anxious to maintain the effectiveness of the deterrent. The work is to enhance, not to diminish, the deterrent.

Regarding sterling, the right hon. Gentleman seemed utterly to ignore the fact that the dollar has surged against all European currencies, including the yen and the Swiss franc, and has reached a record high. However, the right hon. Gentleman conveniently chooses to ignore that. During the past month sterling has appreciated against all the major currencies except the yen and the dollar.

Only two actions can be taken against a surge of currency, and they are limited. One can engage in joint intervention on a small scale compared with the enormous sums involved. It has been done under the Williamsburg agreement, but it can be done only in a way which makes speculators hesitate. It is not a prolonged exercise, and the right hon. Gentleman knows it. The other weapon is interest rates. I am not sure whether the right hon. Gentleman is urging that they should rise or fall.

Mr. Julian Amery (Brighton, Pavilion): Is my right hon. Friend aware that, far from being a slap in the face to her, President Reagan's comments after her visit were a confirmation of what she has been saying during the past six years, that is, that the high rate of the dollar encourages our exports and acts as a tariff barrier against American imports, and that American interest rates are not all that high? The President was saying what she had been saying for a long time—that it is time for us to reorganise our economy so that we can compete in a world where no central bank intervention can possible succeed in balancing the currencies.

The Prime Minister: I do not believe that there is any action which the G5 countries could have taken to stop the surge of the American dollar on the scale that we have witnessed. I agree that there are three possible explanations. One is the strength, free enterprise and enterprising nature of the American economy, which means that Americans do not cast all their cares on the Government. As President Reagan said, the 7 million jobs created during the past two years were all created by the American people, not by the Government. The second explanation is the size of the deficit and the interest rates necessary to finance it. That is undoubtedly having an effect on the rate of the dollar. The third explanation is the speculators who have been piling in. That is where intervention can sometimes help, if it happens on the right occasion and if it is done in a co-ordinated way.

Mr. David Steel (Tweeddale, Ettrick and Lauderdale): Is the Prime Minister aware that many members of Congress were surprised at her enthusiasm for the strategic defence initiative, as they are deeply divided on the issue, and many of them feel that priority should be given to seeking a worldwide agreement on banning all nuclear weapons from outer space? I endorse her view that the time may be propitious for a solution to the Arab-Israel conflict, but what specific plans has she to support the initiative taken by King Hussein, King Fahd and President Mubarak? When the Prime Minister left the United States, President Reagan said of the weakness of sterling that each country should stand on its own two feet. Did those words have a familiar ring about them?

The Prime Minister: With regard to the strategic defence initiative, the right hon. Gentleman says that some members of Congress were surprised. I can say only that they showed their appreciation in a very welcome way with prolonged applause throughout the speech and at the end. I am sorry that the right hon. Gentleman did not observe that or that he chooses to ignore it.

With regard to weapons, only a certain amount of testing is allowed under the anti-ballistic missile treaty. The deployment of weapons would have to be negotiated under the anti-ballistic missile treaty, which is a treaty without a terminal date. The President has made it clear that the deployment of such weapons, if it came to that, would be negotiated under that treaty.

With regard to fresh efforts on the middle east, the President's speech of September 1982 still stands. I am sure that the right hon. Gentleman recalls that speech, which was very welcome at the time. Of course, one is doing everything possible to support King Hussein in the welcome efforts that he is making to contribute to a settlement of the Arab-Israeli problem.

Mr. Dennis Walters (Westbury): When discussing the middle east with the President, was my right hon. Friend able to persuade him of the urgent need to launch a major initiative now which responds positively to the appeals of King Hussein and which is prepared to deal firmly, if necessary, with Israeli intransigence?

The Prime Minister: I have made it clear that President Reagan said that his speech of 1982 and the plan that it laid out is still on the table, but fresh efforts will be made to try to further the approach that he indicated then. It is important that we should know exactly how far the Palestinian Council and the Palestinian people accept some of the proposals put forward by King Hussein. The position on that is not yet fully clear.

Mr. Robert Sheldon (Ashton-under-Lyne): Bearing in mind the fluctuations in the dollar-sterling rate, not just in the past few days but during the past four years, does the right hon. Lady agree that the decline from $2·40 to almost parity in that period shows that the abolition of exchange controls was a dreadful mistake?

The Prime Minister: The right hon. Gentleman referred to the past four years. Since 1979, the dollar has appreciated against sterling by 95 per cent., against the deutschmark by 80 per cent. and against the French franc by 140 per cent. May I point out that the French franc is exchange-controlled.

Mr. Ian Lloyd (Havant): In her wide-ranging and far-sighted address to both houses of Congress, my right hon. Friend the Prime Minister referred appropriately to the union of mind and purpose between the British and American peoples. Since from our long historical

[Mr. Ian Lloyd]

experience the most important symbol of such unity is the unity of currencies, and since we may be approaching an opportunity that may not recur — parity between the pound and the dollar — will my right hon. Friend consider the consequences, which might be most interesting, of declaring the dollar to be legal currency in the United Kingdom?

The Prime Minister: I see no prospect of unity of currencies. The answer to the latter half of his question is that the possibility does not exist.

Mr. Jack Ashley (Stoke-on-Trent, South): Is the Prime Minister aware that when in that speech she expressed friendship with the United States she spoke for most people in Britain and that when, in the same speech, she expressed bitter, vindictive hostility against the Soviet Union, she spoke only for herself and the stupid, simple-minded Right-wing members of the Conservative party?

The Prime Minister: The right hon. Gentleman cannot have read the speech fully. I quoted from Mr. Brezhnev in that speech. I gather that the right hon. Gentleman thought those words were mine, but they were not.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Does my right hon. Friend agree that the present problem of currencies is not so much a matter for Europe or Britain? Does not the problem rest in the hands of Americans, because they are the ones who find that their farmers are going bankrupt and that their industry is unable to export? If we keep our nerve, the balance of currencies will return, because America must live in the real world in the end, as we found after the pound went too high in the 1980s.

The Prime Minister: Yes, Mr. Speaker. The question to which so many right hon. and hon. Members have referred was one from the American press asking the President whether he intended to intervene because of the bad effect that the high dollar was having on agriculture and manufacturing industries. The President indicated that he did not think that intervention — as I understand, because he did not say so except — under the Williamsburg agreement would be likely to occur. I believe that the Williamsburg agreement, which involves joint intervention, is still operative and could therefore have some effect against speculators.

Mr. Willie W. Hamilton (Fife, Central): Does the Prime Minister think that it was wise to criticise a friendly Commonwealth Government just to receive the plaudits of the United States, particularly since that Commonwealth Prime Minister is visiting the United Kingdom this week? Will she ever understand that, however much she licks the boots of President Reagan he and his Government will go their own way and not take a blind bit of notice of what she says to them?

The Prime Minister: The hon. Gentleman refers to the decision by New Zealand not to accept ships at her ports if New Zealand thinks that they have nuclear weapons on board. I have made it clear, and shall continue to make it clear wherever I am in the world, that British Navy ships are seconded to NATO. We believe in NATO, even if the Opposition would like to destroy it. So long as we believe in NATO and our ships are seconded to NATO we cannot reveal what weapons they carry. I therefore repeat for the hon. Gentleman's benefit that I have no intention of saying which ships — or whether our ships — carry nuclear weapons. That is my duty to keep faith with the NATO agreement.

Mr. Jonathan Aitken (Thanet, South): Is my right hon. Friend aware that the success of her visit will be seen widely as having much strengthened the Anglo-American alliance and that that is welcome by many of my right hon. and hon. Friends? My right hon. Friend has expressed support for the SDI research programme. Why was she so cautious and why did she not go on to support the eventual deployment of these weapons, because they, with the anti-ballistic missile treaty, would make the world a much safer place?

The Prime Minister: I am grateful to my hon. Friend. The purpose is to cement the fundamental alliance between Great Britain and the United States and between the English speaking peoples of the world. It is too early to conclude what might come out of the SDI programme. It will take many years to develop and we shall during that time have to rely solely on the nuclear deterrent. When we know what will come out of it, the United States will have to negotiate under the anti-ballistic missile treaty. In several years time we shall be in a better position to judge the effect of research.

Mr. Roy Beggs (Antrim, East): Did the Prime Minister have an opportunity during her discussions with President Reagan to express appreciation of the contribution which American investment makes to job creation in Northern Ireland? Was she given any reason to believe that there would be further American investment to help to provide jobs for young people and so wean them away from para-military organisations and to help to speed progress towards normality?

The Prime Minister: One has to take advantage of the high dollar in two respects. First, it encourages exports to the United States from all parts of the United Kingdom, and a number of companies are taking advantage of that. Secondly, it is a very good time for inward investment into this country from the United States. That will be encouraged.

Mr. Hugh Dykes (Harrow, East): Does my right hon. Friend agree that the massive deficit in the United States, its huge defence spending, the boom in imports and the boom in foreign deposits are more important factors than some other factors to do with United States' economic tradition and internal behaviour such as labour mobility? In that context, and bearing in mind what the President unfortunately said at the press conference, surely it behoves us to look after our interests in Europe more, for example, by joining the EMS as a full member, by defending ourselves and by putting more pressure on the Americans to adopt a more internationalist monetary policy?

The Prime Minister: I believe, and the Americans believe, that the fundamental strength of the American economy is the underlying enterprise culture of the American people. They go for self-reliance and success. People, not the Government, create jobs, as the President said in his statement at that press conference to which my hon. Friend referred. The Americans have a much less rigid labour market. Many more small businesses are

starting up in the United States than in Britain. That underlying difference is the fundamental strength of the American economy.

My hon. Friend is aware that the dollar has surged against all European currencies. It is at a record high. Therefore, to join the EMS would make no difference. It would inhibit some of our present freedom of action.

Mr. John Hume (Foyle): Will the right hon. Lady confirm that the Northern Ireland problem was one of the subjects discussed with President Reagan? Apart from the subject of cutting off the flow of funds to the IRA, were any other aspects of the Northern Ireland problem discussed? Did President Reagan make any other positive offers of assistance to resolve that problem?

The Prime Minister: No, nor would I expect him to do so. As the hon. Gentleman knows, the United States purchases a number of export products from Northern Ireland. The hon. Gentleman will have seen my comments that a dialogue continues between this Government and Mr. Garret FitzGerald's Government in the Republic of Ireland with a view to achieving peace and stability in Northern Ireland.

Viscount Cranborne (Dorset, South): Is my right hon. Friend aware of the increasing interest shown by the United States Administration and by representatives on Capitol hill in the subject of Afghanistan, especially humanitarian aid in that country? Did my right hon. Friend have an opportunity to discuss that matter with the President of the United States?

The Prime Minister: We did not discuss in detail the position Afghanistan. We pursued the subject of trying to persuade the Soviet Union to withdraw from Afghanistan to leave that country to determine its own future.

Mr. Andrew Faulds (Warley, East): Does the Prime Minister really not understand that, once the massive technological and industrial base has been established over the next 20 or 30 years for the research and development of star wars has been established over the next 20 or 30 years, it will be impossible to abandon the project—because of the effect on the American economy or to abandon the negotiations on the project?

The Prime Minister: It is vital to ascertain through research exactly what can be achieved. As I have said, the Soviet Union was already well ahead with certain types of research. For the Soviet Union to have gone ahead and to have had a system that would stop nuclear missiles, and, in that way, stop the nuclear deterrent, and for the United States to have done nothing would have upset the balance upon which our security ultimately depends.

Mr. Tim Yeo (Suffolk, South): During my right hon. Friend's visit to Washington, did she have the chance to observe the contribution made by small businesses in the United States towards the creation of jobs? Will my right hon. Friend lend the full weight of her authority to the efforts in this country to remove bureaucratic and other obstacles to the development of new businesses?

The Prime Minister: We had considerable discussions on this subject with the President and the Commerce and Treasury Secretaries. An outstanding feature of the American economy is the fact that the jobs created have come from small business and the numbers employed by big manufacturing business are decreasing. It is, therefore, vital to secure in this country that same enterprise culture that enables these new small businesses to come into existence. We must examine the possibility of reducing the number of regulations so that it is easier to start up businesses here than it is.

Mr. Tam Dalyell (Linlithgow): Did President Reagan, Secretary Shultz or any other senior American approve of the fact that the right hon. Lady did not negotiate on the Falklands?

The Prime Minister: No one said anything to the contrary to me. I made my position very clear, and it is very different from that of the hon. Gentleman.

Mr. James Hill (Southampton, Test): I thoroughly agree with my right hon. Friend on SDI. Indeed, early-day motion 404, which was signed by myself and several of my and right hon. and hon. Friends, is totally in line with her view. Did my right hon. Friend obtain an understanding from President Reagan on NASA that there would be a sharing of research work? Will that mean more job opportunities? If so, will my right hon. Friend spell this out loudly and clearly so that the Opposition doubters will see in this move the defence not only of this country but of the whole of Europe and understand the need in the distant future to destroy nuclear stores? This will mean the eventual protection of everyone and technology transfers with the USSR.

The Prime Minister: With regard to the SDI, Secretary Weinberger is anxious that other European countries should join the research effort. It is my belief that we shall not be the only country that offers to do so. It is important that we do so that we can keep up with the latest technological developments in a sphere in which we would otherwise have no opportunity to engage.

Mr. Ian Wrigglesworth (Stockton, South): As the Prime Minister did not just return from Washington empty handed with regard to economic policy, but, worse than that, we now have a record low against the trade-weighted index of all currencies, will she take further steps now to stop the disruption and distortion to world trade caused by the economic policy being followed in Washington? Will she reconsider her reply that the only answer to the problem is united action in Europe with our partners in the European Community, and consider entry into the European monetary system?

The Prime Minister: I have said over and over again that all the currencies in the European monetary system are also at record lows against the dollar. The EMS does not protect one from a surge by the dollar. Most countries have gone down on the trade-weighted index because of the strength of the dollar. The same factor is affecting us all.

Several Hon. Members *rose*——

Mr. Speaker: Order. I have to take into account the fact that we have a heavy day ahead of us. *[Interruption.]* Order. Hon. Members should listen to what I have to say. I propose to allow questions to continue for a further 15 minutes, during which time I hope that every hon. Member who is now standing will be called.

Mr. Dennis Skinner (Bolsover): Perhaps the Prime Minister will answer the question that I asked her before she went to Washington. When she talks about the dollar being dominant in world currency markets and tries to

[Mr. Dennis Skinner]

explain that all currencies are suffering, why is the trade-weighted index at an all-time low today? Is she aware that any British citizen who wants to buy Italian currency will have to pay a premium on the forward exchange markets to get hold of it? It is the first time that that has happened in the 30 years that the Prime Minister has been in the House. If that is the case, what success has she brought back from Washington, especially when we take into account that she has spent in total £2 million of taxpayers' money on gallivanting around the world.

The Prime Minister: With regard to the real part of the hon. Gentleman's question on the trade-weighted index, the dollar is of course 25 per cent. of that index and therefore most currencies are much lower than they were. He tries to say that other countries have not suffered. Since 1979, the dollar has appreciated against sterling by 95 per cent., against the deutschmark by 80 per cent., against the French franc by 146 per cent., the lira by 153 per cent. and the Swiss franc by 68 per cent.

Mr. Spencer Batiste (Elmet): I welcome the strategic defence initiative announced by my right hon. Friend and our participation in it, but did she take the opportunity to raise with the President during her discussions the serious problem posed to co-operation in high-tech industries between our countries by American claims to legislate for other countries extraterritorially in contravention of their sovereignty and in breach of international law?

The Prime Minister: Yes, Mr. Speaker. That matter has been pursued many times. It was pursued on this occasion with regard to the anti-trust legislation and unitary taxation. Both matters were raised.

Mr. Greville Janner (Leicester, West): When the Prime Minister refers to the President's speech in 1982 as still standing and being welcome, is she aware that it was welcomed by one side only? If there is to be peace in that area there must be consent on both sides. While Israel is only one nation among many, it is the only democratic nation in that area, and it is one side of the argument. Its interests, which the Prime Minister did not mention, are entitled to be recognised.

The Prime Minister: As the hon. and learned Gentleman will be aware, that speech fully recognised, as have other statements since and all statements from this Government, the right to security of all states in the area. that has never been in doubt. That speech also set out a course of action for the future under which the West Bank may become a part of a federated Jordan. I hope that the hon. and learned Gentleman will welcome a settlement of the problems in that area which fully recognises not just Israel's right to exist, but to exist behind secure borders.

Mr. Anthony Nelson (Chichester): Does my right hon. Friend accept that most people in this country believe that her statement to both Houses of Congress was an important re-statement of the special cultural, historical, economic and security interests linking our two countries? Will she bear in mind that those people in the House and outside who are wholehearted supporters of the Government's economic policy are not indifferent to this country's exchange rate and believe that more can be done on a European basis to correct the problem, more adequately to reflect this country's assets and interests by a more realistic exchange rate?

The Prime Minister: Only two things can be done about an exchange rate, and both of them to a limited extent. The first is interest rates. My hon. Friend will be well aware that we took action here, but the purpose of interest rates is not to defend a specific exchange rate, but to hold a strict monetary policy. The other thing is intervention under the G5 arrangement. At first it appeared to have stopped the surge of the dollar but there is so much money moving around the world from non-residents and leads and lags on trade that intervention could not regularly stop the surge of the dollar. It can come in from time to time to make it uncertain for the speculator.

Mr. David Winnick (Walsall, North): Is the right hon. Lady aware how humiliating it is for this country for her to go to Washington and to act as a kind of echo of President Reagan? She should perhaps be reminded that this country is not a satellite. Is she aware that there is a great deal of admiration for the way in which New Zealand is standing up to the pressures of the United States? One would have expected her to try to understand that point of view instead of once again simply carrying out President Reagan's wishes?

The Prime Minister: We go to the United States as allies in NATO. I believe that most people in this country, if not the hon. Gentleman or the Opposition, are grateful to the United States for keeping 300,000 troops on the central front in Europe. They help to maintain, among other things, this country's right to freedom, justice and democracy. With regard to the Nicaraguan point, I repeat that we and the United States Government share a common——

Mr. Winnick: I said New Zealand.

The Prime Minister: I am sorry, did the hon. Gentleman say New Zealand? I have already fully answered about New Zealand. We shall not reveal which of our ships is carrying nuclear weapons.

Mr. James Couchman (Gillingham): When my right hon. Friend offered British co-operation and the co-operation of scientists with the SDI was she aware how appropriate that was, coming as it did within a few days of the 50th anniversary of the invention of radar by my kinsman, Sir Robert Watson-Watt, a defence system which has been crucially important over the past 50 years and continues to be so?

The Prime Minister: I am grateful to my hon. Friend. I think the United States fully appreciates this country's excellence in research and also its inventive genius. It is pleased that we have offered to help in the SDI research programme.

Mr. A. E. P. Duffy (Sheffield, Attercliffe): When the Prime Minister did her "Garret FitzGerald and I" party piece in Congress, was she implying that his support would run to the pitiless killing, within a few hours, of an Irish schoolboy by British soldiers, or is she quite indifferent to the political consequences of an intensification of the shoot-to-kill policy in the north of Ireland to the position of Dr. FitzGerald in the south and to constitutional nationalism in the north of Ireland?

The Prime Minister: I believe that Dr. Garret FitzGerald and I take exactly the same view about terrorism and the IRA. Let me make my view clear. I am grateful to our security forces and the police in Northern Ireland for the excellent way in which they do everything to protect the citizens of that country.

Mr. Henry Bellingham (Norfolk, North-West): Did my right hon. Friend tell the President that employment in the United Kingdom is rising? Does she agree that much more emphasis should be placed on the advantages of the more competitive pound, and that a sharply falling dollar would have disastrous consequences for the world economy?

The Prime Minister: Yes, I pointed out that employment in the British economy is rising, as my hon. Friend knows. In the year to last September, the numbers employed rose by about 340,000. However, that rise did not have an impact on the unemployment register because many married women came into jobs. Therefore, the number of jobs is rising but the number of unemployed is not falling.

With regard to my hon. Friend's other point, a number of people who are worried about the surge of the dollar would also be worried if it suddenly turned and sharply fell. Both would have disastrous consequences on certain parts of our economy.

Mr. Terry Davis (Birmingham, Hodge Hill): If the Prime Minister attributes the strength of the dollar to the underlying strength of the American economy, how can she deny that the weakness of the pound is due to the underlying weakness of the British economy after six years of Conservative Government?

The Prime Minister: If the hon. Gentleman takes that view, he will also take the view that the Japanese, German and Swiss economies are weak. That is not so, and I am not prepared to call weak an economy that, in spite of a coal strike, grew by 2·5 per cent., has record output and investment and an increase of employment.

Mr. David Crouch (Canterbury): Is my right hon. Friend aware that there will be a widespread welcome for the emphasis given to the middle east question? She has twice referred to the President's speech in 1982, which was then an initiative. Does she agree that what we want now is not an old initiative but a new one, and would she consider stressing that point in further talks with the President?

The Prime Minister: Probably one of the most important things to try to establish is whether the Palestinian people will accept security council resolution 242 as modified by resolution 338. If it is acceptable to the Palestinian people as a whole, that opens the way to further negotiations through the most excellent offices of King Hussein.

Mr. Martin Redmond (Don Valley): Will the Prime Minister answer a question that is puzzling the House? Did President Reagan feed her any Pal meat when she was in America?

The Prime Minister: I am sorry, I did not hear. Will the hon. Gentleman kindly repeat his question?

Mr. Redmond: Did President Reagan feed the right hon. Lady any Pal meat?

The Prime Minister: I am sorry that I asked the hon. Gentleman to repeat his question. It was not worth answering, nor taking up the time of the House.

Mr. John Wilkinson (Ruislip-Northwood): I recognise the great mutual benefits that would ensue from joint research on the SDI between the United States and the United Kingdom. However, did my right hon. Friend endorse the foreign policy and security implications behind the SDI, that is, that an effective space-based defence, rather than diminishing deterrence, would improve and enhance it?

The Prime Minister: The United States makes it clear that embarking upon this programme will enhance deterrence, as my hon. Friend has said, and not reduce it.

Mr. Dick Douglas (Dumfermline, West): Will the Prime Minister concede that it is trifle embarrassing to watch the so-called Iron Lady casting herself, like a simpering teenager with a crush, on a B-grade actor who short changes her $1·033 to the pound. Will she stop praising the United States economy and telling us what benefits it has, and do something to enhance our economy by building up the manufacturing base and stopping our capital and monetary assets flowing to the United States?

The Prime Minister: The first part of the hon. Gentleman's question showed more of his mind than of mine. That is absurd and ridiculous. I have great admiration for the United States economy, which has had the ability, over the past 20 years, to create the number of jobs that have been created there, as the President said, not by the action of Government but by the action of the people, against a financial and regulated framework that has reduced the number of regulations and the amount of taxation. There are drawbacks. One of the reasons for the high dollar is the deficit and the high interest rates required, even with all the advantages of the United States economy, to draw in money from the rest of the world. The President has sent proposals to Congress to try to deal with the deficit, and set the aim of a balanced budget during his last state of the union speech.

Mr. Christopher Murphy (Welwyn Hatfield): Did my right hon. Friend have time to discuss Trident and the possibility of increased offset opportunities to benefit the United Kingdom aerospace industry?

The Prime Minister: I believe that my right hon. Friend the Secretary of State for Defence had particular discussions, and I mentioned to the President the need to purchase more British equipment. I mentioned a number of orders that we have in mind that would be of great benefit to some of our companies.

Mr. Kinnock At Christmas time, the right hon. Lady let it be known that President Reagan had told her that he would intervene to stop the rise of the dollar. What has happened since? Why, in the intervening period, has the President chosen to let her down so badly? As to the answers that she gave on star wars, she asserted in the past half hour that the Soviet Union is producing an effective defence against Western deterrent. If that is the case, why is she spending vast sums of money on Trident to make additions to that deterrent arsenal? In view of the fall in the pound, how much extra will the Trident missile cost?

The Prime Minister: With regard to intervention, that was agreed under the Williamsburg economic summit under certain specific conditions.

Mr. Kinnock: Camp David.

The Prime Minister: The Camp David summit dealt almost exclusively with the SDI and one or two other things, but not so much with the economic aspect. I think that the right hon. Gentleman is referring to the G5 meeting which took place later in Washington, and from which there was a communiqué——

Mr. Denis Healey (Leeds, East): What about the new agreement?

The Prime Minister: I am answering the right hon. Member for Islwyn (Mr. Kinnock), not the right hon. Member for Leeds, East (Mr. Healey).

I think that the right hon. Member for Islwyn is referring to the G5 arrangement agreed among the G5 countries later in Washington, which was set out in a communiqué. If the right hon. Gentleman does not think that it was, he can find the communiqué.

Mr. Healey: On a point of order, Mr. Speaker. The Prime Minister, somewhat to my surprise, referred to what I said. I was simply reminding my right hon. Friend the Member for Islwyn (Mr. Kinnock) that the Prime Minister, after her return from Washington in December, said that there was a great new agreement, but it simply repeated the earlier agreement, on joint intervention to prevent the rise of the dollar. My right hon. Friend was asking the Prime Minister why the President of the United States has now ditched her.

The Prime Minister: I repeat what the facts are, Mr. President—*[Laughter.]*—Mr. Speaker.

Mr. Speaker: Order. We have all done it.

Mr. Healey: The right hon. Lady did it.

The Prime Minister: The facts are that first it was agreed under the Williamsburg summit in June 1983 that in certain circumstances there could be co-ordinated intervention. That was repeated at the G5 meeting in Washington, which took place well after Christmas. There has been a certain amount of intervention, as has already been announced and as the right hon. Gentleman knows. The amount of intervention cannot deal fully with the sums of money that are being moved about the world, as the right hon. Gentleman knows, both by non-residents and also by the leads and lags in trade. At any rate, this Government have not had to go to the International Monetary Fund, as happened under the previous Labour Government.

Mr. Harry Ewing (Falkirk, East): On a point of order, Mr. Speaker. When answering a question from one of her hon. Friends I believe that the Prime Minister inadvertently misled the House. I am sure that she would not want a misleading answer to remain on the record. In answer to a question about her discussions with President Reagan regarding unemployment in this country and an increase in employment the Prime Minister said that she told President Reagan that although employment in this country increased last year by 300,000 it had not made any impact upon unemployment because—I believe that this is the misleading part of her answer—large numbers of married women came on to the register. That is clearly not the case. The Prime Minister is creating the impression that the increase in unemployment last year was due almost entirely to married women coming on to the register. I am sure that the Prime Minister would not want such a misleading answer to remain on the record.

Mr. Speaker: I believe that that point of order comes into the category of trying to extend Question Time. Since the Prime Minister has been charged with giving an incorrect answer, however, perhaps she would like to answer it.

Mrs. Thatcher: Those jobs, Mr. Speaker, were not filled from the unemployment register. If they had been filled from the unemployed register the number of unemployed would have fallen. I believe that a considerable number of married women going back to work was a factor.

Mr. Dave Nellist (Coventry, South East): Given that the question asked by the hon. Member for Southampton, Test (Mr. Hill) went on for two minutes but seemed to go on for much longer, given also that during the three quarters of an hour of questions on the Prime Minister's statement a large amount of the time was taken up by questions from right hon. and hon. Members on the Front Benches, in order to protect the rights of Back Benchers I wonder whether, Mr. Speaker, you would consider extending questions on the Statement for a further five minutes, since there are only about half a dozen more hon. Members who wish to ask questions?

Mr. Speaker: I cannot do that, in fairness to a Standing Order No. 10 application, a ten-minute Bill and those who wish to take part in the subsequent debate. I try to look after the interests of Back Benchers and to include as many as possible. Because of the importance of the statement, I have allowed questions on it to continue for rather longer than I would normally allow.

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DRAFT STATEMENT ON U.S. VISIT

With permission, Mr. Speaker, I shall make a Statement on the visit which I paid to the United States from 19 to 21 February, accompanied by my rt hon Friends the Foreign and Commonwealth Secretary and the Secretary of State for Defence.

In the course of my visit I delivered an address to a Joint Meeting of the United States Congress. I also ~~held~~ had meetings with President Reagan ~~and~~ and eight member other senior members of the US

Administration.

I met leading members of the Congress and had a talk with the Chairman of the Federal Reserve Bank.

I was guest at a luncheon at the White House and the President and Mrs. Reagan came to a dinner at the British Embassy to mark the 200th anniversary of diplomatic relations between Britain and the United States.

The principal themes discussed in my talks with the President and other members of the Administration were East/West relations and arms control, economic issues and the Middle East.

On East/West relations and arms control, we agreed that the West's objective in the negotiations which will open in Geneva on 12 March should be a sizeable and verifiable reduction in nuclear weapons, which would allow us to maintain our security at a lower level of weaponry and at lower cost.

As regards the Strategic Defence Initiative, we reaffirmed the four points on which we agreed in December: notably that research, which is permitted under the Anti-Ballistic Missile Treaty, should go ahead but that eventual deployment of a defensive system in space would be a matter for negotiation under

~~the~~ terms of that Treaty.

I expressed the hope that British scientists would be associated with research into the Strategic Defence Initiative.

In our discussion of economic issues I explained the concern in Europe at the high level of the US dollar against other currencies.

I found this concern widely shared within the US Administration, but it was recognised that no easy remedy existed.

The President and I agreed that the long term solution lay in a reduction of the United States budget deficit and the proposals to this effect which the President has put to

Congress.

I put very strongly the case against protectionist measures as a means to deal with the trade effects of the high dollar on the US economy.

I was assured that the Administration was not contemplating such measures.

On the Middle East, the President and I both felt that the time was propitious for a further initiative to arrive at a solution.

We both expressed our support for King Hussein's efforts to arrive at a common position among moderate Arab governments and I welcomed the result of King Fahd's recent

visit to Washington.

The President confirmed that his proposals of September 1982 remained on the table and that the Administration was ready to pursue them with the parties.

Our talks also dealt with terrorism, Northern Ireland and Central America and a number of bilateral issues.

I believe that my visit was successful in enabling me to convey the British point of view on current issues and some of Britain's achievements to the Administration and Congress of the United States.

SUPPLEMENTARIES ON PRIME MINISTER'S VISIT TO WASHINGTON

ARAB/ISRAEL

- One of the main subjects discussed with President Reagan. Agreed that the moment is propitious for efforts to achieve progress towards a Middle Eastern settlement.

- US/Saudi communiqué. Told President of my support for the statement issued following King Fahd's visit.

- Jordan/PLO. President Reagan and I endorsed King Hussein's efforts to arrive at a joint Arab position which would allow direct negotiations with Israel to take place.

- European Initiative? UK views clear. Welcome possible developments. In close touch with parties. Need for further progress among those directly concerned.

UK ATTITUDE TO US POLICIES IN CENTRAL AMERICA

1. We share US objectives of strengthening democracy, restoring peace, and bringing economic progress in Central America.

HMG'S ATTITUDE TO US SUPPORT FOR THE CONTRAS

2. We deplore violence as we deplore the conditions which breed it. That is why we want to see an early and comprehensive negotiated settlement of regional tensions. To this end we and our European Community partners have given firm and consistent support to the efforts of the Contadora Group.

HMG'S ATTITUDE TO US AIM OF OVERTHROWING NICARAGUAN GOVERNMENT

3. The United States Government have stated that they support a peaceful negotiated settlement of the problems of Central America and that they support the Contadora peace initiative. We too support a peaceful settlement of the problems of Central America.

/4.

HMG'S POLICY TOWARDS CENTRAL AMERICA

4. We wish to see an early and comprehensive negotiated settlement of regional tensions. To this end we and our European Community partners have given firm and consistent support to the efforts of the Contadora Group. We gave practical expression to this support by the meeting of European and regional Foreign Ministers at San José in September, attended by my right honourable and learned Friend the Foreign and Commonwealth Secretary.

NOTES TO SUPPLEMENTARIES

PURPOSE OF UK-SOVIET DIALOGUE

Soviet Union will exist for long time. Dialogue needed to avoid misunderstandings which could be threat to peace. Need to be clear about differences, but also about common interests. Plain speaking when necessary.

EAST/WEST RELATIONS

Security lies at heart of overall relationship. But arms control needs wider framework of political understanding and confidence if it is to succeed. Need for close coordination on western side as basis for dialogue by individual countries with Soviet Union.

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NOTES FOR SUPPLEMENTARIES

NEW ZEALAND SUPPORT FOR WESTERN ALLIANCES

Western nations face common threat. Nuclear deterrence has ensured peace for 40 years. Members of Western alliances cannot pick and choose benefits.

NEW ZEALAND : SMALL ISLAND COUNTRY

Western deterrent does not stop at NATO boundaries. Soviet Pacific Fleet expanding. New Zealand policy will only encourage Soviet wedge-driving elsewhere.

OXFORD DEBATE

Mr Lange at liberty to develop his views. But event may only harden positions. Media circus.

/EXERCISES

EXERCISES

UK has agreed to participate in exercises (Roll Call/Bell Buoy) from which New Zealand excluded. Essential that multinational exercises to test West's preparedness continue.

NEW ZEALAND : SHIPS VISITS

Re-affirmed support for US policy on ship visits. No intention of deviating from "neither confirm nor deny".

New Zealand Government well aware of our position. All RN ships have to carry armaments appropriate to their designated tasks. Very disappointed if British warships not allowed to visit.

Shall see Lange during his visit to the UK.

NORTHERN IRELAND

ANGLO IRISH TALKS

I assured the President that Dr FitzGerald and I will continue our dialogue in the search for a solution in Northern Ireland based on the consent of the people of Northern Ireland. In his statement after the talks the President assured me of his support for all those working for peaceful solutions and reconciliation in the Province.

AMERICAN FUNDS TO THE IRA

There can be no doubt as to the opposition of President Reagan and his Administration to the financing of terrorism. There is close cooperation between our two Governments in trying to dissuade Irish Americans from sending money to the IRA.

EXTRADITION OF IRISH TERRORISTS

The US Administration is seized of the problem. Both our Governments are considering urgently how best to revise our bilateral extradition treaty.

PRIME MINISTER'S VISIT TO WASHINGTON: STATEMENT

NOTES FOR SUPPLEMENTARIES

FALKLANDS/ARGENTINA

US Support during the Conflict?

We very much appreciated US support during the conflict. Our American friends stood by us when we needed their help.

US vote in the UN General Assembly

We were of course disappointed that the US voted with Argentina in the General Assembly in 1982, 1983 and 1984. But no-one should forget US help during the conflict, which we still recall with great appreciation.

US/Argentine Relations, including Arms Sales

The US, like all our Allies and Partners, are aware of our concern that Argentina should not acquire arms or equipment which could increase the threat to the Falkland Islands. We shall continue to make our views known as appropriate.

NUCLEAR FREEZE

Yes

A freeze would perpetuate some important imbalances between East and West, in favour of the Soviet Union. Would also remove the incentive for the Russians to reach agreements on major reductions in nuclear armaments. Verification of a freeze would be more difficult to negotiate than reductions which are far preferable.

MORATORIUM ON INF DEPLOYMENTS

Moratorium or freeze on the deployment of cruise missiles would not increase the chances of progress in arms control negotiations. Halt now would perpetuate Soviet Union's superiority in this class of weapon and would remove incentive to negotiate reduction. We have repeatedly made clear that we are prepared to review the NATO deployment of cruise missiles in the UK at any time as part of concrete results achieved in negotiations.

WHAT ARE THE IMBALANCES WHICH MATTER SO MUCH?

The Russians enjoy a superiority of about 5:1 over the US in INF. Their advantage over the US in the throw weight (a measure of destructive power) of their strategic missiles is more than 3:1.

INCLUSION OF BRITISH NUCLEAR FORCE IN ARMS TALKS

British deterrent represents less than 3% of strategic nuclear forces available to the Soviet Union. We have made clear that, if Soviet and US strategic arsenals were to be very substantially reduced, and if no significant changes had occurred in Soviet defensive capabilities, Britain would review her position and consider how best she could contribute to arms control in the light of the reduced threat. That remains our position.

IF WE TRUST THE US WHY DO WE HAVE INDEPENDENT DETERRENT?

Have every faith in the American commitment to the defence of the West. But what must concern us is what a potential aggressor may believe. Must guard against any Soviet leadership believing that some future US administration might have doubts about defending Europe. Our national deterrent complicates the planning of any would-be aggressor.

STRATEGIC DEFENCE INITIATIVE

UK PLANS TO PARTICIPATE IN SDI RESEARCH	We have made it clear that we are prepared to participate in research work, which of course is permitted under the ABM Treaty.
VALUE OF SDI RESEARCH TO UK	The work will be of benefit in 2 ways. It will enable the UK to keep in touch with and participate in the latest advances in key areas of defence technology. And it will be of commercial value to the firms involved.
GOVERNMENT RESEARCH ESTABLISHMENTS TO BE INVOLVED?	Details/extent of UK participation not yet settled.
SDI AIMS TECHNICALLY IMPOSSIBLE	President Reagan in March 1983 acknowledged the formidable technical task, and that decades of effort would be needed. Present research designed to establish limits of possible. Obvious technical problems, especially in view of likely counter-measures. Also cost factors to be weighed. Long way now from decisions, though some answers beginning to appear.

HOW WILL UK PARTICIPATION BE ARRANGED/MANAGED?

The first step will be to arrange for a briefing to be given by the US Project Office to UK industry. This will be sponsored by the MOD.

SDI - EFFECTS ON UK NUCLEAR DETERRENT

Trident will provide the best possible means of ensuring the continued effectiveness of our national nuclear deterrent role into the next century.

[If pressed: No developments in Soviet anti-ballistic missile defences are currently foreseen which are likely to negate the deterrent effect of the Trident force within the lifetime of the system]

SDI: US TRYING TO ACHIEVE STRATEGIC SUPERIORITY?

My rt hon Friend the Prime Minister, and President Reagan agreed at Camp David that the US, and Western, aim is not to achieve superiority but to maintain balance, taking account of Soviet developments. Soviet strategic defence programmes are extensive and well-established.

REFERENCES

NOTES FOR SUPPLEMENTARIES

SDI : BRITAIN FOR OR AGAINST?

SDI and parallel Soviet research permitted under existing agreements. Clear need for US to match Soviet efforts. Reaffirmed my support for research during recent visit to Washington. The Americans agree that any deployments would have to be matter for negotiations. Concerned that neither side should misinterpret other's intentions. Current activities should enhance not undermine deterrence.

SDI : US TRYING TO ACHIEVE STRATEGIC SUPERIORITY?

President Reagan and I in full agreement that the US, and Western, aim is not to achieve superiority but to maintain balance, taking account of Soviet developments. Soviet strategic defence programmes are extensive and well-established: US research a prudent response. President Reagan specifically denied trying to seek a unilateral US advantage at press conference during my Washington visit.

SDI AIMS TECHNICALLY IMPOSSIBLE?

President Reagan in March 1983 acknowledged the formidable technical task, and that decades of effort would be needed. Present research designed to establish limits of possible. Obvious technical problems, especially in view of likely counter-measures. Also cost factors to be weighed.

SDI NEGOTIABLE WITH SOVIET UNION?

Have consistently welcomed US readiness to discuss with the Russians research programmes on strategic defence. Problems in constraining research, but any SDI-related deployment would, in view of treaty obligations, have to be a matter for negotiation. President Reagan and I in full agreement on this. The President has said that the SDI will be on the table in the negotiations along with everything else. At press conference during my Washington visit he confirmed US readiness to negotiate any BMD deployment so that it might reduce the nuclear threat without giving the US any unilateral advantage.

SDI : EFFECTS ON ABM TREATY/DETERRENCE?

As President Reagan has repeatedly confirmed, SDI research is consistent with present obligations, including the ABM Treaty. Neither side has signalled any intention of breaking the Treaty. Government has repeatedly made clear it regards Treaty as an important element in preserving international peace and stability, requiring no amendment at present.

The Americans, including President Reagan himself, have repeatedly stressed in private and in public that the aim of the SDI is to enhance deterrence, not undermine it. Affirmed at Camp David: reaffirmed last week. Deterrence has helped keep peace for 40 years. We will need to sustain it for the foreseeable future.

SDI : LINKAGE WITH OFFENSIVE NUCLEAR ARMS?

We and the Americans both determined to seek security with reduced levels of offensive forces both sides. As I agreed with President Reagan, that is the aim of East/West negotiations, which we hope will produce progress on both nuclear and outer space arms.

Clear and logical connection between the two, which even Russians now acknowledge. SDI obviously a factor in bringing Russians back to negotiating table. The Americans say they intend the SDI to complement efforts to reduce nuclear arms.

SDI : DISAGREEMENT AMONG ALLIES?

Good consultations, US keeping Allies informed. Expect to continue. No disagreement that a prudent level of US research into ballistic missile research necessary. I have said that there is absolutely no question of Soviet Union being able to drive wedges between us and US. Consultations valuable to prevent that. As I emphasised last week in Washington, Alliance unity, patience and perseverance essential in forthcoming Geneva negotiations.

SDI : EFFECTS ON UK NUCLEAR DETERRENT?

Trident will provide the best possible means of ensuring the continued effectiveness of our national nuclear deterrent into the future.

ANTI-SATELLITE WEAPONS (ASATS) : BAN/MORATORIUM?

Welcome US readiness to consider balanced and verifiable measures of restraint in the context of negotiations. Should recall that, unlike the Americans, the Russians possess a deployed ASAT system. Undesirable to accept permanent Soviet advantage in this vital area. As I said last week, this should be a matter for US/Soviet discussions.

UK PLANS TO PARTICIPATE IN SDI RESEARCH

At my meeting with President Reagan, I reaffirmed my support for the SDI programme of research and expressed the hope that British scientists might be involved. Any proposal for British Government involvement in the project would obviously have to be a matter for future discussion. Some British companies already involved in preliminary studies relevant to the programme.

DID YOU DISCUSS A US IMPORT SURCHARGE ?

I drew attention to the deep concern which talk of a US import surcharge is creating among America's trading partners. Some US interests may see this as a way of reducing deficits and protecting domestic industry - both at someone else's expense. From my discussion in Washington, however, I believe that the US Administration itself remains opposed to such a protectionist move which would be both counter-productive and highly disruptive of trade relations.

REPRESENTATIONS AGAINST US PROTECTIONISM ?

I made clear to the US Congress and to the US Administration the threat which protectionism poses to us all. I emphasised the danger posed by the current strength of the dollar in creating difficulties for US industry and demands for new trade barriers, including suggestions of an import surcharge. Both Congressmen and the Administration acknowledged that protectionist pressures were considerable. I was encouraged, however, by the extent to which it was recognised that a slide into protectionism should and must be avoided.

A NEW GATT ROUND ?

I told the President that the Government supported his call for a new GATT round of multilateral trade negotiations. I hope very much that GATT Contracting Parties will soon be able to agree on the agenda and a timetable. In working towards a new GATT round it is of course important to ensure that we all avoid protectionist actions which would undermine Commitment to the multilateral trading system.

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NOTES FOR SUPPLEMENTARIES

DID THE PRIME MINISTER DISCUSS WITH PRESIDENT REAGAN CURRENT MOVES TO SETTLE THE LAKER LIQUIDATOR'S SUIT?

I briefed President Reagan on HM Government's plans to privatise British Airways. We noted the steps being taken to settle the action brought by the Laker Airways' liquidator against British Airways and other international airlines.

PM'S QUESTION TIME: 26 FEBRUARY

EXCHANGE RATE

Line to take

- Dollar has surged again to reach new record highs against all the major currencies.

- Over the past week the dollar has risen by 2¾% against sterling. But it has risen by even more against the Swiss franc, 3¼%, and the deutschemark, 4¼%.

- The sterling index is virtually unchanged since last Monday's close. And if you exclude the overvalued dollar [which has a 25% weight] the index would show a 1% rise. Over the same period sterling has risen 1½% against both the deutschemark and the basket of EMS currencies generally.

[Note: The percentage comparisons shown are based on noon rates 25 February in comparison with closing rates on Monday 18 February. The latest rates can be obtained from EF1 Division, Ext 5105.]

149/27

PM'S QUESTIONS: 26 FEBRUARY

EXCHANGE RATE SUPPLEMENTARIES

Q1. **Another sterling crisis?**

No. We are facing a new dollar surge against all currencies. Sterling index unchanged since last Monday's close, and taking out the overvalued dollar [which has a 25 per cent weight] would give a rise of 1 per cent. Against the DM, sterling has risen by 1½ per cent over the past week.

Q2. **Further interest rate rises?**

Interest rates are set at the level necessary to maintain sound monetary conditions.

Q3. **When will parity be hit?**

Debating such hypothetical issues gets us nowhere.

Q4. **Pound still overvalued against European currencies?**

Misses the point which is that the dollar is overvalued against all currencies.

Q5. **Dollar strong because of weak European economies? Government should change policy?**

Point is that dollar has been unsustainably strong for some time and is still rising, whatever happens elsewhere. Abandoning our commitment to firm financial policies would add to pressure on UK interest rates and undermine the foundation of low inflation on which the recovery is built.

Q6. **European markets too rigid?**

G5 Ministers and Governors "stressed the importance of removing structural rigidities in their economies to achieving the objectives of non-inflationary, steady growth and exchange market stability, and expressed their intent to intensify efforts in this area". UK has been making good progress in this area for some time. Point is that, despite this, dollar still rising.

Q7. **Should combine with EEC partners to get dollar down?**

[Mail on Sunday, 24 February, reported Edward Heath as saying that common Market countries should introduce controls to stop European currencies moving into the dollar.]

Real issue is how best to lay foundations for greater exchange market stability. This was a major theme of recent G5 communique which saw prudent financial policies, removal of structural rigidities and intervention, as necessary, as the way forward. Artificial controls on currency movements not the answer.

Q8. **Will dollar ever fall?**

Believe dollar will eventually fall but it is impossible to say when markets will move. Hope that when move comes it is not destabilising.

Q9. **Lower US budget deficit would make $ even stronger?**

May have temporary effect on market confidence. No doubt improvements in deficit would help US economy in long run. Consequent reduction in US interest rates would remove one reason for why dollar is unsustainably high.

Q10. **G5 agreement worthless/Americans not playing ball?**

[Times leader, 15 February, likened G5 communique to "the Munich agreement of the world's current markets".]

No. All G5 members are committed to the agreement and its objective of providing a solid framework for greater exchange market stability.

Q11. **Intervention shown to be a waste of time?/ Shouldn't "toy" with $?**

Never said that intervention was panacea or should become way of life. Intervention likely to have only limited impact when market pressures are strong. But can be helpful in certain circumstances. Authorities continue to stand ready to intervene as and when appropriate. Not a question of "toying" with dollar but seeking to lay solid foundations for exchange market stability.

Q12. **Intervention details/tactics?**

General practice of all governments never to comment on market tactics.

Q13. **PM appealed to President Reagan to help restore sterling's strength?**

What was discussed was the strength of the $ against all currencies.

Q14. **Easier if we were in EMS?**

[CBI Council voted, on 20 February, in favour of £ participation in the ERM].

EMS membership would not provide a soft option nor obviate need to accept financial discipline. No reason to think that market conditions, or their management, would be easier as a member.

Q15. **Will time ever be right to join ERM?**

Always said that will join when conditions are right and matter kept under review. The precise timing depends on a range of factors. Need to weigh up changing balance of risks, advantages and disadvantages of joining the ERM.

Q16. **Bank/Treasury split on EMS?**

[The Times, 31 January said that Governor's view on EMS expressed on BBC Radio 4 "Analysis" programme differed from the Chancellor's view. Liberal leader recently challenged Chancellor about interpretation of Governor's remarks.]

Selective quotations fail to focus on central issue; that EMS membership would not be a soft option and that there would be a continuing need to accept the financial discipline it imposes. Obviously if this discipline is accepted and appropriate measures taken then speculative pressures will be less. The benefits of taking firm action in reducing speculative pressures clear to see from our recent experience. Governor's remarks should be seen in this context.

Q17. **Effect of recent fall in sterling on inflation?**

Given this Government's firm financial framework any effect on inflation bound to be temporary.

Q18. **Effect of lower exchange rate on oil revenues?**

In practice, the dollar oil price and value of sterling tend to move in the same direction. However, it is estimated that, other things being equal, a 1 per cent fall in the dollar/sterling exchange rate would increse North SEa revenues by about £150 million in a full year. [The budget will be based on the best estimate of oil revenues to be made when the outlook is clearer - cannot anticipate that now.]

EXCHANGE RATE FACTS

TABLE 1

MOVEMENTS IN STERLING UNDER LABOUR AND SINCE MAY 1979 ELECTION

	% change	% change to 25 February (noon rates) since		
	March 1974-May 1979	3 May 1979 (Election)	28 January low point (10am rates)	18 February (closing rates a week ago)
ERI	-21	-18¼	+1¼	-
ERI (except $)	-23	- 4¾	+3¼	+1
£/EMS Index*	NA	+ 9¼	+4	+1½
$/£	-12	-48¾	-4½	-2¾
DM/£	-36	- 7½	+3½	+1½
Yen/£	-32	-40	-1¼	-1½
Sw franc/£	-50½	-14	+3½	+ ½
F franc/£	-19½	+23	+3¼	+1¼
Lira/£	+17½	+29½	+4½	+2¼

* % change since opening on 25 February.

Record lows for sterling

Against the $	$ 1.06	(in London on 25 February)
Against the DM	DM 3.50¼	(in the Far East on 14 January).
ERI	70.3	on 28 January.

TABLE 2

MOVEMENTS IN THE DOLLAR SINCE MAY 1979 ELECTION

	% change to 25 (noon rates) February since	
	3 May 1979 (Election)	18 February (closing rates a week ago)
ERI*	+ 63	+2¾
£/$	+ 95¼	+2¾
DM/$	+ 80¾	+4¼
Yen/$	+ 17	+1¼
F franc/$	+140	+4¼
Lira/$	+153	+5¼
Sw franc/$	+ 68	+3¼

* % change since close on 22 February.

HISTORIC LOWS AGAINST THE $

Sterling	$1.06	in London on 25 February
French franc	10.53½	in London on 25 February
Lira	2158	in London on 25 February
Deutschemark (13½ year low)	3.45	in London on 25 February
Swiss franc (10 year low)	2.90½	in London on 25 February.

10 DOWNING STREET

message from
British embassy.
Washington.
PM's letter to the
Speaker of the
House should be
addressed to
Thomas P. O'Neill.

JB
~~22~~ 27/2.

RAMAFS

FILE

10 DOWNING STREET

26 February, 1985

From the Private Secretary

PRIME MINISTERS TALKS IN WASHINGTON

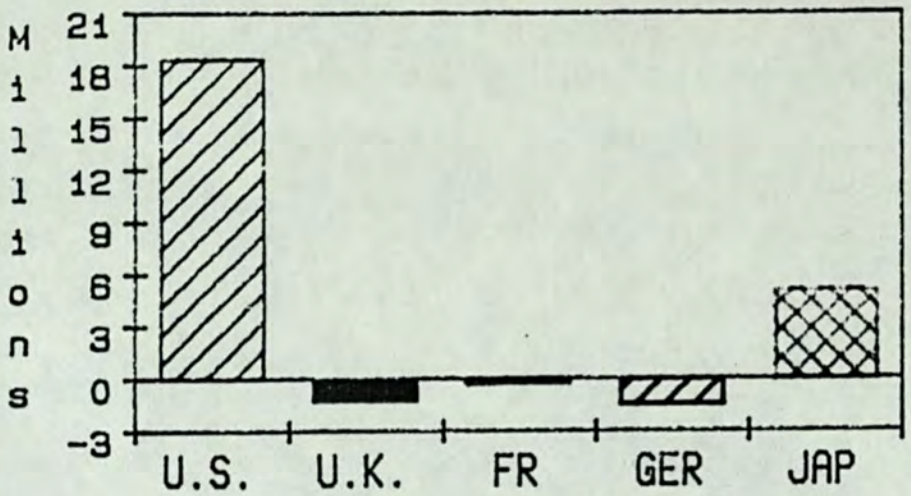
The record of discussion of the US economy between the Prime Minister and President Reagan over and after lunch at the White House on 20 February mentioned that the President had handed over a chart dealing with comparative employment benefits in the United States and various other countries.

I now enclose a copy of the chart, which may be of interest to a number of departments. I am therefore copying this letter and its enclosure to Rachel Lomax (HM Treasury), Callum McCarthy (Department of Trade and Industry), David Normington (Department of Employment) and to Stephen Hickey (Department of Health and Social Security).

(C D Powell)

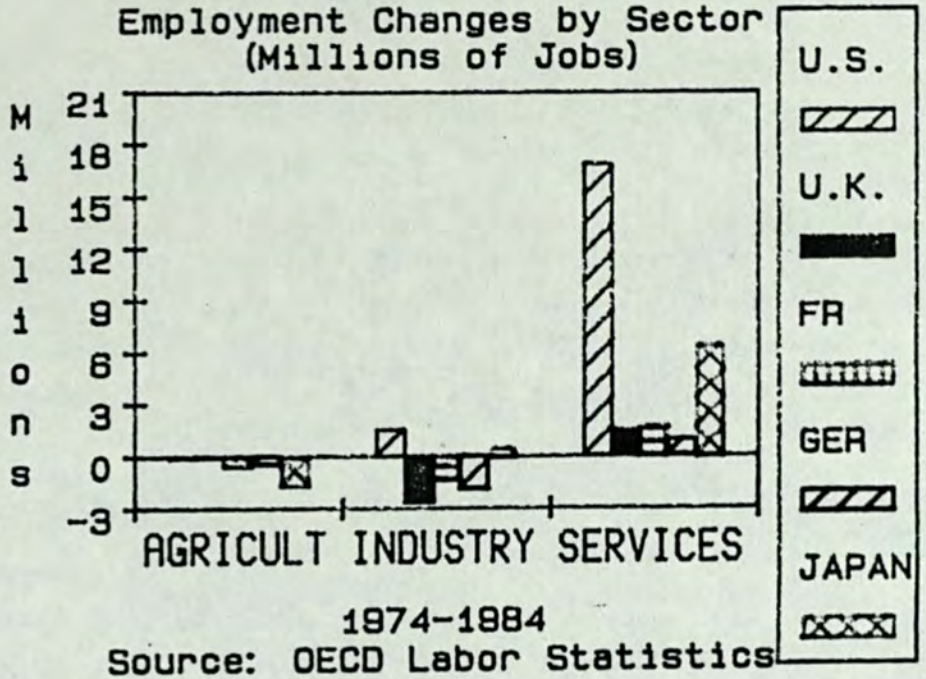
L. Appleyard, Esq.,
Foreign and Commonwealth Office

Total Change in Civilian Employment
(Millions of Jobs)



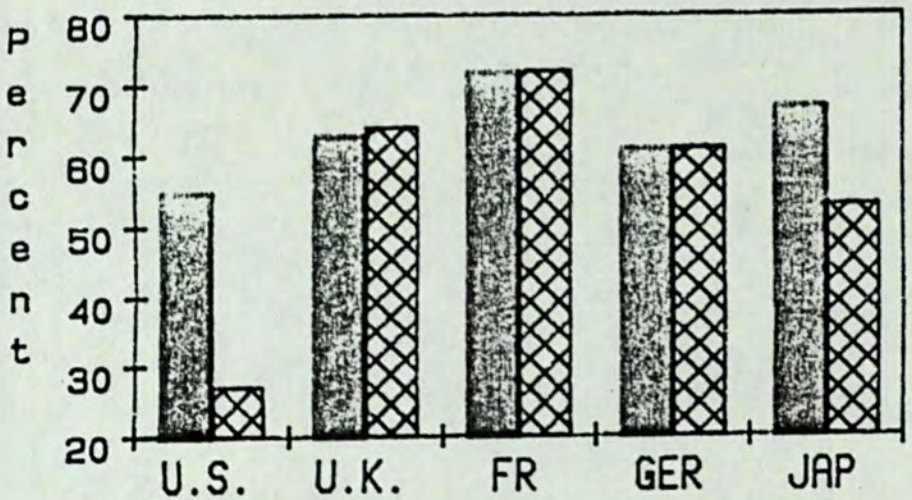
1974-1984
Source: OECD Labor Force Statistics

Employment Changes by Sector
(Millions of Jobs)



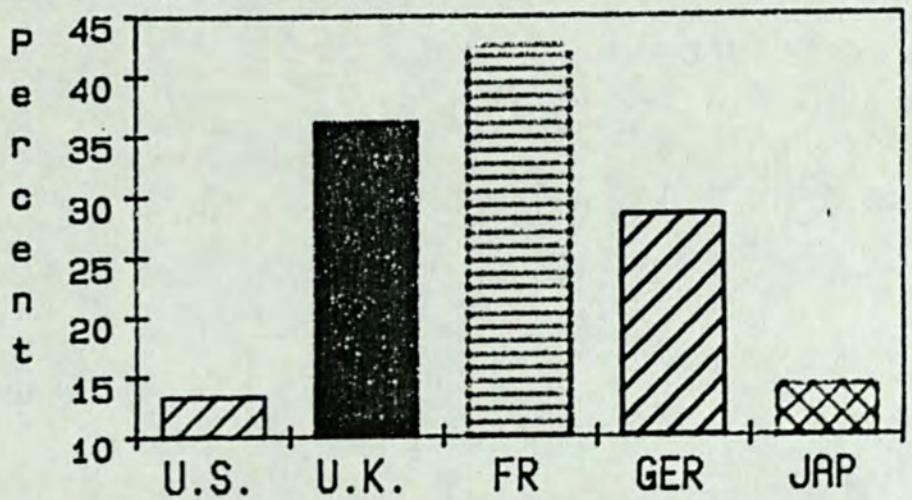
1974-1984
Source: OECD Labor Statistics

Unemployment Compensation
As Percent of Past Wages



1st bar=1st 6 months; 2nd bar=2nd 6 months
Source: OECD Secretariat

Long Term* Unemployment
(As Percent of Total Unemployment)



*At least 12 months unemployed
Source: OECD Labor Force Statistics

10 DOWNING STREET

From the Private Secretary

25 February 1985

Attached is the first draft of a Statement which the Prime Minister proposes to give in the House of Commons tomorrow following her visit to the United States. I should be grateful for any comments you and the other recipients of this letter might have by 11 o'clock tomorrow morning, 26 February.

I am sending copies of this letter to Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence) and Callum McCarthy (Department of Trade and Industry).

(TIM FLESHER)

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

DRAFT STATEMENT ON U.S. VISIT

With permission, Mr. Speaker, I shall make a Statement on the visit which I paid to the United States from 19 to 21 February, accompanied by my rt hon Friends the Foreign and Commonwealth Secretary and the Secretary of State for Defence.

In the course of my visit I delivered an address to a Joint Meeting of the United States Congress. I also held meetings with President Reagan and other senior members of the US

Administration.

I met leading members of the Congress and had a talk with the Chairman of the Federal Reserve Bank.

I was guest at a luncheon at the White House and the President and Mrs. Reagan came to a dinner at the British Embassy to mark the 200th anniversary of diplomatic relations between Britain and the United States.

The principal themes discussed in my talks with the President and other members of the Administration were East/West relations and arms control, economic issues and the Middle East.

On East/West relations and arms control, we agreed that the West's objective in the negotiations which will open in Geneva on 12 March should be a sizeable and verifiable reduction in nuclear weapons, which would allow us to maintain our security at a lower level of weaponry and at lower cost.

As regards the Strategic Defence Initiative, we reaffirmed the four points on which we agreed in December: notably that research, which is permitted under the Anti-Ballistic Missile Treaty, should go ahead but that eventual deployment of a defensive system in space would be a matter for negotiation under

the terms of that Treaty.

I expressed the hope that British scientists would be associated with research into the Strategic Defence Initiative.

In our discussion of economic issues I explained the concern in Europe at the high level of the US dollar against other currencies.

I found this concern widely shared within the US Administration, but it was recognised that no easy remedy existed.

The President and I agreed that the long term solution lay in a reduction of the United States budget deficit and the proposals to this effect which the President has put to

Congress.

I put very strongly the case against protectionist measures as a means to deal with the trade effects of the high dollar on the US economy.

I was assured that the Administration was not contemplating such measures.

On the Middle East, the President and I both felt that the time was propitious for a further initiative to arrive at a solution.

We both expressed our support for King Hussein's efforts to arrive at a common position among moderate Arab governments and I welcomed the result of King Fahd's recent

visit to Washington.

The President confirmed that his proposals of September 1982 remained on the table and that the Administration was ready to pursue them with the parties.

Our talks also dealt with terrorism, Northern Ireland and Central America and a number of bilateral issues.

I believe that my visit was successful in enabling me to convey the British point of view on current issues and some of Britain's achievements to the Administration and Congress of the United States.

FERB

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I ~~also~~ met leading members of the Congress and had a talk with the Chairman of the

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Strategic Defence Initiative.

In our discussion of economic issues I explained the concern in Europe at the high level of the US dollar against ~~all European~~ other currencies. I found this concern widely shared within the US Administration, ~~particularly for the effect of the high dollar on American export industries.~~ but it was recognised that no easy remedy existed. The President and I agreed that the long term solution lay in a reduction of the United States budget deficit and the proposals to this effect which the President has put to

Congress.

~~I believe that this is widely recognised in the Congress and that appropriate action will be taken.~~

I put very strongly the case against protectionist measures as a means to deal with the trade effects of the high dollar on the US economy.

I was assured that the Administration was not contemplating such measures.

~~I also took the opportunity to inform both~~ the Administration and Congress of the recent achievements of the British economy, including record output, record investment ~~and record exports.~~

On the Middle East, the President and I both felt that the time was propitious for a further initiative to arrive at a solution.

We both expressed our support for King Hussein's efforts to arrive at a common position among moderate Arab governments and I welcomed the result of King Fahd's recent visit to Washington.

The President confirmed that his proposals of September 1982 remained on the table and that the Administration was ready to pursue them with the parties.

Our talks also dealt with terrorism, Northern Ireland

and Central America and a number of bilateral issues.

I believe that my visit was successful ~~both in~~ in enabling me to convey ~~reaffirming the very special nature~~ of ~~relations between Britain and our closest ally the United States and in putting across~~ the British point of view on current issues and some of Britain's achievements ~~of the Bri~~ of the United States to the Administration and Congress ~~and through television to millions of American people.~~

CONFIDENTIAL

File
c/pc

10 DOWNING STREET

From the Principal Private Secretary

22 February 1985

Dear Rachel,

I enclose records of three meetings which the Prime Minister held in Washington on economic matters - with Secretary Baker, with Chairman Volcker and the working breakfast with Secretary Shultz and other Cabinet officials.

I am copying this letter with all three records to Len Appleyard (Foreign and Commonwealth Office) and with the record of the working breakfast to Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), Callum McCarthy (Department of Trade and Industry), Ivor Llewelyn (MAFF), Dinah Nichols (Department of Transport) and Richard Hatfield (Cabinet Office).

I am copying the records of the meetings with Secretary Baker and Chairman Volcker to John Bartlett (Bank of England).

Yours ever,

Robin Butler

Mrs Rachel Lomax,
HM Treasury.

CONFIDENTIAL

subject as matter.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS AND THE US SECRETARY OF STATE AND US CABINET OFFICIALS AT THE RESIDENCE OF THE BRITISH AMBASSADOR, WASHINGTON, AT 8 AM ON THURSDAY 21 FEBRUARY

Present:

Hon George P Shultz,
Secretary of State

Hon James A Baker
Secretary of the Treasury

Hon William E Brock,
US Trade Representative

Hon John R Block
Secretary of Agriculture

Hon Malcolm Baldrige,
Secretary of Commerce

Ambassador Charles Price,
US Ambassador to UK

Mr W Allen Wallis,
Under Secretary for
Economic Affairs

Mr J Holmes,
State Department

Rt Hon Margaret Thatcher MP,
Prime Minister

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs

Sir Oliver Wright GCMG, GCVO,
DSC
British Ambassador

Mr F E R Butler,
Principal Private Secretary
to the Prime Minister

Mr N Wicks,
Minister (Economic)

Mr Brian Crowe
Minister (Commercial)

Mr C Powell,
Private Secretary to the
Prime Minister

* * * * * *

US Fiscal Deficit and Level of the Dollar

The Prime Minister referred to the morning's news about new record highs for the dollar. The consequences were

serious. There was not much that could be done other than intervention from time to time to burn the speculators' fingers. But UK interest rates would have to stay high and above US interest rates for some time. This affected small businesses and the construction industry. Yet other economies like Germany, Japan and Switzerland - and allowing for the miners strike the UK - were doing well. When would the rise of the dollar stop?

Mr Baker said he shared the Prime Minister's worry. He agreed that there was little that could be done. The US could not reflate, nor did they want an import surcharge. But reducing the fiscal deficit would be helpful.

The Prime Minister said that the effect of decisive action on that front would help. The alternative was a substantial problem of indebtedness for the US.

Mr Shultz said that if the deficit went down, in the short term the dollar could even rise. But overall a deficit reduction would lead to greater stability, with US savings going into US industry. The dollar would go down. So that was the main thing the US could do. But other countries must make themselves more attractive to capital inflow especially LDCs. They must realise that there was no prospect of increased aid - they must make themselves attractive to equity investment.

The Prime Minister thought that the Latin Americans were doing better on that front. Mr Shultz said South East Asia was doing well. Intervention in the exchange market did not work. The Prime Minister said that intervention could only work if it were sudden and in order to stop surges. She did not understand why people were moving out of the deutschmark. The Foreign Secretary agreed with Mr Shultz. At Williamsburg and at the recent G5 meeting it had not been visualised that intervention would happen more than occasionally. There was no going against the underlying causes. Mr Shultz said that the Smithsonian Agreement of 1971 had been hailed at the time

but it had been the worst agreement made in international finance, since it had tried to fix rates at the wrong levels. It had done immense damage and been partly responsible for the subsequent rise in world inflation. The Prime Minister said that she would not wish to defend any particular sterling rate. Mr Baker said that $4½ billion had been spent on intervention since 17 January to no noticeable effect and all countries had lost money.

Mr Block said that if the high dollar continued, US export industry and agriculture "would die". The Prime Minister said that the high dollar was fine for European exports to the US, but there were two effects. First, industry slackened off on efficiency and, second, inflation increased, not least because of commodity prices in dollars. Mr Shultz said that the US could not go on running a trade deficit. That was an unstable situation. But things could be done. Ways of discouraging capital imports to the US could be explored. The present situation was killing industry.

The Prime Minister asked how capital imports to the US could be discouraged. Mr Baker thought that Mr Volcker's testimony the previous day on the Hill had been responsible for the current surge in the dollar: he had made clear that the US was not going to adopt an easy money policy. The Foreign Secretary said that a high fiscal deficit with a tight monetary policy produced high interest rates, compelling higher interest rates still in other countries. The Prime Minister said that the situation was inherently unstable. Mr Baker thought there could be no action out of Congress within the next 60 days. This was the minimum period because of the inherent difficulties Congress saw in the Administration's proposals. They would prefer an import surcharge. The Prime Minister said that that would be the very opposite of liberalisation. When introduced in Britain it had betokened the mentality of the siege economy. Mr Baker said that the approach in Congress tended to be protectionist. The Prime Minister said that members of Congress had denied this to her the previous day. Mr Baker said that many in Congress would

alternatively want to see taxes raised to reduce the fiscal deficit. The Foreign Secretary said that that was something the UK had had to do at its most difficult moments: bridging the gap by increased tax on expenditure when everything possible had been done on reducing public expenditure.

Mr Baldrige was not convinced that the dollar would stay high throughout the year. There was a chance of a down turn in mid year arising out of the convergence of growth rates in the US and Europe. Where the gap had been 6.8 per cent against 1.8 per cent, it was coming down now to 4 per cent against 2.75 per cent. This would have its effect on the dollar. Mr Shultz agreed. The rise in share prices in Europe showed an expectation of better rates of return and that should reduce capital flows to the US.

Mr Baldrige said that the generally satisfactory macro-economic picture for the US hid very real problems. The growth in the US economy had come from small firms. Out of 20 million jobs created here over 15 years, 9 out of 10 had come from companies employing fewer than 100 people. 2 out of 3 had come from companies employing fewer than 50 people. None had come from the Fortune 500 companies. Many older companies were failing but there were 600,000 new ones every year. Policy makers must not ignore this. New companies covered a wide range of activities including services and high tech (10 to 15 per cent) but the effect of the high tech companies was much more important than the percentage because of their wider effect through manufacturing and the economy. The Foreign Secretary said that Europe had a similar perception. It was difficult to identify the obstacles in Europe.

Mr Brock said that in the US the biggest factor stimulating growth had been the reduction in capital gains tax in 1979 from 50 per cent to 28 per cent and then to 20 per cent, leading to a great increase in venture capital. The Prime Minister said the problem was less capital, of which there was plenty, but rather people. Mr Baldrige thought the crucial factor was the ease with which new companies could be

started up in the US. In a conversation with a senior German official it had emerged that whereas two people leaving IBM could start a new company in two months, in Germany a similar process would take between one and two years: the prospective entrepreneurs would run out of capital first. The Prime Minister recognised the importance of the rate of formation of new businesses. In the UK they got tax advantages even though this created difficulties for us in the European Community. The US was much freer and much less union ridden. But times were changing as lack of support for the NUM was showing.

The Prime Minister said that it was important that agricultural prices should not increase. Mr Brock said that they should be reduced. The Foreign Secretary said that in real terms they would be. The Prime Minister said that what people saw was the change in cash terms. The Foreign Secretary said that the right cut for cereal prices in the Community should be 5 per cent. The Commission had proposed 3.6 per cent. This was still important. The Prime Minister said the Commission had proposed a nil increase across the board, although this disguised an unjustifiable increase in the price of milk. The UK wanted no increase in prices and strict financial discipline. The Germans agreed but then said that their farmers needed to have their incomes preserved. It was the Germans who were the engine of price increases in the Community.

Mr Block explained that the debt problem affecting US farmers was a short term one relating to this year's planting season. In the long run the Administration planned to reduce farm support subsidy, phasing it out over five years. The farm programme had cost $3 billion in the 1970s, had risen to $18 billion, had been $7 billion in 1984, would be $12 billion in 1985 and $10 billion in 1986. The big expense was the loan programme and buying dairy surpluses.
Mr Baker said that reduction in the farm programme was central to the budgetary strategy. Over the last four years the cost had been $63 billion. It would be reduced to $35 billion over the next few.

Mr Brock said that this was an area in which we needed to think together. The efforts of the Administration were sincere but tough. They could not succeed while subsidised exports of surplus products by the EC continued. The Prime Minister commented that the US too had subsidies. But the British were continuing to fight against the policies which produced surpluses in the Community. Unfortunately we were outvoted in the management committees on export subsidies. British housewives were not used to high food prices and we still had to make provision for New Zealand exports. The problem was the German farm lobby which was dragging up European farm prices. Mr Brock asked how the US could help. The Prime Minister said that the Americans should convey their views firmly to Delors and Andriessen in the Commission and also to Chancellor Kohl. Things were going in the right direction but were taking time. Mr Brock thought that the Europeans did not realise the urgency of the situation. The Prime Minister commented that Britain with Germany and the Netherlands had prevented restrictions on imports of oils and fats and soya. Mr Brock appreciated that but asked that Britain tell its partners of American determination. As American farm support declined, so their farmers would insist on firm access to world markets.

Sir Geoffrey Howe said that there was a perception in Europe of American farm subsidies. There must be common US/European understanding of what we were trying to do. Delors, Christopherson and Andriessen, as former Finance Ministers, understood the problem. The Prime Minister commented that Lord Cockfield would also press for expenditure cuts. But it was important to get at Germany and France. Mr Brock said that if they could be got into agricultural negotiations, an agreement should be possible. The problem was getting them to the table. The Foreign Secretary thought the right line was that of the Catherwood Report: mutual and balanced subsidy reductions. The Prime Minister said that Britain shared many of the United States' objectives. The Americans should get their views over to Chancellor Kohl.

New Zealand

Picking up the Prime Minister's reference to New Zealand, Mr Shultz asked about the Prime Minister's reaction to Mr Lange's decision on US naval visits. The Prime Minister confirmed that Britain had no intention of telling anyone whether or not British naval ships were carrying nuclear weapons. Mr Shultz welcomed this. New Zealand had taken themselves out of the number of countries prepared to protect freedom. It would feel the effect of this through not continuing to get the special consideration it had had by virtue of its role. The Prime Minister said that unfortunately Mr Lange was due to make a speech at the Oxford Union on nuclear disarmament. He had been impaled on the electoral hook but she had thought he would get himself off it. Mr Shultz said he had thought so too and he had said so, but Mr Lange had got even tougher. He swung with the political weather.

Oil Market

Mr Shultz asked the Prime Minister's opinion on the price of oil over the next year. The Prime Minister thought it would be vulnerable through the summer. It was up at the moment and stockholders were waiting to see if the price fell. She would be concerned by the prospect of a sharp fall. This was not because of its effect on the UK economy (which was only 5% of the GNP, 8.5% of revenue), but more because a rapid fall would be far worse for countries like Nigeria which owed a lot of money. Mexico was also in this position, although unlike Nigeria it had made a real effort with its economy. The oil price was about 20 cents above the official price at the moment. She would like to see it stay there and not move up or down. The Foreign Secretary said that other oil producers were also indebted to the world banking system. A stable price was therefore very important. The question was whether this was possible.

Mr Wallis said that oil producers were starting to sell finished products. This was generating protectionist measures and new problems in international trade. The Prime Minister said that producers could afford to reduce production. The Saudis had been as low as 2 mbpd. Mr Baldrige said that in the case of Mexico oil price reductions had been offset by lower interest rates. They were still growing at 3½%. The Foreign Secretary pointed out that this was at the cost of a tremendous internal adjustment. Mr Shultz commented that Mexican capital was still moving to the US. This reinforced his earlier remark that other countries must do better at attracting capital.

The Prime Minister said that an oil levy would greatly damage oil price stability as well as being contrary to GATT. Once oil prices started to fall the result could be disastrous. Everyone would increase production. No large new oil deposits were being discovered. In consequence the West would again become heavily dependent in the 1990s on the Middle East. So she hoped the Administration would not contemplate an oil levy. Mr Baker indicated that the Administration would not favour such a levy. Mr Brock said that there was a lot of support for one in Congress. The Prime Minister pointed out that with consumption at 13mbpd and production at 8.5mbpd and falling, and only 10-12 years of US reserves, there was a high risk for the US of being thrown back into dependence on the Middle East. Mr Shultz said that there was plenty of gas coming forward. Mr Brock questioned whether petrol taxes were high enough in the US. He thought not. The Foreign Secretary drew attention to the difference between a tax and an import levy. Mr Baker said that if there were talk about a domestic tax, this would increase pressure for a levy instead. The Prime Minister pointed out that the oil price would have to rise very substantially to make new sources like shale economical. Mr Brock and Mr Baker thought that new oil would be found and was being found. The Prime Minister pointed out that the results so far in China had been disappointing and other finds were in the

Middle East. Mr Shultz said that one of the biggest mistakes of the last ten years had been the maintenance of price controls. Consumption would have declined sooner in their absence. The lesson was to let the market work. Mr Baker pointed out that gas was still controlled in the US. US industry was split on the issue.

Laker

The Prime Minister referred to her conversation the previous day with the President. If the litigation could be got out of the way through Eximbank agreeing to settle out of court, this would give a much better framework for liberalisation.

Mr Wallis said that he was aware of the problem with Eximbank. He and Ambassador Price would see what could be done. But the Americans had been disappointed at the lack of reaction to the President's decision last year. This diminished their enthusiasm. But he thought something could be done.

The Prime Minister said the American disappointment was not justified. If there were no settlement, there would be a great row over the discovery of documents which would end up affecting trans-Atlantic air traffic. That was in neither country's interest. Mr Wallis agreed. The Prime Minister said that Britain could claim to be disappointed over the absence of right for British airlines to serve US domestic routes, or over the lack of access to US coastal shipping (which in the UK was free). Mr Wallis said that aviation was particularly controlled. The Prime Minister said that Britain was seeking greater competition in Europe. We would not mind American competition in Britain if the Americans would allow British competition inside the US. The threat now arose out of the discovery process, the application of the PTI Act, the impounding of aircraft etc. Mr Price said that the treble-damage suits would hit US, not foreign, carriers because of blocking legislation.

Mr Shultz said that Britain had asked for changes in US anti-trust laws. The Americans had emphasised that that was not necessary nor likely to be possible; but that there were procedures giving immunity from potential anti-trust action. The Prime Minister said that that did not stop individuals bringing vexatious suits. Mr Shultz said the procedure had a good track record. Once the procedure had been followed there had been no successful claims. The Prime Minister said that the airlines had followed Bermuda to the letter, getting British and American Government approval, and had therefore thought they were in the clear.

The Foreign Secretary said that one step should be taken at a time. The outstanding liquidator litigation was close to a solution, with only one creditor holding out. Mr Shultz said that nobody liked Sir Freddie Laker and the lawyers getting substantial sums at the expense of a government agency. The Prime Minister said that if there were no settlement, there would be serious consequences within three months. And she would not be able to denationalise British Airways. Mr Wallis could not see why she could not follow the American example and offer BA for sale with a contingent liability. The Prime Minister made it clear that that was not possible in British conditions. Mr Wallis agreed that it was desirable to see the matter settled. The Prime Minister said that it was more than desirable: the consequences of not settling would be disastrous. Mr Wallis said that all were convinced of that.

Unitary Tax

Mr Brock said that the Governor of California was working on this. Mr Wallis said that British and Japanese tactics had been very effective. Successful pressure had been brought to bear in Florida by British withdrawal from a trade fair, and was being brought in California by the Japanese reducing investment and business activity. Mr Brock thought that British companies should make representations in California.

The Prime Minister said they were: a CBI mission had gone there in the previous week.

Trade Round

The Foreign Secretary welcomed US pressure for a new trade round. The French and Italians were being difficult. Mr Shultz hoped that the British Sherpa for the Economic Summit would be instructed to press ahead on a new round. The Prime Minister said one problem was Japan: everyone wanted the Japanese to take steps to open their market but when the time came at economic summits, the word became that we must be nice to the Japanese. Mr Wallis said that only the US, Canada and Germany had strongly advocated a trade round at the last Sherpa meeting. The British and Japanese had made friendly remarks but had not been vigorous.
The Prime Minister said she would make sure that the British Sherpa had instructions. Mr Wallis said that the French had made clear they would not consider one if it covered subsidies. Mr Brock said that Mr Declercq was in favour but the French were blocking a Community mandate. This created a difficult position for the US. Could Britain help with the French? The Prime Minister thought this unlikely.

The discussion ended at 9.30 am.

F.E.R.B.

subject to master.

CONFIDENTIAL

NOTE OF A MEETING BETWEEN THE PRIME MINISTER AND THE CHAIRMAN OF THE FEDERAL RESERVE BOARD AT THE FEDERAL RESERVE BUILDING, WASHINGTON ON THURSDAY 21 FEBRUARY 1985 AT 1145 HOURS

Present:

Prime Minister
HM Ambassador
Minister (Economic)
Mr. F.E.R. Butler

Mr. Paul Volcker

****

International Exchange Markets

The Prime Minister began by referring to the strength of the dollar in the foreign exchange markets that morning. Mr. Volcker commented that the market had interpreted his remarks on the previous day about an end of the period of loosening on the monetary policy as an indication that it was to be tightened up.

The Prime Minister said that she felt uncomfortable about the present position because it was built on an unstable foundation. If there was a reversal in the rise of the dollar, the movement might be sharp. She had noted that members of the Administration had argued to her that morning that action to reduce the deficit might perversely strengthen the dollar further by showing that the one weakness in the Administration's policy was being corrected.

Mr. Volcker said that the latter was a currently fashionable view. But he agreed with the Prime Minister's analysis of the present position. He believed that effective action would not be taken about the deficit in current circumstances. If it were, he believed that it would check the rise in the dollar because market interest rates would come down. In current circumstances, however, he did not know whether he was worried most about the prospect of a further rise in the dollar or of a fall. Certainly,

/ if there was

if there was a fall and nothing had been done about the deficit, the pressures on the Administration to take action would be very strong. But it would be an uncomfortable situation in which to have to act.

The Prime Minister asked about the damage of the current level of the dollar to exports and agriculture. Mr. Volcker said that the effect on businesses was likely to occur through their investment plans. Although much of the talk was exaggerated, there was widespread pessimism among businessmen about further investment in the United States at current rates of the dollar. Of $20b expenditure on new plant and equipment in the previous year, $12b was represented by imports. In the event, market forces would reverse the rise in the dollar but, particularly if Congress resisted pressures for protection, there might be no reversal this year.

Mr. Volcker continued that, in the interests of not causing further appreciation of the dollar the Fed had been compromising on monetary control. Money supply on all measures had been going up fast. The Prime Minister said that the monetary policy had also been too lax in the United Kingdom, but action had now been taken to tighten it up. She thought that it would be necessary to keep United Kingdom interest rates above United States' rates for the foreseeable future. There was a bill mountain at present and this gave scope for "round tripping" by discounting bills and putting them on the money market.

Mr. Volcker said that the policy of co-ordinated intervention agreed at the January meeting of the Group Five had not worked Intervention had been in too small amounts to be effective. He acknowledged that intervention could have an effect if it was on a large enough scale and undertaken at the right psychological moment but that had not happened so far. He thought that there was scope for expansion in both Germany and Japan: both had surpluses on their current accounts and a good record on inflation, but in order to prevent a further depreciation in their currencies against the dollar they were keeping conditions tight and this was having an unnecessarily depressing effect on their economies. Conversely, if they were to let up a bit, the

/ resultant growth

resultant growth might well cause their currencies to appreciate. He did not believe that the same argument applied to the United Kingdom.

United States Banking

Mr. Volcker said that the weak condition of business, and particularly farming, would bring many collapses among small banks, particularly since many loans had been secured on land of which the price had now collapsed. There would also be problems for banks like Crocker. Most of the depositors in these banks would be protected by government insurance for depositors up to $100,000.

Mr. Volcker said that he was concerned about the increasing tendency of banks to take in short-term money, often overnight, against medium and long-term loans, in order to square their books. He had found it difficult to enforce more prudent arrangements in the United States because the banks pointed out that this prevented them from being competitive with banks in other countries which had looser arrangements. One of the problems was that memories of banking crashes were now so distant that nobody feared them anymore. He welcomed the work which the Bank of England were leading in Basle to introduce tighter regulations on a co-ordinated international basis.

Oil Prices

Mr. Volcker said that a reduction in the oil price to $25 would be unlikely to cause any great problems. Beyond that, there would be difficulties for a number of countries and for banks which had lent them money. But many people in the United States would nevertheless be glad to see the oil price drop to $20 or below because it would raise the rate of growth. He doubted whether the oil price would drop that far, since stocks were undoubtedly low and would have to be replaced in the next twelve months.

/ Debtor Countries

Debtor Countries

Mr. Volcker said that he was not optimistic about Nigeria. Brazil had loosened its policy after reaching agreement with the IMF and inflation was now running away. The Managing Director of the IMF had therefore declined to give his approval to a bank loan and it was hoped that the new government of Brazil would reach a new agreement on taking up office. Mexico was also having problems, partly because there was an internal struggle between those who were unwilling to accept changes in established methods of doing things and the rest. But it was likely that a new agreement could be negotiated. He was reasonably optimistic about Venezuela but not about Argentina where inflation was out of control and the Government was unwilling to take any action which would lower the rate of growth. Some progress had been made about the Philippines but the present regime was unlikely to last in the long run. He acknowledged that things had not been going well for South Africa but this was not high on his order of concerns.

F.E.R.B.

21 February 1985

subject cc master.

NOTE OF A MEETING BETWEEN THE PRIME MINISTER AND SECRETARY BAKER AT THE BRITISH EMBASSY, WASHINGTON ON THURSDAY 21 FEBRUARY 1985 AT 0930 HOURS

Present:

Prime Minister
Minister (Economic) HM Embassy
Mr. F.E.R. Butler

Secretary Baker
Under Secretary Sprinkel
Assistant Secretary Mutford
Deputy Secretary Darman
Deputy Assistant Secretary Dallara

****

The Prime Minister suggested that the meeting might start by discussing the strength of the dollar which was rising further against the deutschmark that morning. She had no doubt that this was partly due to the political strength and stability of the United States. Unlike the European countries, there was no prospect of an extreme socialist government in the United States. But she was worried about the continued rise of the dollar because it did not appear to be based on a sustainable situation. On the other hand, the ability of governments to take effective action against the market in the short term appeared very limited.

Secretary Baker agreed with this view. The US Administration's experience of intervention showed that it had limited effectiveness. Other solutions, such as inflation or an import surcharge, were unattractive. The Prime Minister agreed with the latter view.

Mr. Sprinkel added that the US economy appeared much more flexible in the use of resources than European countries and more competitive in labour markets. The Prime Minister agreed. The US economy did not suffer so much union resistance to change

/ and she referred

and she referred to the chart prepared by Secretary Baker showing the greater degree of support for long term unemployment in Britain and France compared with the United States.

Secretary Baker referred to the President's youth opportunity minimum wage proposal. The Prime Minister said that the British Government were trying to remove obstacles to the provision of jobs for young people at an economic wage. The Wages Council system was an obstacle here, but there was strong labour resistance to the removal of that system.

Secretary Baker said that, although the rise in the dollar was not justified by the relative trade position, it could go on for some time. It did not appear to be based purely on speculation. Other factors such as the long-term prospects of the US economy and the range and flexibility of types of investment offered in the US market were a factor. In response to a question from the Prime Minister, Mr. Sprinkel confirmed that nevertheless a lot of the movement into the dollar was short-term money, and the Minister (Economic) confirmed that there were estimates that 10% of movements were trade related and 90% investment related.

Secretary Baker referred to the action which the United States Government had taken to improve the attractions of the yen as an outlet for investment. A three point programme had been negotiated between the US and Japan last year covering deregulation in Tokyo, freeing the market for the Euro-yen and removing obstacles to the establishment of financial institutions in Japan. There was an agreed programme of further steps to be taken in April and the market was itself inducing the Japanese to go further. The Prime Minister commented that there was a better prospect of liberalisation in Japan under Prime Minister Nakasone.

Summing up the discussion, the Prime Minister said that it was very trying for Britain, when the fundamental problems in the economy were being tackled and some success was being achieved, to see nevertheless the value of its currency at an all time low against the dollar. The only long-term solution

/ appeared to be

appeared to be the reduction of the US deficit. One of the major problems for Western economy was the relentless pressure on the growth of public expenditure, particularly on social programmes. Following work done by OECD, she had tried to have a reference included to this problem in the final communique ofthe London Economic Summit, but other Heads of Government had been reluctant to agree. The Minister (Economic) added that the IMF were producing further material on this problem.

Secretary Baker said that there was general agreement in Washington on the need to reduce the deficit. The only difference was about the method. The President was determined not to increase taxes since this would increase the proportion of the national income taken by the State. The President was tackling the pressure for growth of social programmes. Defence, which had constituted 48% of Government spending under the Kennedy Administration, now only amounted to 29%.

F.E.R.B.

21 February 1985

Washington Visit

JR

10 DOWNING STREET

From the Principal Private Secretary

22 February 1985

The Social Secretary of the British Ambassador in Washington handed me your letter of 18 February. The Prime Minister was sorry that it was not possible to include you in any event during her visit to Washington but asked me to write and thank you for your expression of support.

(F.E.R. BUTLER)

Professor Pamela Haddy

EU

The Social Secretary called Professor Haddy to thank her for her letter and to tell her that unfortunately it was too late to include her in any event here at the British Embassy, but that she would place the letter before The Prime Minister on her arrival.

Elise Moore-Searson
19.2.85

GEORGETOWN UNIVERSITY
WASHINGTON, D.C. 20057

SCHOOL OF BUSINESS ADMINISTRATION

18th February 1985

Social Secretary to
H.E. The Ambassador,
British Embassy,
3100, Mass. Ave., N.W.,
Washington DC

Dear Sir or Madam,

I am a great admirer of Mrs. Thatcher and my daughter and I greatly enjoyed her comments on 60 Minutes on Sunday evening. I wondered if at this late date there was any possibility of being added to the list of any talk, reception or other gathering at which I might see and hear the Prime Minister speak.

My emigration from England to the US over 20 years ago was occasioned by just the kind of concern she has expressed for the whittling away of entrepreneurial initiative, and which she more than any of her predecessors has tried to halt.

The use of the heading above serves to indicate organisational affiliation, not any representation. I can be reached here at 625-8537, or at 338-3429 (H.)

Yours truly,

Pamela Haddy
Associate Professor

BRITISH EMBASSY
3100 Massachusetts Avenue NW Washington DC 20008
Telex Domestic USA 89-2370/89-2384
Telex International 64224(WUI)/440015(ITT)
Telephone (202) 462-1340

C D Powell Esq
10 Downing Street

Your reference

Our reference

Date 22 February 1985

Dear Charles,

PRIME MINISTER'S VISIT: CONGRESS

/ 1. I enclose draft records of the Prime Minister's meetings with Senators and Congressmen on the afternoon of 20 February. May I leave it to you to finalise and distribute these records as necessary (including copies for us)?

2. I am copying this letter and enclosures to Len Appleyard (FCO).

Yours ever,

Mark Pellew

M E Pellew

JDS 4.40

DSR 11C

SUMMARY OF RECORD OF PRIME MINISTER'S MEETING WITH SENATOR DOLE AND OTHER US SENATORS: 20 FEBRUARY 1985 AT 3.45 PM

Present:

Senator Dole (R-Kansas)	Prime Minister
Senator Simpson (R-Wyoming)	Foreign and Commonwealth Secretary
Senator Goldwater (R-Arizona)	Mr Alison
Senator Danforth (R-Missouri)	HM Ambassador
Senator Lugar (R-Indiana)	Mr Powell
Senator Hatfield (R-Oregon)	Mr Ingham
Senator Wallop (R-Wyoming)	Mr Hannay
Senator Warner (R-Virginia)	Mr Pellew
Senator Byrd (D-West Virginia)	Mr Sheinwald
Senator Cranston (D-California)	
Senator Nunn (D-Georgia)	
Senator Long (D-Louisiana)	
Senator Pell (D-Rhode Island)	
Senator Hollings (D-South Carolina)	

1. After being welcomed by Senators Dole and Byrd, the Prime Minister said that in her speech to the Joint Meeting she had wanted to thank America for keeping freedom alive in the world. Britain too was living up to her responsibilities,

/including

including out of area, and there was fundamental approval in Britain for what the Americans were doing. On East/West relations and arms control, we believed that research was essential in order to maintain deterrence. We strongly supported SDI research - and indeed hoped that our own industries would share in it. But there was an immense gap between research and deployment. The latter could only take place by negotiation. Meanwhile Cruise and Pershing deployments in Europe must go ahead, and Britain was committed to updating Polaris with Trident. The Alliance was facing a difficult public relations battle with the Soviet Union, who found it hard to understand that we genuinely wanted reductions in nuclear weapons. If talks were to succeed, it was important that we should get to know the Soviet leaders better.

2. On the international economic situation, the Prime Minister said that all democratic governments were facing similar problems. In the UK we were keeping our budget deficit within bounds by orthodox financial management. She shared the Administration's view that a vigorous society could not be built on higher taxation. But the size of the US deficit and the strength of the dollar were causing us problems.

/3.

3. Senator Goldwater agreed that we needed to get to know the Russians better. They were not historically a warlike people. Many of the younger generation of Russians were unhappy with their economic plight. The Prime Minister commented that the Soviet system was rigid and unadaptable. Their standard of living could only be raised by relaxing the grip of Communism. The Chinese, on the other hand, were adapting. The UK was trying to get to know both countries. We had had a successful negotiation with the Chinese over Hong Kong. Senator Pell asked for the Prime Minister's views on how to improve communication with the Soviet bloc. The Prime Minister said that she had gone to Hungary first, and Sir G Howe had been busy visiting other East European countries. There was a new generation of Soviet leaders coming forward, and we had found Gorbachev surprisingly open to dialogue during his visit to London in December. We were hoping to build on this with further ministerial visits in both directions.

4. Senator Nunn said that the US was well aware of Britain's contribution to defence, including out of area. Unfortunately not all the European allies were doing as well. The Prime Minister pointed out that there was no provision in the North Atlantic Treaty for the allies to act out of area. Germany, for example, was precluded from doing so. Yet she was a staunch Alliance member, and her soil would be fought on in any war in Europe. Senator Hatfield thanked the Prime Minister for her remarks about the European contribution to defence. We

/should

should get away from the idea of a bi-polar US/Soviet world. The Prime Minister commented that Europe was part of the Western Alliance. It was important for the future of democracy to bring ~~in~~ Spain and Portugal into the European Community. Senator Hollings referred to the frustration in Congress that some Western Allies (he mentioned the Netherlands and Belgium) were not playing their full part. The Prime Minister said that European heads of government were in very close touch with each other. The Dutch had moved in the right direction on INF deployment, and she ~~believed~~ was confident that the Belgians would do so too. Prime Minister Martens had a difficult coalition to manage, but he was doing everything he could.

5. Senator Lugar asked about the problems of unemployment in the UK. The Prime Minister said that we had created 350,000 new jobs last year. But unemployment still had risen. There were many factors involved, such as the number of married women coming on to the job market, more school-leavers, and the impact of new technology on industries which had long suffered from restrictive trade union practices. We had not yet recaptured the spirit of enterprise which was prevalent in America. Senator Long asked about UK experience of corporation tax reform. The Prime Minister said that there had been too many reliefs in our tax structure. We had tightened our depreciation provisions and reduced corporate tax rates.

/6.

DSR 11C

6. Senator Danforth referred to the US's $123 billion trade deficit. How could the US resist protectionist pressures, especially as regards trade with Japan? He also wondered what action could be taken on exchange rates. The Prime Minister said that there was a cultural problem with Japan. We had to persuade them voluntarily to limit their exports, while keeping up the pressure on them to open their own markets. It was important to avoid protectionist solutions: that was why she supported President Reagan's call for another GATT round. As regards exchange rates, UK industries had been forced to be competitive when exchange rates were unfavourable to them. If intervention was required, it should be done by the G5 countries acting together.

7. Other Senators spoke only to congratulate the Prime Minister on her speech. Senator Dole closed the meeting at 4.50pm.

JR 37

DSR 11C

SUMMARY RECORD OF PRIME MINISTER'S MEETING WITH MEMBERS OF THE HOUSE OF REPRESENTATIVES: 20 FEBRUARY 1985 AT 5.15 PM

Present:

Speaker O'Neill (D-Massachusetts)	Prime Minister
Congressman Wright (D-Texas)	Foreign and Commonwealth Secretary
Congressman Foley (D-Washington)	Mr Alison
Congressman Alexander (D-Arkansas)	HM Ambassador
Congressman Fascell (D-Florida)	Mr Powell
Congresswoman Mary Rose Oakar (D-Ohio)	Mr Ingham
Congressman Michel (R-Illinois)	Mr Hannay
Congressman Lott (R-Mississippi)	Mr Pellew
Congressman Kemp (R-New York)	Mr Sheinwald
Congresswoman Lynn Martin (R-Illinois)	
Congressman Dick Cheney (R-Wyoming)	
Congressman William Broomfield (R-Michigan)	

1. After welcoming the Prime Minister and introducing his colleagues, the Speaker asked for the Prime Minister's views on dealing with the Russians. The Prime Minister said that Soviet society was closed, rigid and unadaptable. The Soviet leaders had a pathological fear of being attacked by the United States. We could only hope to change their attitudes

/by

by getting to know them. The Gorbachev visit to London had been useful, and we were seeking further opportunities for contact with their leaders through Ministerial visits in both directions.

2. The Speaker asked about the UK economy. The Prime Minister pointed out that we had achieved 2½% growth in the last year despite the coal strike. As she had said in her speech to the Joint Meeting, we were seeking to recover the spirit of enterprise which the US had never lost. We had created 350,000 new jobs last year, but for various reasons - eg the number of married women coming onto the job market, demographic factors, overmanning caused by restrictive Trade Union practices - we had not yet shared the Americans' success in reducing unemployment. An encouraging sign was the rate of creation of new industries. Congressman Wright asked if small business failures were a problem in the UK as in the US. The Prime Minister said that the greatest risks were in the high technology field. It was interesting that the highest small business failure rate was in Japan.

3. Congressman Wright referred to the question of interest rates and their effect on economic recovery. The Prime Minister said that US interest rates and the strength of the dollar caused us problems. She believed that the budget deficit would be tackled: what really worried her was the

/possibility

possibility of a resurgence of protectionism in the United States. In the UK, we had refused to protect our own industries at a time when the pound was unjustifiably strong. UK industries had been forced to start their drive for efficiency when exporting was most difficult for them. She hoped that the US would follow our example and avoid protectionist remedies. Congressman Fascell said that the pressure for protection was very real. He was bound to say that he thought the policies of the European Community were aggravating the problem. The Prime Minister agreed that this was so as regards the Common Agricultural Policy, but not so far as other trade sectors were concerned. But she pointed out that the subsidies paid to US farmers had in fact exceeded those paid to European farmers. Congresswoman Oakar referred to the forthcoming expiry of the US agreement with Japan on voluntary restraints on car imports, which was important for her home district in Ohio. The Prime Minister said that in the UK voluntary agreements had been made on an industry-to-industry basis.

4. Congressman Kemp congratulated the Prime Minister on her speech which he thought had been very perceptive on international economic policy. He wondered whether current difficulties in the world trading system were in fact a reflection of breakdown in the world monetary system. Should

/the

the United States, Europe and Japan get together to try to devise some new system? The Prime Minister said that with so much money moving about the world, it would be impossible to go back to a fixed exchange rate system. The current strength of the dollar was due to psychological factors relating to the strength of the US economy. But the dollar could not go on rising for ever. To restore the balance, America's partners needed to get their own recoveries up to the US level. It was vital for the US to avoid resorting to protectionism as a remedy. She had heard there was talk of an import surcharge. That would be very damaging. Several Congressmen said there was no question of that. The Prime Minister said in that case there was no need to talk about it.

5. In closing the meeting, the Speaker remarked that he was less afraid than the Prime Minister ~~about~~ that one would be a resurgence of protectionism.

CDP

Foreign and Commonwealth Office

London SW1A 2AH

22 February, 1985

1) CR to note
2) NBPM
CDP
22/2

Dear Charles,

Invitation to the Prime Minister from Westminster College, Fulton, Missouri

You may wish to be aware that Westminster College, Fulton, Missouri, invited the Prime Minister, through a letter to Sir Oliver Wright, to visit the College and the Winston Churchill Memorial and Library, to deliver a lecture and to receive an Honoarary Doctorate of Law, in the expectation that her visit to the United States this week would take in the mid-west. I enclose their invitation and Sir Oliver's reply.

The College had previously invited the Prime Minister to address them in 1983. We will continue to keep them in mind as a potential forum.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

WESTMINSTER COLLEGE FULTON, MISSOURI 65251

OFFICE OF
THE PRESIDENT

January 11, 1985

Sir Oliver Wright
Her Majesty's Ambassador to the United States
Embassy of Great Britain
3100 Massachusetts Avenue, NW
Washington, D.C. 20008

Dear Sir Oliver:

It has been brought to my attention that Prime Minister Thatcher is planning to visit the United States in late February and that she has expressed an interest in seeing the midwestern section of the country. At the suggestion of Franklin J. Cornwell, Honorary Consul in St. Louis, I would like to extend to the Prime Minister, through you, a cordial invitation to visit Westminster College and the Winston Churchill Memorial and Library in the United States which is located on this campus.

As you may be aware, we invited the Prime Minister to deliver the John Findley Green Foundation Lecture at Westminster College in 1983. Although she was not able to accept our invitation at that time, her private secretary responded as follows: "She will however, continue to bear your offer in mind in case it should be possible to take it up on some future occasion." In view of her impending visit to this country, we would like to re-issue the invitation.

It was under the auspices of the John Findley Green Foundation Lectureship that Sir Winston Churchill delivered his "Sinews of Peace" ("Iron Curtain") address at Westminster College in March of 1946. Subsequent lecturers in the series have included: President Harry S. Truman, President Gerald R. Ford, the Rt. Hon. The Viscount Hailsham, The Rt. Hon. The Lord Snow, The Rt. Hon. The Lord Harlech, The Hon. Edward Heath, The Hon. Clare Boothe Luce, and Secretary of Defense Caspar Weinberger. The deed of gift for the lectures provides for annual lectures designed to promote understanding of economic and social problems of international concern and stipulates that the speaker shall be a person of international reputation, whose topic shall be within the aim of the lectures and who shall present it with regard for Christian tolerance and practical benevolence.

We would be quite agreeable to scheduling the lecture on whatever date and time might be most convenient to the Prime Minister. Fulton is located about 100 miles west of St. Louis and 150 miles east of Kansas City. Transportation would be provided from either city to the campus, and Mrs. Saunders and I would be honored to entertain the Prime Minister overnight at the President's House in

the event that her schedule would permit her to remain following the lecture. The lecture would be presented in Champ Auditorium, which has a seating capacity of 1500.

The Winston Churchill Memorial and Library in the United States, stands on this campus as a symbol of the special Anglo-American relationship which Sir Winston espoused. It is the reconstructed Church of St. Mary the Virgin, Aldermanbury, which was designed in the late 1600's by Sir Christopher Wren and which was gutted by an incendiary bomb in 1940. The exterior walls of the church were dismantled, shipped across the Atlantic, and reconstructed to commemorate Sir Winston's visit here and to memorialize his contributions to world peace and international understanding. The sanctuary of the church has been restored in the style of the Seventeenth Century, and a museum and library are housed in the undercroft of the structure. I am sure the Prime Minister would find a visit to the facility to be a very moving experience.

Should Prime Minister Thatcher find it possible to include a visit to Westminster and the Churchill Memorial in her itinerary, we would be honored to confer upon her the honorary degree of Doctor of Laws in recognition of her service to her nation and to the causes of world peace and Anglo-American friendship.

I hope that you will convey to the Prime Minister our earnest hope that it will be possible for her to honor us with her presence during her visit to this country and to deliver the 41st John Findley Green Foundation Lecture at that time. We shall look forward to hearing further from you in this connection at your earliest convenience. In the meantime, if you should have any questions or desire additional information, please do not hesitate to contact me by phone at 314/642-3361, ext. 315.

Thank you, in advance, for any assistance you may be able to provide. We, of course, would hope that you might find it possible to accompany the Prime Minister to Fulton in the event that she is able to accept our invitation.

Sincerely,

J. Harvey Saunders

J. Harvey Saunders
President

Enclosures
cc: The Hon. Gordon Jewkes
The Hon. Franklin J. Cornwell
The Hon. Charles H. Price
The Lady Soames, DBE

22.1.

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

FROM THE AMBASSADOR

29 January 1985

Mr J Harvey Saunders
President
Westminster College
Fulton
Missouri 65251

Dear Mr. Saunders,

Thank you very much for your letter of 11 January.

It was extremely kind of you to renew your invitation to the Prime Minister to visit Westminster College when she is here next month. I know it will be greatly appreciated. I fear, however, that the pressure of government business is such that the Prime Minister will not be able to travel outside Washington on this occasion. But I am sure that the Prime Minister will want to bear your offer in mind for a future visit to the United States.

Thank you again for writing.

Yours sincerely

Oliver Wright

10 DOWNING STREET

THE PRIME MINISTER

22 February, 1985

Dear Ambassador

I am most grateful to you and to your colleagues for the splendid arrangements for my visit to Washington. They were faultless and allowed me to fit a tremendous amount into a short time. It was a particular pleasure to see you again and to have your support during my programme.

With best wishes, & warm regards

I hope you had a lovely holiday in Jamaica.

Yours sincerely

Margaret Thatcher

Ambassador Selwa Roosevelt

10 DOWNING STREET

THE PRIME MINISTER

22 February, 1985

Dear Mr Pellew

The performance given by the Embassy Singers at the dinner for President Reagan on Wednesday was marvellous. The President clearly enjoyed it enormously. I hope you will let me have the words of 'I went today to the Hill Maggie'!

Please pass on my warm thanks to your lyricist and to all the other members of the group.

Yours sincerely

Margaret Thatcher

M.E. Pellew,Esq.,

British Embassy, Washington

10 DOWNING STREET

THE PRIME MINISTER

22 February, 1985

Dear Mr. Speaker,

On my return to London I write to thank you most warmly for having invited me to address the Joint Meeting of Congress. It was indeed one of the great experiences of my life and I am most grateful to you and your House colleagues for having given me this opportunity.

I enjoyed my visit to your office in the afternoon and the chance to see your treasures, as well as our talk. Thank you also for your kind gift which will be a memento of a great day.

With best wishes.

Yours sincerely

Margaret Thatcher

The Honourable Thomas ~~B~~ P. O'Neill

10 DOWNING STREET

THE PRIME MINISTER

22 February, 1985

Dear Dr. Hanley,

Thank you very much for the marvellously interesting visit to the Air and Space Museum which you so kindly laid on for me at short notice on Thursday. The Museum is a tremendous achievement and a source of endless fascination to which I shall certainly return. Please thank all your colleagues and staff for their help.

With best wishes.

Yours sincerely

Margaret Thatcher

Dr. Paul Hanley.

10 DOWNING STREET

THE PRIME MINISTER

22 February, 1985

Dear Senator,

I am most grateful to you for so kindly arranging for me to meet with your senior Senate colleagues. It was a most illuminating discussion which I could have happily continued much longer. I also enjoyed the chance to talk with you beforehand as well as meeting Secretary Dole the next day. And a particular thank you for the beautiful gift which will be a happy memento of my visit to the Senate.

Yours sincerely

Margaret Thatcher

Senator Robert Dole

10 DOWNING STREET

THE PRIME MINISTER

22 February, 1985

Dear Oliver,

My warmest thanks for the splendid arrangements you made for my visit and untiring hospitality which you and Marjorie laid on for us all. Your enormously high personal standing in Washington is very apparent and was I know instrumental in securing the Address to Congress and the President's visit to the Embassy. Thank you very much and please also thank your staff for all that they did to make the visit a success.

I am sorry that you had to put up with us for longer than intended, but the visit to the Air and Space Museum was an unexpected bonus. Needless to say the fog seemed mysteriously to have evaporated when we got to Heathrow!

A particular word of thanks for your kindness in including Mark so fully in the programme and having him to stay.

Denis joins me in sending best wishes to you both.

Yours ever

Margaret

His Excellency Sir Oliver Wright, GCMG, GCVO DSC

7.6

10 DOWNING STREET

THE PRIME MINISTER

22 February, 1985

Dear George.

It was a great pleasure to see you and Barbara in Washington. I write most particularly to thank you as President of the Senate, for having invited me to address the Joint Meeting of Congress. It was an experience which I shall remember as one of the great days of my life and I am grateful to you for making it possible.

With warmest best wishes to you both.

Yours ever

Margaret

The Honourable George Bush

Subject cc master
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FM CABINET OFFICE LONDON
TO THE WHITE HOUSE
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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T35A/85

C O N F I D E N T I A L
FOLLOWING FOR PRESIDENT REAGAN FROM THE PRIME MINISTER,
MARGARET THATCHER.

DEAR RON,

I WRITE TO THANK YOU MOST WARMLY FOR YOUR HOSPITALITY DURING MY VISIT TO WASHINGTON AND FOR THE HONOUR WHICH YOU AND NANCY DID US BY COMING TO DINE AT THE BRITISH EMBASSY. IT WAS A MOST GENEROUS GESTURE WHICH HAS BEEN VERY WELL RECEIVED IN THIS COUNTRY.

AS ALWAYS I FOUND IT VERY VALUABLE TO TALK TO YOU: IT CONFIRMED HOW SIMILARLY WE SEE MOST CURRENT PROBLEMS. I HAVE NOTED IN PARTICULAR YOUR INTENTION TO PURSUE THE ISSUES OF IMPROVED CO-OPERATION AGAINST TERRORISM AND OF A NEW GATT ROUND AT THE BONN ECONOMIC SUMMIT IN MAY. I SHALL ENSURE THAT WE PUT OUR WEIGHT BEHIND YOUR EFFORTS. AS REGARDS THE STRATEGIC DEFENCE INITIATIVE, I HOPE THAT I WAS ABLE TO EXPLAIN TO YOU CLEARLY MY PRE-OCCUPATION WITH THE NEED NOT TO WEAKEN OUR EFFORTS TO CONSOLIDATE SUPPORT IN BRITAIN FOR THE DEPLOYMENT OF CRUISE AND FOR THE MODERNISATION OF TRIDENT BY GIVING THE IMPRESSION THAT A FUTURE WITHOUT NUCLEAR WEAPONS IS NEAR AT HAND. WE MUST CONTINUE TO MAKE THE CASE FOR DETERRENCE BASED ON NUCLEAR WEAPONS FOR SEVERAL YEARS TO COME.

ON THE DOLLAR AND OTHER FINANCIAL QUESTIONS I HAD SOME VERY USEFUL DISCUSSIONS WITH JIM BAKER, GEORGE SHULTZ AND OTHERS, AS WELL AS WITH PAUL VOLCKER. I REMAIN VERY CONCERNED BY THE IMPLICATIONS OF THE CONTINUING SURGE OF THE DOLLAR. A FIRM PROGRAMME FOR THE REDUCTION OF THE BUDGET DEFICIT IS THE MOST IMPORTANT SAFEGUARD AGAINST FINANCIAL INSTABILITY AND I WISH YOU EVERY SUCCESS WITH YOUR BUDGET PROPOSALS TO CONGRESS.

I WATCHED YOUR PRESS CONFERENCE ON TELEVISION BEFORE LEAVING WASHINGTON. I ENJOYED IT ENORMOUSLY AND ADMIRED THE WAY YOU DEALT WITH THE QUESTIONS. I WAS PARTICULARLY INTERESTED IN THE POINT YOU MADE SO FORCEFULLY THAT IT IS THE AMERICAN PEOPLE WHO HAVE CREATED THE NEW JOBS, NOT THE GOVERNMENT. THE CHART ABOUT UNEMPLOYMENT BENEFIT WHICH YOU GAVE ME EARLIER IN THE DAY WILL BE PUT TO GOOD USE OVER HERE.

DENIS JOINS ME IN SENDING WARMEST THANKS TO YOU AND NANCY FOR MAKING OUR VISIT SO ENJOYABLE AND SUCCESSFUL.

YOURS EVER
MARGARET

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CONFIDENTIAL

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10 DOWNING STREET

THE PRIME MINISTER

22 February, 1985

Dear Ron

I write to thank you most warmly for your hospitality during my visit to Washington and for the honour which you and Nancy did us by coming to dine at the British Embassy. It was a most generous gesture which has been very well received in this country.

As always I found it very valuable to talk to you: it confirmed how similarly we see most current problems. I have noted in particular your intention to pursue the issues of improved co-operation against terrorism and of a new GATT Round at the Bonn Economic Summit in May. I shall ensure that we put our weight behind your efforts. As regards the strategic defence initiative, I hope that I was able to explain to you clearly my pre-occupation with the need not to weaken our efforts to consolidate support in Britain for the deployment of Cruise and for the modernisation of Trident by giving the impression that a future without nuclear weapons is near at hand. We must continue to make the case for deterrence based on nuclear weapons for several years to come.

On the dollar and other financial questions I had some very useful discussions with Jim Baker, George Shultz and others, as well as with Paul Volcker. I remain very concerned by the implications of the continuing surge of the

dollar. A firm programme for the reduction of the budget deficit is the most important safeguard against financial instability and I wish you every success with your budget proposals to Congress.

I watched your press conference on television before leaving Washington. I enjoyed it enormously and admired the way you dealt with the questions. I was particularly interested in the point you made so forcefully that it is the American people who have created the new jobs, not the Government. The chart about unemployment benefit which you gave me earlier in the day will be put to good use over here.

Denis joins me in sending warmest thanks to you and Nancy for making our visit so enjoyable and successful.

Yours ever

Margaret

The President of the United States of America.

file

AM

10 DOWNING STREET

THE PRIME MINISTER

22 February, 1985

Dear Richard

Thank you so much for the material you sent me for my speech to the Joint Meeting of Congress. It was an enormous help to be able to draw on your inspiration and that of one or two others and I am most grateful to you for taking the trouble.

Yours ever

Margaret

Richard Ryder, Esq.,MP.

EU

file

JR

10 DOWNING STREET

THE PRIME MINISTER

22 February 1985

Dear Hugh

Thank you for the material you sent for my speech to the United States Congress. It was very useful to have this and it helped me organise my thoughts. I am most grateful.

Yours ever

Margaret

Lord Thomas of Swynnerton

ECR

Rle

MJ

10 DOWNING STREET

THE PRIME MINISTER

22 February 1985

Dear Keith.

It was very good of you to let me have some thoughts for my speech to the Joint Meeting of the United States Congress. I was able to draw on them both in the speech itself and indeed in talking to members of Congress, particularly your vivid phrase about enterprise culture. Thank you so much for going to the trouble.

Yours ever

Margaret

The Right Honourable Sir Keith Joseph, M.P.

ECL

file

MJ

10 DOWNING STREET

THE PRIME MINISTER

22 February 1985

Personal

Dear Bill,

I cannot thank you enough for the material you sent me for my speech to the Joint Meeting of the United States Congress on Wednesday. As you will have seen I used it extensively and indeed it set the whole tone for the speech. The language was marvellous and a dream to deliver. It was really very generous of you to give of your time and talent in this way and I shall be eternally grateful.

With best wishes,

Yours ever

Margaret

The Right Honourable William Deedes, MC, DL.

ECL

file

MJ

10 DOWNING STREET

THE PRIME MINISTER

22 February 1985

My dear Quintin,

It was very good of you to let me have such marvellous material for my speech to the Joint Meeting of the United States Congress. As you will have seen I made full use of it particularly in the peroration where those magnificent rolling sentences offered a tremendous climax. It was most generous of you to let me draw on your inspiration when confronted with this awesome task. Thank you very much.

Yours ever

Margaret

The Right Honourable Lord Hailsham of St. Marylebone, C.H.

ECL

file

MJ

10 DOWNING STREET

THE PRIME MINISTER

22 February 1985

Dear George.

I was so grateful to you for the excellent material you provided for my speech to the Joint Meeting of the United States Congress. I do hope that it did not disrupt your ski-ing holiday too badly. But I was able to make very good use of it - and indeed given how generous you have been with your inspiration, can continue to draw on your thoughts for future speeches. I really am most grateful for your help.

Yours sincerely

Margaret Thatcher

George Urban, Esq.

ECL

File

MS

10 DOWNING STREET

THE PRIME MINISTER

22 February 1985

Dear Eldon.

Thank you very much for the tremendous contribution which you made to my speech to the Joint Meeting of the United States Congress. As I am sure you will have seen, I was able to make very good use of it and your vivid phrase "the sun is now rising in the West" received enormous applause. It was very good of you to give of your time and inspiration in this way: I certainly could not have done it without you. And I followed your ideas (as well as language) in the structure of the speech

Yours ever

Margaret

Eldon Griffiths, Esq., M.P.

ECL

file

MJ

10 DOWNING STREET

THE PRIME MINISTER

22 February 1985

Dear William.

Thank you so much for the material you sent me for my speech to the Joint Meeting of the United States Congress. It provided some very useful inspiration and I was most grateful to have it.

Yours ever

Margaret

The Hon. William Waldegrave, M.P.

ECL

file

TTJ

10 DOWNING STREET

THE PRIME MINISTER

22 February 1985

Dear George.

Thank you very much for the material which you contributed to my speech to the Joint Meeting of the United States Congress. You gave me some first rate ideas which I was able to make use of and I am very grateful to you for your trouble.

Yours ever

Margaret

George Walden, Esq., CMG, MP.

ECh

PRIME MINISTER'S DEPARTURE STATEMENT

I AM VERY GRATEFUL TO PRESIDENT REAGAN FOR INVITING ME FOR THIS BRIEF VISIT, OUR FIRST OFFICIAL ENCOUNTER OF HIS SECOND TERM - THOUGH I DID OF COURSE PAY A WORKING VISIT TO CAMP DAVID IN DECEMBER.

OUR TALKS ARE ALWAYS PARTICULARLY VALUABLE BECAUSE WE SEE SO MANY THINGS IN THE SAME WAY AND YOU CAN SPEAK OF A REAL MEETING OF MINDS.

THIS MEETING IS A SPECIAL ONE BECAUSE 1985 MARKS THE 200TH ANNIVERSARY OF DIPLOMATIC RELATIONS BETWEEN BRITAIN AND THE UNITED STATES.

I THINK I CAN SAFELY SAY THAT OUR RELATIONS NOW ARE BETTER THAN WHEN JOHN ADAMS PRESENTED HIS CREDENTIALS TO KING GEORGE III AND I FEEL

/ NO INHIBITIONS

NO INHIBITIONS ABOUT DESCRIBING THEM AS SPECIAL.

IT IS A PARTICULAR HONOUR THAT PRESIDENT REAGAN HAS ACCEPTED AN INVITATION TO DINNER AT THE BRITISH EMBASSY TONIGHT, TO MARK THIS SPECIAL ANNIVERSARY.

WE HAVE HAD SOME VERY THOROUGH DISCUSSIONS TODAY.

IN PARTICULAR WE TALKED ABOUT THE PROSPECTS FOR THE ARMS CONTROL NEGOTIATIONS IN GENEVA ON 12 MARCH.

WE BOTH HOPE THAT THESE WILL LEAD TO BALANCED AND VERIFIABLE REDUCTIONS IN NUCLEAR WEAPONS - THOUGH NEITHER OF US IS UNDER ANY ILLUSION BUT THAT IT WILL BE A LONG AND DIFFICULT PROCESS.

AS REGARDS THE STRATEGIC DEFENCE INITIATIVE WE BOTH REAFFIRMED OUR ATTACHMENT TO THE FOUR BASIC POINTS WHICH WE AGREED AT CAMP DAVID AND I TOLD

/ THE PRESIDENT

THE PRESIDENT OF MY HOPE THAT BRITISH SCIENTISTS WOULD TAKE PART IN THE RESEARCH ON THE STRATEGIC DEFENCE INITIATIVE.

WE AGREED THAT OUR TWO GOVERNMENTS WILL KEEP IN VERY CLOSE TOUCH ON THE POLITICAL AND STRATEGIC ISSUES RAISED BY THE SDI.

AT THE SAME TIME, OF COURSE, WE BOTH RECOGNISED THAT THE DEFENCE OF THE WEST WILL CONTINUE TO DEPEND ON EFFECTIVE NUCLEAR DETERRENCE - WHICH IS WHY WE IN BRITAIN ARE MODERNISING OUR DETERRENT WITH TRIDENT.

WE ALSO DISCUSSED THE MIDDLE EAST.

WE BOTH AGREED THAT THE MOMENT WAS PROPITIOUS FOR A FRESH EFFORT TO ACHIEVE PROGRESS TOWARDS A MIDDLE EAST SETTLEMENT.

/ I TOLD THE PRESIDENT

I TOLD THE PRESIDENT OF MY SUPPORT FOR THE STATEMENT ISSUED FOLLOWING PRINCE FAHD'S RECENT VISIT TO WASHINGTON AND WE BOTH ENDORSED KING HUSSEIN'S EFFORTS TO ARRIVE AT A JOINT ARAB POSITION WHICH WOULD ALLOW DIRECT NEGOTIATIONS WITH ISRAEL TO TAKE PLACE. THE PRESIDENT ASSURED ME THAT IT WAS HIS INTENTION TO PRESS FORWARD ACTIVELY WITH THE PROPOSALS WHICH HE MADE IN SEPTEMBER 1982. YOU CAN TAKE IT THAT THE MIDDLE EAST STANDS VERY HIGH ON THE AGENDA FOR BOTH OUR GOVERNMENTS.

WE ALSO HAD A THOROUGH DISCUSSION ON ECONOMIC MATTERS. THE RECORD OF THE AMERICAN ECONOMY, AND ITS SUCCESS IN CREATING NEW JOBS IS ENVIABLE. SUCH IS THE SCALE OF YOUR ECONOMY THAT YOUR

/ DECISIONS AFFECT

DECISIONS AFFECT ALL OF US.

THE SIZE OF THE BUDGET DEFICIT AND THE EXTENT TO WHICH IT DRAWS ON THE SAVINGS OF THE REST OF THE WORLD AND PUSHES UP THE DOLLAR IS NATURALLY A MATTER OF CONCERN.

I TOLD THE PRESIDENT THAT HE HAD MY STRONG SUPPORT IN HIS IMPORTANT TASK OF REDUCING THE DEFICIT.

THE PRESIDENT AND I AGREED TO WORK TOGETHER TO RESIST ANY MOVES TOWARDS PROTECTIONISM.

WE BOTH SUPPORT A NEW GATT ROUND.

APART FROM THESE, WE TOUCHED ON QUITE A NUMBER OF ISSUES, INCLUDING IRELAND WHERE WE BOTH WELCOMED THE DECISIVE ACTION JUST TAKEN BY GARRET FITZGERALD TO BLOCK IRA FUNDS AND I TOLD THE PRESIDENT OF THE CONTINUING CONTACTS BETWEEN

/ THE BRITISH

THE BRITISH AND IRISH GOVERNMENTS TO TRY TO HELP FIND A SOLUTION ACCEPTABLE TO BOTH COMMUNITIES IN THE NORTH.

I SHALL BE HAVING FURTHER DISCUSSIONS TODAY AND TOMORROW WITH OTHER MEMBERS OF THE ADMINISTRATION AS WELL AS MEMBERS OF CONGRESS.

ALL IN ALL I CAN REPORT THAT OUR RELATIONSHIP IS IN VERY GOOD SHAPE AND THE NEXT 200 YEARS LOOK SET TO BE EVEN BETTER.

COVERING CONFIDENTIAL

1. Charles - to see CM

2. Vanessa - Garden room!

pl. type

PS/No 10

cc: PS
Minister
Minister (Economic)
H of C
Mr Harris
Mr Hampton
Mr Hunt
Mr Gomersall

ECONOMIC ROUND TABLE: DRAFT RECORD

1. I attach a copy of the draft record of this morning's economic round table discussion. I assume that you will handle it and distribute it at the London end unless I hear from you to the contrary. Copy recipients of the draft should treat this correspondingly as an unapproved version.

B L Crowe

B L Crowe

21 February 1985

S4199 (23418) Dd.8200063 350m 11/80 G.W.B.Ltd. Gp.870

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

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CAVEAT.....

~~SUBJECT:~~ RECORD OF MEETING BETWEEN THE PRIME MINISTER AND THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS AND THE US SECRETARY OF STATE AND US CABINET OFFICIALS AT THE RESIDENCE OF THE BRITISH AMBASSADOR, WASHINGTON, AT 8AM ON THURSDAY 21 FEBRUARY

Present

Hon George P Shultz, Secretary of State

Hon James A Baker, Secretary of the Treasury

Hon William E Brock, US Trade Representative

Hon John R Block, Secretary of Agriculture

Hon Malcolm Baldrige, Secretary of Commerce

Ambassador Charles Price, US Ambassador to UK

Mr W Allen Wallis, Under Secretary for Economic Affairs

Mr J Holmes, State Dept

Rt Hon Margaret Thatcher MP, Prime Minister

Rt Hon Sir Geoffrey Howe QC MP, Secretary of State for Foreign & Commonwealth Affairs

Sir Oliver Wright GCMG GCVO DSC, British Ambassador

Mr N Wicks, Minister (Economic)

Mr Brian Crowe, Minister (Commercial)

F.E. Mr R Butler, Principal Private Secretary to the Prime Minister

Mr C Powell, Private Secretary to the Prime Minister

Enclosures–flag(s).....

US Fiscal Deficit and Level of the Dollar

1. ~~Mrs Thatcher~~ The Prime Minister referred to the morning's news about new record highs for the dollar. The consequences were serious. There was not much ~~the UK could do~~ that could be done other than intervention from time to time to burn the speculators' fingers. But UK interest rates would have to stay high and above US interest rates for some time. This affected small businesses and the construction industry. Yet other economies like Germany, Japan and Switzerland - and allowing for the miners strike the UK - were doing well. When would the rise of the dollar stop?

2. Mr Baker said he ~~had begun to worry~~ shared the Prime Minister's worry. He agreed that there was little that could be done. The US could not reflate, nor did they want an import surcharge. But reducing the fiscal deficit would be helpful.

3. ~~Mrs Thatcher~~ The Prime Minister said that the effect of decisive action on that front would help. The alternative was a substantial problem of indebtedness for the US.

4. Mr Shultz said that if the deficit went down, in the short term the dollar could even ~~increase~~ rise. But overall a deficit reduction would lead to greater stability, with US savings going into US industry. The dollar would go down. So that was the main thing the US could do. But other countries must make themselves more attractive to capital inflow especially LDCs. They must realise that there was no prospect of increased aid - they must make themselves attractive to equity investment.

5. Mrs Thatcher thought that the Latin Americans were doing better on that front. Mr Shultz said Southeast Asia was

/doing

doing well. Intervention in the exchange market did not work. The Prime Minister ~~Mrs Thatcher~~ said that intervention could only work if it were sudden and in order to stop surges. She did not understand why people were moving out of ~~leaving~~ the deutschmark. The ~~Sir~~ Foreign Secretary ~~Geoffrey Howe~~ agreed with Mr Shultz. At Williamsburg and at the recent G5 ~~Summit~~ meeting it had not been visualised that intervention would happen more than occasionally. There was no going against the underlying causes. Mr Shultz said that the Smithsonian Agreement of 1971 had been hailed at the time but it had been the worst agreement made in international finance, since it had tried ~~in trying~~ to fix rates at the wrong levels. It had done immense damage and been partly responsible for the subsequent rise in world inflation. The Prime Minister ~~Mrs Thatcher~~ said that she would not wish to defend any particular sterling rate. Mr Baker said that $4½ billion had been spent on intervention since 17 January (to no noticeable effect) and all countries had lost money.

6. Mr Block said that if the high dollar continued, US export industry and agriculture "would die." The Prime Minister ~~Mrs Thatcher~~ said that the high dollar was fine for European exports to the US, but there were two effects. First, industry slackened off on efficiency and, second, inflation increased, not least because of commodit~~ies~~y prices in dollars. Mr Shultz said that the US ~~things~~ could not go on running ~~on~~ a trade deficit. That was an ~~They were~~ unstable situation. But things could be done. ways of discouraging Capital imports to the US could be explored ~~could be made more expensive through the price system~~ perhaps be discouraged. The present situation was killing industry.

7. The Prime Minister ~~Mrs Thatcher~~ asked how capital imports to the US could be discouraged. ~~what the remedy was~~. Mr Baker thought that Mr Volcker's testimony the previous day on the Hill had

/been

been responsible for the current surge in the dollar: he had made clear that the US was not going to adopt an easy money policy. The Foreign Secretary ~~Sir Geoffrey Howe~~ said that a high fiscal deficit with a tight monetary policy produced high interest rates, compelling higher interest rates still in other countries. The Prime Minister ~~Mrs Thatcher~~ said that the situation was inherently unstable. ~~It was time to get the fiscal deficit down, and in a matter of months~~. Mr Baker thought there could be no action out of Congress within the next 60 days. This was the minimum period because of the inherent difficulties Congress saw in the Administration's proposals. They would prefer an import surcharge. The Prime Minister ~~Mrs Thatcher~~ said that that would be ~~a left wing thing to do and~~ the very opposite of liberalisation. When introduced in~~to~~ Britain it had betokened the mentality of the siege economy. Mr Baker said that the approach in Congress ~~was purely~~ tended to be protectionist. The Prime Minister ~~Mrs Thatcher~~ said that members of Congress had denied this to her the previous day. Mr Baker said that many in Congress would alternatively want to see taxes raised to reduce the fiscal deficit. The ~~Sir~~ Foreign Secretary ~~Geoffrey Howe~~ said that that was something the UK had had to do at its most difficult moments: bridging the gap by increased tax on expenditure when everything possible had been done on reducing public expenditure.

7. Mr Baldrige was not convinced that the dollar would stay high thoughout the year. There was a chance of a down turn in mid year arising out of the convergence of growth rates in the US and Europe. Where the gap had been ~~1.68% to~~ 6.8 against 1.8%, it was coming down now to 4% ~~to~~ against 2.75%. This would have its

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effect on the dollar. Mr Shultz agreed. The rise in share prices in Europe showed an expectation of better rates of return and that should reduce capital flows to the US.

8 Mr Baldrige said that the generally satisfactory macro-economic picture for the US hid very real problems. The growth in the US economy had come from small firms. Out of 20 million jobs created here over 15 years, 9 out of 10 had come from companies employing fewer than 100 people. 2 out of 3 had come from companies employing fewer than 50 people. None had come from the Fortune 500 companies. Many older companies were failing but there were 600,000 new ones every year. Policy makers must not ignore this. New companies covered a wide range of activities ~~covering~~ including services and high tech (10 to 15%) but the effect of the high tech companies was much more important than the percentage because of their wider effect through manufacturing and the economy. ~~Sir Geoffrey Howe~~ The Foreign Secretary said that Europe had a similar perception. It was difficult to identify the obstacles in Europe. Mr Brock said that in the US the biggest factor stimulating growth ~~was~~ had been the reduction in capital gains tax in 1979 from 50% to 28% and then to 20%, ~~with~~ leading to a great increase in venture capital. ~~Mrs Thatcher~~ The Prime Minister said the problem was less capital, of which there was plenty, but rather people. Mr Baldrige thought the crucial factor was the ease with which new companies could be started up in the US. In a conversation with a senior German official it had emerged that whereas two people leaving IBM could start a new company in two months, in Germany a similar process would take between one and two years: the prospective entrepreneurs would run out of capital first. ~~Mrs Thatcher~~ The Prime Minister recognised

/the

the importance of the rate of formation of new businesses. In the UK they got tax advantages even though this created difficulties for us in the European Community. The US was much freer and much less union ridden. But times were changing as lack of support for the NUM was showing. Mr Brock and Mr Shultz regarded the battle against the NUM as a most important one to win.

10 The Prime Minister ~~Mrs Thatcher~~ said that it was important that agricultural prices should not increase. Mr Brock said that they should be reduced. The Foreign Secretary ~~Sir Geoffrey Howe~~ said that in real terms they would be. The Prime Minister ~~Mrs Thatcher~~ said that what people saw was the change in cash terms. The Foreign Secretary ~~Sir Geoffrey Howe~~ said that the right cut for cereal prices in the Community should be 5%. The Commission had proposed 3.6%. This was still important. The Prime Minister ~~Mrs Thatcher~~ said the Commission had proposed a nil increase across the board, although this ~~was~~ disguised ~~in~~ an unjustifiable increase in the price of milk. The UK wanted no increase in prices and strict financial discipline. The Germans agreed but then said that their farmers needed to have their incomes preserved. It was the Germans who were the engine of ~~the~~ price increases in the Community.

11. Mr Block explained that the debt ~~programme~~ problem affecting US farmers was a short term one relating to this year's planting season. In the long run the Administration planned to reduce farm support subsidy, phasing it out over five years. The farm programme had cost $3 billion in the 1970s, had risen to $18 billion, had been $7 billion in 1984, would be $12 billion in 1985 and $10 billion in 1986. The big expense was ~~in~~ the loan programme and buying dairy surpluses.

/Mr

DSR 11C

Mr Baker said that reduction in the farm programme was central to the budgetary strategy. Over the last four years the cost had been $63 billion. It would be reduced to $35 billion ~~in the future~~ over the next few.

12 Mr Brock said that this was an area in which we needed to think together. The efforts of the Administration were sincere but tough. They could not succeed ~~with~~ while ~~continued~~ subsidized exports ~~and~~ of surplus ~~subsidised~~ products by the EC. continued The Prime Minister ~~Mrs Thatcher~~ commented that the US ~~policy on~~ had subsidies. But the British were continuing to fight against the policies which produced ~~subsidies~~ surpluses in the Community. Unfortunately we were outvoted in the managment committees on export subsidies. British housewives were not used to high food prices and we still had to make provision for New Zealand exports. The problem was the German farm lobby which was dragging up European farm prices. Mr Brock asked how the US could help. The Prime Minister ~~Mrs Thatcher~~ said that the Americans should convey their views ~~formally~~ firmly to Delors and Andriessen in the Commission and also ~~with~~ Chancellor Kohl. Things were going in the right direction but were taking time. Mr Brock thought that the Europeans did not realise the urgency of the situation. The Prime Minister ~~Mrs Thatcher~~ commented that Britain with Germany and the Netherlands had prevented restrictions on imports of oils and fats and soya. Mr Brock appreciated that but asked that Britain tell its partners of American determination. As American farm support declined, so their farmers would insist on firm access to world markets.

13. Sir Geoffrey Howe said that there was a perception in Europe of American farm subsidies. There must be common US/

/European

European understanding of what we were trying to do. Delors, Christopherson and Andriessen, as former Finance Ministers, understood the problem. The Prime Minister ~~Mrs Thatcher~~ commented that Lord Cockfield would also press for expenditure cuts. But it was important to get at Germany and France. Mr Brock said that if they could be got into agricultural negotiations, an agreement should be possible. The problem was getting them to the table. The Foreign Secretary ~~Sir Geoffrey Howe~~ thought the right line was that of the Catherwood Report: mutual and balanced subsidy reductions. The Prime Minister ~~Mrs Thatcher~~ said that Britain shared many of the United States' objectives ~~would do her best to help on agriculture~~. The Americans should get their views over to Chancellor Kohl.

/14.

New Zealand

14 Picking up ~~Mrs Thatcher's~~ the Prime Minister's reference to New Zealand, Mr Shultz asked about the ~~Prime~~ Minister's reaction to Mr Lange's decision on US naval visits. ~~Mrs Thatcher~~ The Prime Minister confirmed that Britain had no intention of telling anyone ~~what~~ whether or not British naval ships ~~had on board~~ were carrying nuclear weapons. Mr Shultz welcomed this. New Zealand had taken themselves out of the number of countries prepared to protect freedom. It would feel the effect of this through not continuing to get the special consideration it had had by virtue of its role. ~~Mrs Thatcher~~ The Prime Minister said that unfortunately Mr Lange was due to make a speech at the Oxford Union o n nuclear disarmament. He had been impaled on the electoral hook but she had thought he would get himself off it. Mr Shultz said he had thought so too and he had said so, but Mr Lange had got even tougher. ~~In his view he was a weather vane~~ He swung with the political weather.

Oil Market

15 Mr Shultz asked ~~Mrs Thatcher's~~ the Prime Minister's opinion on the price of oil over the next year. ~~Mrs Thatcher~~ The Prime Minister thought it would be ~~very difficult to hold it~~ vulnerable through the summer. It was up at the moment and stockholders were waiting ~~for~~ to see it the price ~~to~~ fall. She ~~was~~ would be concerned ~~that it might fall fast~~ by the prospect of a sharp fall. This was not ~~just~~ because of its effect on the UK economy (5% of the GNP, 8.5% of revenue), which was only but more because a rapid fall would be far worse for countries like Nigeria which owed ~~Britain~~ a lot of money. Mexico was also in this position, although unlike Nigeria it had made a real effort with its economy. The oil price was about ~~20% above~~ 20 cents the ~~set~~ official price at the moment. She would like to see it stay there and not move up or down. ~~She was very worried about Nigeria.~~

The Foreign Secretary ~~Sir Geoffrey Howe~~ said that other oil producers were also indebted to the world ~~linked with the~~ banking system. A stable price, therefore, was very important. The question was whether this was possible.

16 Mr Wallis said that oil producers were starting to sell finished products. This was generating protectionist measures and new problems in international trade. The Prime Minister ~~Mrs Thatcher~~ said that producers could afford to reduce production. The Saudis had been as low as ~~shown this could go down to~~ 2 mbpd. Mr Baldrige said that in the case of Mexico oil price reductions had been offset by lower interest rates. They were still growing at 3½%. The Foreign Secretary ~~Sir Geoffrey Howe~~ pointed out that this was at the cost of a tremendous internal adjustment.

12. Mr Shultz commented that Mexican capital was still moving to the US. This reinforced his earlier remark that other countries must do better at attracting ~~their own~~ foreign capital.

17. The Prime Minister said that an oil levy would greatly damage oil price stability as well as being contrary to GATT. Once oil prices started to fall the result could be disastrous. Everyone would increase production. No large new oil deposits were being discovered. In consequence the West would again become heavily dependent in the 1990s on the Middle East. So she hoped ~~there would be no~~ the Administration would not contemplate an oil levy. Mr. Baker indicated that the Administration would not favour such a levy.

Mr Brock said that there was a lot of support for one in Congress. The Prime Minister ~~Mrs Thatcher~~ pointed out that with consumption at 13mbpd and production at 8.5mbpd and falling, and only 10-12 years of US reserves, there was a high risk for the US of being thrown back into dependence on the Middle East. Mr Shultz said that there was plenty of gas coming forward. Mr Brock questioned whether petrol taxes were high enough in the US. He thought not. The Foreign Secretary ~~Sir Geoffrey Howe~~ drew attention to the difference between a tax and an import levy. Mr Baker said that if there ~~was~~ were talk about a domestic tax, this would increase pressure for a levy instead. The Prime Minister ~~Mrs Thatcher~~ pointed out that the oil price would have to rise very substantially to make new sources like shale economical. Mr Brock and Mr Baker thought that new oil would be found and was being found. The Prime Minister ~~Mrs Thatcher~~ pointed out that the results so far in China had been disappointing. and other finds were in the Middle East Mr Shultz said that one of the biggest mistakes of the last ten years had been the maintenance of price controls. Consumption would have declined sooner in their absence. The lesson was to let the market work. Mr Baker pointed out that gas was still controlled in the US. US industry was split on the issue .

Laker

18 The Prime Minister ~~Mrs Thatcher~~ referred to her conversation the previous day with the President. If the litigation could be got out of the way through Eximbank agreeing to settle out of court ~~the proposed settlement~~, this would give a much better framework for liberalisation.

19. Mr Wallis said that he was aware of the problem with Eximbank. ~~discussion with the President~~. He and Ambassador Price would see what

could be done. But the Americans had been disappointed at the lack of reaction to the President's decision last year. This diminished their enthusiasm. But he thought something could be done.

20. The Prime Minister ~~Mrs Thatcher~~ said the American disappointment was not justified. If there were no settlement, there would be a great row over the discovery of documents which would end up affecting trans-Atlantic air traffic. That was in neither country's interest. Mr Wallis agreed. The Prime Minister ~~Mrs Thatcher~~ said that Britain could claim to be disappointed over the absence of rights for British airlines to serve US domestic routes, ~~or over the lack of access to US coastal shipping~~ (which in the UK was free). Mr Wallis said that aviation was particularly controlled. The Prime Minister ~~Mrs Thatcher~~ said that Britain was seeking greater competition in Europe. We would not mind American competition in Britain if the Americans would allow British competition inside the US. The threat now arose out of the discovery process, the application of the PTI Act, the impounding of aircraft etc. Mr Price said that the treble-damage suits would hit US, not foreign carriers because of blocking legislation.

21 Mr Shultz said that Britain had asked for changes in US anti-trust laws. The Americans had emphasised that that was not necessary nor likely to be possible; but that there were procedures giving immunity from potential anti-trust action. The Prime Minister ~~Mrs Thatcher~~ said that that did not stop individuals bringing vexatious

suits. Mr Shultz said the procedure had a good track record. Once the procedure had been followed ~~Apart from the particular case of Laker,~~ there had been no successful claims. The Prime Minister ~~Mrs Thatcher~~ said that the airlines had followed Bermuda to the letter, getting British and American Government approval, and had therefore thought they were ~~therefore~~ in the clear.

22 The Foreign Secretary ~~Sir Geoffrey Howe~~ said that one step should be taken at a time. The outstanding liquidator litigation was close to a solution, with only one creditor holding out. Mr Shultz said that nobody liked Sir Freddie Laker and the lawyers getting substantial sums at the expense of a government agency. The Prime Minister ~~Mrs Thatcher~~ said that if there were no settlement, there would be serious consequences within three months. And she would not be able to denationalize British Airways. Mr Wallis could not see why she could not follow the American example and offer BA for sale with a contingent liability. The Prime Minister ~~Mrs Thatcher~~ made it clear that that was not possible in British conditions. Mr Wallis agreed that it was desirable to see the matter settled. The Prime Minister ~~Mrs Thatcher~~ said that it was more than desirable: the consequences of not settling would be disastrous. Mr Wallis said that all were convinced of that.

Unitary Tax

23 Mr Brock said that the Governor ~~Government~~ of California was working on this. Mr Wallis said that British and Japanese tactics had been very effective. Successful pressure had been brought to bear in Florida by British withdrawal from a trade fair, and was being brought in California by the Japanese reducing investment and business activity. Mr Brock

thought that British companies should make representations in California. The Prime Minister ~~Mrs Thatcher~~ said they were: a CBI mission had gone there in the previous week

Trade Round

24. The Foreign Secretary ~~Sir Geoffrey Howe~~ welcomed US pressure for a new trade round. The French and Italians were being difficult. Mr Shultz hoped that the British Sherpa for the Economic Summit would be instructed to press ahead on a new round. The Prime Minister ~~Mrs Thatcher~~ said one problem was Japan: everyone wanted Japanese ~~involvement~~ to take steps to open their market but when the time came at economic summits, the word became that we must be nice to the Japanese. Mr Wallis said that only the US, Canada ~~US/Canada~~ and Germany ~~Japan~~ had strongly advocated a trade round at the last Sherpa meeting. The British and Japanese ~~Germans~~ had made friendly remarks but had not been vigorous. Mrs Thatcher said she would make sure that ~~instruct~~ the British Sherpa had clear instructions. ~~to push hard on a new round.~~

Mr Wallis said that the French had made clear they would not consider one ~~it~~ if it covered subsidies. Mr Brock said that Mr Declercq ~~Dedercq~~ was in favour but ~~that~~ the French were blocking a Community mandate. This created a difficult position for the US. Could Britain help with the French? The Prime Minister ~~Mrs Thatcher~~ thought this unlikely. ~~questioned whether British influence counted for much in that quarter.~~

The discussion ended at 9.30am.

File.

cc PC 7

10 DOWNING STREET

From the Private Secretary

21 February 1985

Dear Len,

Prime Minister's Visit to Washington:
Meetings with President Reagan

I enclose copies of three records of conversations covering:

A. the Prime Minister"s tête-à-tête discussion with President Reagan;

B. discussion over lunch at the White House; and

C. the truncated 'seminar' on arms control after lunch.

A and C are sensitive and should be given only a very limited distribution.

I am copying this letter and a full set of records to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office); and record B only to Rachel Lomax (HM Treasury) and Callum McCarthy (Department of Trade and Industry).

Yours ever,

Charles Powell

Charles Powell

Len Appleyard Esq
Foreign and Commonwealth Office

CST

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 1658 (one piece/item number)	Date and sign
Extract/Item details: Record of meeting between PM and US President on 20 February 1985 at 1330	
CLOSED FOR .....YEARS UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
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DEPARTMENT/SERIES PREM 19 PIECE/ITEM 1658 (one piece/item number)	Date and sign
Extract/Item details: Note of discussion between PM and US President at 12.45 on 20 February 1985	
CLOSED FOR ..... YEARS UNDER FOI EXEMPTION	
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With the compliments of

THE BRITISH EMBASSY

N E Sheinwald

WASHINGTON, D.C.

ROUTINE UNCLASSIFIED

UNCLASSIFIED
FM BRITAIN BOSTON 211600 FEBRUARY 1985
TO ROUTINE WASHINGTON
TELNO 10 OF 21 FEBRUARY 1985

PRIME MINISTER'S VISIT: CHRISTIAN HERTER AWARD

1. THE WORLD AFFAIRS COUNCIL OF BOSTON ARE ECSTATIC ABOUT THE PRIME MINISTER'S RESPONSE TO THEIR PRESENTATION AT THE RESIDENCE YESTERDAY AND ABOUT THE WARM WAY IN WHICH YOU WELCOMED THEM. THE GLOBE CARRIES A GOOD PICTURE OF THE PRESENTATION AND THE HERALD A GOOD ARTICLE, AND THERE HAS BEEN USEFUL TV AND RADIO COVERAGE OF THE EVENT.

2. THANK YOU SO MUCH.

3. WE ARE TOLD THAT RAYTHEON HAVE VIRTUALLY DECLARED A PUBLIC HOLIDAY WHILE CHARLES F ADAMS TURNS THE ORGANISATION'S RESOURCES TO REPRODUCTION OF PHOTOGRAPHS ETC OF THE EVENT.

BURNS

1) cc: CD Powell Esq
No 10 Downing St
MC Raven Esq
NAD, FCO

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MR SHEINWALD

WH

2) p.a NS
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UNCLASSIFIED

File
Subject as marked

10 DOWNING STREET

From the Private Secretary

21 February 1985

Dear Len,

Prime Minister's Visit to Washington: Ireland

When the Prime Minister called on the Speaker of the House of Representatives on 20 February, Mr O'Neill said that he was aware of the substance of the discussions being conducted between the British and Irish Governments on Northern Ireland. He thought it very important that these should be brought to a successful conclusion. The Prime Minister explained the British Government's views on the ideas in the New Ireland Forum report, and confirmed that she and Dr FitzGerald would continue their dialogue. But any solution must be based on the principle of consent. Mr O'Neill said that compromise was essential in politics and he hoped that the Prime Minister would be flexible. The Prime Minister said that the issues were of immense difficulty, but there was no doubt of her goodwill in her continuing discussions with Dr FitzGerald.

I might also record that Rick Burt, Assistant Secretary for European Affairs, told David Hannay and me that he had been fully briefed by the Irish Government on the Anglo-Irish discussions (which was more than we had offered him). We would be well advised to make the most of Dr FitzGerald's reasonableness. He added that he knew that Dermot Nally had flown to Washington to brief senior Congressional figures.

The extent to which the Irish Government are briefing others on our confidential talks with them is worrying and I expect that the Prime Minister will wish to raise this with Dr FitzGerald.

I am copying this letter to Jim Daniell (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Charles Powell

Charles Powell

Len Appleyard Esq
Foreign and Commonwealth Office

CONFIDENTIAL
FM WELLINGTON 210213Z FEB 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 58 OF 21 FEBRUARY
AND TO IMMEDIATE WASHINGTON, CANBERRA, MODUK

YOUR TELNO 317 TO WASHINGTON: US CANCELLATION OF ROLL CALL 85.

1. NEW ZEALAND SECRETARY OF DEFENCE (WHO IS KNOWN TO HAVE CONSISTENTLY ADVISED AGAINST HIS GOVERNMENT'S NON-NUCLEAR WARSHIPS POLICY) TOLD ME THIS MORNING THAT HE AND HIS DEFENCE COLLEAGUES FELT OUTRAGED BY THE HIGH-HANDED MANNER IN WHICH THE AMERICANS HAD ACTED OVER THIS CANCELLATION. I DEDUCED FROM OUR CONVERSATION THAT THE NEW ZEALANDERS ARE STILL UNAWARE OF THE AMERICAN PROPOSAL TO MOUNT AN ALTERNATIVE EXERCISE EXCLUDING NEW ZEALAND.

2. THE PEREMPTORY NATURE OF THE UNILATERAL AMERICAN DECISION TO CANCEL (PARA 3 OF YOUR TELNO 317) CARRIES ITS OWN IMPLICATIONS FOR US AS ALLIANCE PARTNERS. CLEARLY OUR DECISION ON THE PROPOSED ALTERNATIVE EXERCISE SHOULD BE DETERMINED PRIMARILY BY OUR OWN EVALUATION OF ITS USEFULNESS TO THE ALLIANCE AS A WHOLE. BUT IT IS NOT A SPECIFICALLY ANZUS EXERCISE AND ACTION SUCH AS THE AMERICANS SUGGEST WILL WIDEN THE ANZUS DISPUTE UNNECESSARILY. DISCIPLINARY ACTION SHOULD, AS FAR AS POSSIBLE, BE ON A BILATERAL US/NZ BASIS, OR AT LEAST WITHIN THE ANZUS CONTEXT. IT IS ALSO DIRECTLY RELEVANT THAT THE NEW ZEALAND GOVERNMENT IS MANIFESTLY EAGER TO CONTINUE ROUTINE DEFENCE COLLABORATION. I SUGGEST THAT IT WOULD BE WRONG FOR US TO TAKE ANY STEPS WHICH CAN BE CONSTRUED AS PUBLICLY WRITING NEW ZEALAND OFF (EVEN TEMPORARILY) AS A MEMBER OF THE WESTERN ALLIANCE.

3. THE CLEAR DANGER WE FACE NOW IS THAT THE NEW ZEALAND GOVERNMENT'S ANGLO-SAXON OBSTINACY COUPLED WITH THE US GOVERNMENT'S IMPULSIVE DISCIPLINARY MEASURES, IS LIKELY TO EXACERBATE THE DISPUTE. IT IS SURELY OUR INTEREST AND INTENTION TO MINIMISE WIDER DAMAGE FROM THIS ILL-JUDGED NEW ZEALAND NON-NUCLEAR POLICY AND TO ENDEAVOUR TO

/PERSUADE

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DW

PERSUADE THEM BACK INTO THE FOLD. BOYCOTTING NZ WILL NOT HELP PERSUADE THEM. WE MAY NOW HAVE TO WAIT UNTIL THE NEXT NEW ZEALAND GOVERNMENT TO ACCOMPLISH THIS FULLY. BUT I AM NOT PERSUADED THAT TO GIVE EXPLICIT BRITISH APPROVAL TO AN ALLIANCE ''DISCIPLINING'' OF NEW ZEALAND, WHICH IS WHAT THE ALTERNATIVE AMERICAN EXERCISE IMPLIES, WILL ASSIST OUR BROADER POLICIES. WE OWE NEW ZEALAND AN HISTORIC DEBT OF BLOOD AND HONOUR AND PATIENCE AND SHOULD NOT TOO READILY ACCEPT A HASTY AND SHORTSIGHTED AMERICAN JUDGEMENT OF HOW BEST TO DEAL WITH NEW ZEALAND. THEY ARE NOT EXPERT AT IT.

4. LEAVING THE FALKLANDS AND OTHER HISTORIC MATTERS ASIDE, IT IS PERHAPS ILLUSTRATIVE, AS AN INDICATION OF OUR RELATIONSHIP WITH NEW ZEALAND, THAT THEY INDICATED IMMEDIATELY AND WITHOUT RESERVATION THEIR READINESS TO INCLUDE ANY UK CITIZENS IN THEIR OWN NATIONAL ARRANGEMENTS IN THE EVENT OF AN EMERGENCY EVACUATION BECOMING NECESSARY IN NEW CALEDONIA. THEY HAD STARTED ON THEIR OWN INITIATIVE TO LOCATE AND LIST OUR PEOPLE EVEN BEFORE WE ASKED.

O'LEARY

SECRET
FM WASHINGTON 211441Z FEBRUARY, 1985
TO PRIORITY F C O
TELEGRAM NUMBER 602 OF 21 FEBRUARY
INFO PRIORITY UKDEL NATO, BONN, PARIS, MOSCOW. MODUK (A3A).

MIPT (NOT TO ALL): CALL ON WEINBERGER BY THE SECRETARY OF STATE FOR DEFENCE, 20 FEBRUARY: SDI

1. PERLE REFERRED TO A POINT MADE BY THE PRIME MINISTER EARLIER IN THE DAY ABOUT THE ORIGINS OF MIRVED SYSTEMS. HE DID NOT THINK IT WAS TRUE, AS THE PRIME MINISTER HAD SUGGESTED, THAT INTEREST IN MIRVED SYSTEMS HAD ARISEN OUT OF CONCERN ABOUT ABM SYSTEMS. RATHER THE US MIRV PROGRAMME HAD GROWN OUT OF US STRATEGIC DOCTRINE IN THE EARLY 1960'S WHICH HAD CALLED FOR THE US TO BE ABLE TO STRIKE A RETALIATORY BLOW AGAINST A FIXED PERCENTAGE (ABOUT 70 PERCENT) OF THE SOVIET INDUSTRIAL BASE. THE OVER-MECHANISTIC APPLICATION OF THIS DOCTRINE HAD RESULTED IN A PERCEIVED NEED FOR LARGER NUMBERS OF US WARHEADS. SINCE PRESIDENT KENNEDY HAD EARLIER TAKEN A DECISION NOT TO EXCEED A LEVEL OF 1,000 MISSILES, A PROGRAMME FOR MIRVING MISSILES HAD GROWN OUT OF THE NEED TO INCREASE THE DESTRUCTIVE CAPABILITY OF THE US STRATEGIC ARSENAL IE WARHEADS WHILE REMAINING WITHIN THE CEILING OF 1,000 BALLISTIC MISSILES.

(SHB/CHY) /2. ON

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2. ON THE SDI GENERALLY, MR HESELTINE REFERRED TO THE OUTCOME OF THE CAMP DAVID MEETING ON 22 DECEMBER, WHICH PROVIDED A SOUND POSITION. BUT WE SHOULD STILL NEED TO GUARD AGAINST SOVIET WEDGE-DRIVING. THERE WERE A NUMBER OF UNDERLYING QUESTIONS ON WHICH WE NEEDED TO BE SURE OF THE WEST'S POSITION. FOR EXAMPLE, IT WAS VERY DIFFICULT TO ARGUE THE NEED FOR THE MODERNISATION OF NATO'S NUCLEAR SYSTEMS EG UK TRIDENT AND LRINF WHILE AT THE SAME TIME IMPLYING THAT SUCH SYSTEMS WOULD NOT IN THE FUTURE BE NECESSARY. THE EUROPEAN ALLIES WERE BOUND ALSO TO HAVE A SECOND SET OF CONCERNS. EVEN IF IT PROVED POSSIBLE TO DEFEND AGAINST BALLISTIC MISSILES AND HIGH-LEVEL CRUISE MISSILES, EUROPE WOULD STILL BE HELD AT RISK BY LOW-LEVEL CRUISE MISSILES AND TACTICAL NUCLEAR WEAPONS. HOW WERE EUROPEAN CONCERNS IN THIS RESPECT TO BE ALLAYED?

3. WEINBERGER SAID THAT THE US WAS SHOWING BY ITS ACTIONS THAT IT WOULD CONTINUE TO BE VITAL IN THE FORESEEABLE FUTURE TO MAINTAIN A FULL OFFENSIVE NUCLEAR CAPABILITY. THE US WAS NOT ABANDONING ITS OFFENSIVE NUCLEAR SYSTEMS. ON THE CONTRARY, THE ADMINISTRATION WERE MODERNISING ALL ASPECTS OF THE STRATEGIC TRIAD. AT THE SAME TIME, HOWEVER, THE ADMINISTRATION WISHED TO LEARN HOW TO DEFEND AGAINST BALLISTIC MISSILES. THIS WAS NOT BECAUSE THE US WANTED SUPERIORITY AND, IF DEPLOYMENTS IN DUE COURSE SEEMED DESIRABLE, IT WOULD BE NECESSARY TO MODIFY THE ABM TREATY IN WAYS PERMITTED BY THAT TREATY (IT WAS TOO EARLY TO SAY PRECISELY WHAT THE CORRECT POLICY TOWARDS THE ABM TREATY WOULD BE AT THAT FUTURE POINT). MEANWHILE, THE SDI RESEARCH PROGRAMME WAS GOING EXTREMELY WELL. BUT THE LATE 1990'S WAS THE EARLIEST TIME AT WHICH A SYSTEM OF DEFENCES AGAINST BALLISTIC MISSILES COULD BE DEPLOYED. IF SUCH A SYSTEM COULD BE DEVELOPED, IT WOULD BE EFFECTIVE AGAINST INTERMEDIATE RANGE BALLISTIC MISSILES AS WELL AS STRATEGIC SYSTEMS. BUT IT WAS QUITE TRUE THAT IT WOULD NOT BE ABLE TO DEFEND AGAINST BATTLEFIELD NUCLEAR WEAPONS. NEITHER WAS IT LIKELY THAT IT WOULD BE ABLE TO DEFEND AGAINST LOW-LEVEL CRUISE MISSILES ALTHOUGH THE ADMINISTRATION WERE WORKING ACTIVELY ON OTHER MEANS OF DOING THIS. IT WAS OF COURSE IN THE US INTEREST, AS WELL AS THE EUROPEAN INTEREST, TO DEVELOP A DEFENCE AGAINST LOW-LEVEL AND SHORT RANGE NUCLEAR SYSTEMS, FOR EXAMPLE TO NEUTRALISE THE THREAT POSED BY SOVIET SLBMS DEPLOYED CLOSE TO US COASTLINES. THE LOW-LEVEL NUCLEAR THREAT WAS THEREFORE A THREAT TO THE US AS WELL AS TO THE EUROPEAN ALLIES. MORE GENERALLY, IT WAS NOT POSSIBLE FOR THE US TO CONTEMPLATE A SITUATION IN WHICH THE EUROPEAN ALLIES WERE LEFT UNDEFENDED. THE DEFENCE OF EUROPE WAS THE DEFENCE OF THE US.

/4. MR

4. MR HESELTINE SAID THAT A SET OF MORE IMMEDIATE WORRIES CONCERNED THE PRESENTATION (FOR EXAMPLE BY BRITISH MINISTERS IN PARLIAMENT AND TO THE BRITISH PUBLIC) OF THE ADMINISTRATION'S OBJECTIVES IN THE FORTHCOMING ARMS CONTROL NEGOTIATIONS IN GENEVA. THE RUSSIANS WOULD PRESUMABLY ARGUE IN GENEVA THAT THERE WAS NO POSSIBILITY OF REDUCTIONS IN OFFENSIVE NUCLEAR SYSTEMS WHILE THERE WAS ANY PROSPECT OF THE DEVELOPMENT OF A US DEFENSIVE SYSTEM AGAINST THEM. ON THE CONTRARY, THEY MIGHT WELL CONCLUDE THAT THE MOST APPROPRIATE SOVIET RESPONSE WOULD BE THE PROLIFERATION OF SOVIET OFFENSIVE SYSTEMS SO THAT THERE REMAINED A CERTAINTY OF BEING ABLE TO OVERWHELM US DEFENCES. ALTERNATIVELY OR ADDITIONALLY, THE RUSSIANS MIGHT DECIDE TO DEVELOP A DEFENSIVE SYSTEM OF THEIR OWN, OR TO DEVELOP COUNTER COUNTER MEASURES TO DEFEAT US DEFENSIVE SYSTEMS. SINCE IT WAS MORE OR LESS OUT OF THE QUESTION THAT A PERFECT AND SURVIVABLE DEFENSIVE SHIELD COULD BE ERECTED, THE MOST LIKELY OUTCOME OF THIS WHOLE PROCESS WOULD BE MASSIVE EXPENDITURE ON DEFENCE AND A NEED FOR EVEN LARGER NUMBERS OF OFFENSIVE SYSTEMS. IF THIS ANALYSIS WAS CORRECT, WHAT COULD BE SAID ABOUT THE US OBJECTIVES IN THE GENEVA NEGOTIATIONS?

5. WEINBERGER REPLIED THAT THE ADMINISTRATION'S FIRST OBJECTIVE IN GENEVA WAS TO OBTAIN AGREEMENT TO DEEP REDUCTIONS IN OFFENSIVE SYSTEMS. THE ADMINISTRATION ALSO WISHED TO EXPLORE THE POSSIBILITIES FOR STRENGTHENING DETERRENCE BY PLACING GREATER RELIANCE ON DEFENCE. THEY WERE PREPARED TO DISCUSS SOVIET CONCERNS ABOUT SPACE-BASED SYSTEMS. THE ADMINISTRATION ALSO WANTED A GOOD AGREEMENT ON INF. IN THE MEANTIME, IT WOULD BE NECESSARY TO MAINTAIN AND MODERNISE THE OFFENSIVE NUCLEAR ARSENAL AND TO CONTINUE WITH THE SDI RESEARCH PROGRAMME. THIS WAS BECAUSE THE REGIME ESTABLISHED BY THE ABM TREATY HAD NOT WORKED IN TWO RESPECTS. IN THE FIRST PLACE, EXPECTED REDUCTIONS IN OFFENSIVE SYSTEMS HAD NOT BEEN ACHIEVED: SOVIET REFUSAL TO MAKE SUCH REDUCTIONS HAD BEEN THE HISTORY OF THE LAST 15 YEARS. IN THE SECOND PLACE, THE RUSSIANS HAD MAINTAINED A KEEN INTEREST IN DEFENSIVE SYSTEMS AND HAD CARRIED OUT EXTENSIVE RESEARCH IN THIS AREA. THEY HAD ALSO ENGAGED IN ACTIVITIES WHICH VIOLATED THE ABM TREATY AND HAD CREATED, FOR THE US, THE PROBLEM OF A POSSIBLE SOVIET BREAKOUT CAPABILITY. PERLE SAID THAT THE BASIC BARGAIN STRUCK IN 1972 HAD PRE-SUPPOSED THE ABSENCE OF A SOVIET CAPABILITY TO HOLD AT RISK US RETALIATORY NUCLEAR FORCES . IN EXCHANGE FOR THIS, THE US HAD AGREED NOT TO DEVELOP ABM DEFENCES. BUT THE RUSSIANS NOW HAD THE CAPABILITY TO OVERWHELM US STRATEGIC FORCES AND HAD ALSO PROCEEDED WITH DEFENSIVE DEVELOPMENTS. PERLE NOTED THAT GROMYKO HAD TOLD SHULTZ IN GENEVA ON 7-8 JANUARY THAT THE RUSSIANS AGREED THAT THERE COULD BE NO LIMITS ON RESEARCH INTO DEFENSIVE SYSTEMS.

/6. MR

6. MR HESELTINE SAID THAT, IF ONE ENVISAGED A SITUATION IN WHICH STRATEGIC NUCLEAR SYSTEMS WERE NEUTRALISED, THE IMMEDIATE CONSEQUENCES COULD WELL INCLUDE AN INCREASE IN THE NUMBER OF NUCLEAR WEAPONS IN EUROPE AND A NEW THREAT CAUSED BY THE SOVIET ADVANTAGE IN CONVENTIONAL SYSTEMS. THIS WOULD BE A VERY UNDESIRABLE SITUATION. GIVEN THAT IT WAS MOST UNLIKELY THAT A BALANCE OF CONVENTIONAL FORCES IN EUROPE WOULD EVER BE AGREED TO BY THE RUSSIANS, IT WAS MOST UNLIKELY THAT IT WOULD BE DESIRABLE FOR THE US AND THE SOVIET UNION TO SET IN PLACE DEFENCES AGAINST STRATEGIC NUCLEAR SYSTEMS. IT THEREFORE AGAIN BECAUSE HARD TO UNDERSTAND AND EXPLAIN WHAT THE US NEGOTIATING OBJECTIVES IN GENEVA MIGHT BE. WEINBERGER REPLIED THAT HE THOUGHT THERE WERE REAL INCENTIVES FOR THE RUSSIANS TO AGREE IN GENEVA TO REDUCTIONS IN OFFENSIVE SYSTEMS. ARMS EXPENDITURE WAS A HEAVY BURDEN ON THE SOVIET ECONOMY. THE RUSSIANS WOULD BE INTERESTED IN OBTAINING AT GENEVA A MILITARILY AND POLITICALLY SECURE WAY OF SPENDING LESS ON DEFENCE. GENERAL VESSEY COMMENTED THAT IT MIGHT BE ADVANTAGEOUS TO CAUSE THE RUSSIANS TO DEVOTE DEFENCE RESOURCES TO STRATEGIC DEFENCE SO THAT THEIR ABILITY TO DEVOTE RESOURCES TO CONVENTIONAL WEAPONS WAS REDUCED.

7. MR HESELTINE NOTED THAT THE WHOLE ISSUE OF THE SDI AND ITS IMPACT ON THE GENEVA NEGOTIATIONS SEEMED LIKELY TO CREATE SEVERE TRANS-ATLANTIC STRAINS IN THE COMING MONTHS AND YEARS. IT WOULD BE IMPORTANT FOR THE UK AND THE US TO REMAIN IN THE CLOSEST TOUCH ABOUT ALL THE DIFFICULT ISSUES INVOLVED. WEINBERGER ASCCEPTED THIS AND NOTED THE CONSIDERABLE EFFORTS NOW BEING MADE BY THE ADMINISTRATION TO EXPLAIN THE SDI IN EUROPE AND THE COMPLETELY NEW STRATEGIC THINKING IT IMPLIED.

WRIGHT

CONFIDENTIAL

FM WASHINGTON 211440Z FEB 85
TO PRIORITY F C O
TELEGRAM NUMBER 601 OF 21 FEBRUARY
INFO PRIORITY MODUK (SIC A3A)

CALL ON WEINBERGER BY THE SECRETARY OF STATE FOR DEFENCE: 20 FEBRUARY

1. WEINBERGER EXPRESSED APPRECIATION FOR THE SPEED WITH WHICH HMG HAD HANDLED THE CARBON CARBON CASE. PERLE COMMENTED THAT THE ESTABLISHMENT OF A COCOM DEFENCE EXPERTS GROUP WOULD MAKE IT POSSIBLE TO DETECT THIS KIND OF CASE EARLIER AND HANDLE IT MORE SMOOTHLY.

2. WEINBERGER CONGRATULATED MR HESELTINE ON THE SWIFT AND SUCCESSFUL ERECTION OF THE NEW PERIMETER FENCE AT MOLESWORTH. MR HESELTINE SAID THAT THE GOVERNMENT ALSO PLANNED TO STRENGTHEN THE PERIMETER DEFENCES AT GREENHAM COMMON. IN ADDITION, THE GOVERNMENT WAS TAKING STEPS TO ACQUIRE NEW POWERS OF ARREST FOR TRESPASS.

3. MR HESELTINE DREW ATTENTION TO THE MSE BID IN WHICH PLESSEY WERE TEAMED WITH ROCKWELL AND ITT. THE EQUIPMENT BEING OFFERED WAS FIRST CLASS. THE BID SHOULD BE VIEWED IN THE CONTEXT OF THE POLITICAL PROBLEM CAUSED BY ESCALATING TRIDENT COSTS. WEINBERGER ACKNOWLEDGED THE TRIDENT COST DIFFICULTIES CAUSED BY THE STRONG DOLLAR. OF COURSE, IT WAS TO BE EXPECTED THAT THE DOLLAR WOULD IN THE FUTURE FALL AGAINST THE POUND. AS FAR AS PTARMIGAN WAS CONCERNED, HE MADE A POINT OF NOT INVOLVING HIMSELF IN THE AWARDS OF INDIVIDUAL PROCUREMENT CONTRACTS. HIS POLICY WAS TO TRY TO ENSURE THAT THE PROCESS OF AWARDING CONTRACTS WAS A FAIR AND OBJECTIVE ONE. OF COURSE, CONGRESS COMPLAINED IF LARGE DEFENCE SUPPLY CONTRACTS WERE PLACED OUTSIDE THE US. BUT THE ROCKWELL/PLESSEY/ITT BID LOOKED PROMISING. A DECISION WAS LIKELY IN THE LATE SPRING, PERHAPS IN MAY. MR HESELTINE STRESSED THAT THE DECISION IN THIS CASE WOULD BE AN IMPORTANT ONE FOR THE UK.

(SHB/CHY) /4.

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MS

4. MR HESELTINE EXPRESSED SURPRISE ABOUT THE ABRUPT WAY IN WHICH THE ADMINISTRATION HAD CANCELLED EXERCISE ROLL CALL 85 WITHOUT PRIOR CONSULTATION WITH OTHER PARTICIPANTS. HE HAD NO QUARREL WITH THE SUBSTANCE OF THE ADMINISTRATION'S DECISION. BUT IT WAS UNSATISFACTORY WHEN THE US APPEARED TO EXPECT OTHER ALLIES SIMPLY TO FALL INTO LINE. WEINBERGER EXPRESSED SURPRISE AT THE WAY THE US DECISION HAD BEEN CONVEYED. THE ADMINISTRATION'S INTENTION HAD BEEN TO STATE THEIR WISH TO WITHDRAW FROM THE EXERCISE AND RECONSTITUTE IT WITHOUT NEW ZEALAND, AND TO INVITE THE VIEWS OF OTHER PARTICIPANTS. HE WOULD LOOK TO SEE WHAT HAD GONE WRONG. ON GENERAL POLICY TOWARDS NEW ZEALAND, WEINBERGER SAID THAT THE US CONTINUED TO REGARD NEW ZEALAND AS AN IMPORTANT ALLY AND WISHED TO PRESERVE THE RELATIONSHIP. AT THE SAME TIME, HOWEVER, THEY BELIEVED THAT THE NEW ZEALANDERS MUST BE SHOWN THAT THEIR POLICY ON SHIP VISITS WOULD NECESSARILY ENTAIL CONSEQUENCES IN TERMS OF US/NEW ZEALAND RELATIONS. MR HESELTINE AGREED. BUT THE ADMINISTRATION'S ABRUPT WAY OF HANDLING THE CANCELLATION OF EXERCISE ROLL CALL 85 MIGHT HAVE ALIENATED THE AUSTRALIAN GOVERNMENT. IT WAS IMPORTANT TO AVOID DOING THIS.

5. MR WEINBERGER SAID THAT THE ADMINISTRATION WERE STILL CONCERNED ABOUT THE FLOW OF MILITARY EQUIPMENT FROM THE UK TO IRAN RECENT DELIVERIES APPEARED TO INCLUDE JET FIGHTER AIRCRAFT ENGINES WHICH HAD BEEN SERVICED IN THE UK AS WELL AS REFURBISHED HOVERCRAFT AND LSTS. THE ADMINISTRATION CONTINUED TO FEAR THAT SUCH ITEMS WOULD BE USEFUL TO THE IRANIAN WAR EFFORT. MR HESELTINE EXPLAINED THAT THERE WAS AN OBLIGATION TO HONOUR CERTAIN OUTSTANDING CONTRACTS FOR THE DELIVERY OF EQUIPMENT FOR WHICH PAYMENT HAD ALREADY BEEN MADE. BUT DELIVERIES WERE LOOKED AT BY THE GOVERNMENT ON A CASE BY CASE BASIS AND ONLY ITEMS WHICH WERE NOT CONSIDERED LETHAL WERE RELEASED. HE WOULD LOOK INTO THE JET FIGHTER AIRCRAFT ENGINES CASE.

/6.

6. WEINBERGER ASKED ABOUT THE FUTURE OF THE BRITISH DEFENCE BUDGET. MR HESELTINE EXPLAINED THAT THE BUDGET WOULD RISE BY 2 POINT 8 PER CENT IN REAL TERMS IN 1985/86. THIS WOULD PROVIDE FOR A REAL INCREASE OF 22 PER CENT OVER SEVEN YEARS. AFTER 1985/86, HE HOPED THAT THE DEFENCE BUDGET WOULD REMAIN BROADLY CONSTANT IN REAL TERMS ALTHOUGH HE COULD NOT RULE OUT THE POSSIBILITY THAT THERE MIGHT BE SOME SLIGHT FALL BECAUSE OF INADEQUATE PROVISION FOR INFLATION. WEINBERGER EXPRESSED APPRECIATION FOR THE PRIME MINISTER'S REFERENCE IN HER SPEECH TO CONGRESS TO BURDEN SHARING WITHIN THE ALLIANCE. BUT THE NOTION THAT THE EUROPEAN ALLIES WERE NOT PLAYING THEIR PART WAS A DEEP SEATED AND POPULAR ONE IN CONGRESS. IT APPEALED TO THE ISOLATIONIST STRAIN IN US THINKING, WHICH WAS ALWAYS JUST BELOW THE SURFACE. SENATOR NUNN WAS INDICATING THAT HE WOULD BE PURSUING THE BURDEN SHARING POINT AGAIN IN CONGRESS THIS YEAR. MR HESELTINE WONDERED WHAT NUNN HOPED TO ACHIEVE BY HIS HEAVY-HANDED APPROACH. HIS EFFORTS WOULD ONLY PROVOKE A EUROPEAN BACKLASH AND RESENTMENT AT THE APPARENT ATTEMPT BY THE US CONGRESS TO PUSH THE EUROPEAN ALLIES AROUND. IN ADDITION, IT WAS INACCURATE AND UNACCEPTABLE TO LUMP TOGETHER THOSE ALLIES WHICH HAD PERFORMED WELL ON DEFENCE SPENDING, WHICH INCLUDED THE UK AND THE FRG, WITH THE LESS WELL PERFORMING ALLIES. MR HESELTINE INTENDED TO PUT THESE POINTS TO SENATOR NUNN WHEN HE SAW HIM ON 21 FEBRUARY. WEINBERGER AGREED THAT NUNN'S APPROACH WAS MISGUIDED FROM ALL POINTS OF VIEW. THE ADMINISTRATION WOULD CONTINUE TO MAKE EVERY EFFORT TO PRESENT THE FACTS ON BURDEN SHARING AND TO POINT OUT THE DAMAGING AND COUNTER-PRODUCTIVE NATURE OF NUNN'S APPROACH, PARTICULARLY ITS SANCTIONS ELEMENT.

7. FOR DISCUSSION ON THE SDI, SEE MIFT.

WRIGHT

PS | PUS
PS | Mr. Luce
PS | Mr Reflund
PS | Lady Young
Mr. Weston
Mr. David Thomas
Mr. Wilson
Mr. Egerton
ACDD
Soviet Dept.
ECD(E)
Defence Dept

Transcript by
JAMES LEE of:

RID
MCAD
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FID
SPD
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Contents.

Arms Control 5,6,7,10,
EAST/WEST 11,13
ECONOMY 4,7,16
EC/AGRI 8
VE DAY 16
CENTAM 15
FALKLANDS 15
NEW ZEALAND 13

USA

PM INTERVIEW

PRESS CONFERENCE GIVEN BY THE PRIME MINISTER, MRS. THATCHER, IN WASHINGTON, ON THURSDAY, FEBRUARY 21, 1985.

PRIME MINISTER (starts in mid-sentence)

..the real value of the visit has been the opportunity, which we have seized, to put over the British point of view to the President, the United States Administration, Senators and Congressmen and, indeed, to millions of American people, on a very wide range of issues.

ARMS CONTROL

Arms control, of course, has been high up on the agenda and I hope that we have been able to contribute our views to the United States approach to Geneva and we have reaffirmed the four points on the Strategic Defence Initiative which we agreed at Camp David.

EAST/WEST

On East-West relations I found, particularly in my talks with Congressmen, a very very strong interest in making greater efforts at dialogue with the Russians and getting to understand their viewpoint the better and to having more contacts. They were very interested in what we had done and in the viewpoint which we put.

ECONOMY

On economic issues, I need hardly tell you they have ranked fairly high, very high. The pound, the dollar, deficits, interest rates, protectionism, unemployment. On these and other subjects we had an excellent discussion over breakfast this morning with Secretary Shultz, with Mr. Baker, Mr. Block,

Mr. Brock, Mr. Baldridge and Mr. Walley.

On the British economy, I have sought to give a very clear picture of the British economy. In fact, as you know, as I indicated in the speech yesterday, apart from the fundamental problem of unemployment, which is of great concern, the British economy is performing at record levels of output, record standard of living, record investment.

N. IRELAND

I spoke yesterday in Congress and also was asked about Northern Ireland and our approach to the problems of Northern Ireland. We have stressed two things: first, the need not to do anything to support financially the IRA or in any other way, and have stressed how greatly that viewpoint has support from the Republic and we were of course helped very much in that by the action which Garrett FitzGerald took while we were here in passing a law to prevent funds from going - particular funds - from going to the IRA. We also stressed the excellent relationship between the two governments headed by Garrett FitzGerald and myself in trying to consult together to take forward a solution in Northern Ireland leading to stability and peace, and that any changes can only come about by consent, and that is fully understood both by the people who constituted the New Ireland Forum south of the border and by the other people in the Republic.

MIDDLE EAST

Finally, we discussed at considerable length the Middle East where, as you know we feel that the time is propitious for a new initiative. We very much favour the approach taken in the United States-Saudi communique and hope that matters there will gradually be taken forward.

CENTAM

We also had, of course, a brief discussion on Central America and you will have noticed that I pointed out perhaps what

is not as fully known this side of the Atlantic as at home, that we do keep troops in Belize at that government's request. It not only helps to keep democracy stable and firm in Belize, but it is our contribution to democratic stability in Central America.

I think ... I am sure I have some more things to say but I think perhaps I have said enough and I will leave it to your questions now.

==========

QUESTION

Prime Minister, you mentioned that the economic issues were of primary importance. Do you think you are getting any message through to President Reagan about the necessity of getting the deficit down?

PRIME MINISTER

Well, I do not think he needs any messages to urge him to get the deficit down. I think he is very much aware of that and, of course was from the moment of the State of the Union Message last year, not this year, with the £150 billion down-payment and, of course, as you know, he has put quite fundamental changes to Congress in this State of the Union Message. So I do not think he needs any advice on that. The question is by how much and how and I found on Capital Hill yesterday, indeed I found all over Washington, really what you are also saying: there is a recognition of the need to get the deficit down, because otherwise the cost of servicing the debt will be adding to public expenditure and that is the last thing the President wishes to do. It is how much and how, and at home, you know, that also happens. Everyone seems to be in favour of a lesser proportion of public expenditure in principle. It is the precise ways of reducing it on which the debate will occur.

Indeed, you do not have to tell me and you do not have to tell anyone in Washington that that is the case and that of course gives you the enormous burden that is going to come on public spending as the servicing of debt becomes a bigger proportion of public expenditure and that of course is one of the

reasons why the President is so anxious to reduce the deficit.

QUESTION

Madame Prime Minister, there was a belief among many Western officials during the intermediate range, medium range talks with the Russians that they never negotiated in earnest because the United States had not actually begun to deploy Cruise and Pershing missiles; that we were trying to trade off paper missiles for Soviet concessions.

With the Strategic Defence Initiative, what gives you or indeed any leaders any confidence that the Soviets would be willing to make concessions on their offensive strategic missiles for a system that is so many years off in the future and indeed, is only at the very early stages of its research?

PRIME MINISTER

Now, as far as Cruise and Pershing were concerned, there was undoubtedly a tremendous effort on the part of the Soviet Union to have some propaganda effect on people in the Western democracies to try to prevent the deployment of Cruise and Pershing. They were not successful. Indeed, the actual deployment was of great significance during the year in which it occurred and therefore the failure of the Soviet propaganda effort, that also was of great significance.

You then go on to equate some of the problems with SDI. Can I say how grateful I am to you for pointing out what I think is not sufficiently realised when people discuss this: there is an enormous long time between starting research, many

many years, and coming to any possibility of deployment. Some people, I am afraid, tended to telescope the time far too much.

Now, what gives me hope for reductions in nuclear weapons? And I am very well aware of what you are saying, that if only a proportion get through, then the first reaction could be well we have got to have more.

What gives me hope? I think really it is two things. I think it is the nature of the weapons themselves and the belief that we really have too many, and secondly, I think both the Soviet Union and the West wishes to maintain our security, but at a lower level of weaponry and at a lower level of cost. Now, to maintain our security, you have got to maintain the balance but at a lower level, of numbers, and therefore at a lower level of cost. And I think that there is not only the common interest in seeking to avoid conflict, because that occurs whether you belong to a democratic nation or whether you wish, in a Communist country, to put more into improving the standard of living, but I think there is a real wish to reduce the number of weapons and to reduce the cost.

All of a sudden, a number of things have come together, which I believe makes this possible. Not yet achievable, but possible.

QUESTION

Were you reassured here, Mrs. Thatcher, that the Reagan Administration would be willing to delay deployment or negotiate on the Strategic Defence Initiative in return for Soviet concessions?

PRIME MINISTER

If it comes to deployment, then you have to negotiate, as the President indicated. We dealt with that at the Camp David communique. We dealt with it also in the statement he made yesterday after our talks. Deployment comes under the Anti-Ballistic Missile Treaty, which as you know is a treaty without terminal date and it is acknowledged that if it comes to deployment you must negotiate. Do not forget the Soviet Union will also be doing research and in some ways it is ahead of us in things like an anti-satellite capability.

ECONOMY

QUESTION

Getting back to the economic issues, you complained in your speech about...

PRIME MINISTER

Complained? I did not complain at all!

QUESTION (SAME MAN)

..about the strength of the dollar, the US dollar. I am wondering, in your private discussions with the President, did you have any advice for him on the dangers the strength of the dollar might pose to the rest of the world? What were your private deliberations with him on this?

PRIME MINISTER

We are all aware of the problems of the mounting strength of the dollar. It is not only problems for the rest of the world

It is of course also problems for the industries in the United States which are based on exports. We do not know how long the resurgence of the dollar will continue, and in that sense, that we do not know, we are both trying to foresee what will be the effect both on the world and also on United States industries if it does continue.

I am afraid we have not any rapidly ready-made answers for it. I think we both believe that there are certain inherent balances in a market economy that will eventually turn it round, because of the adverse effect it would start having on great sectors of the American economy, and that too will be a factor which you expect to start to turn it round. When or how that will come, one does not quite know. I cannot pull out a whole series of sudden new answers, because at the moment I do not believe there are any. We had to put up our interest rate for a number of reasons. It was perceived thatour money supply had got slightly slack. Sterling is holding slightly better than some of the other European currencies. We were all affected nevertheless again this morning by the resurgence of the dollar and we are all discussing the matter along with the deficit. It seems to us that the only fundamental thing that can be done is the reduction of the deficit. Now, precisely what effect that would have on the dollar is very arguable, very arguable.

QUESTION

Mrs. Thatcher, what did you talk to our Secretary of Agriculture Block about and our Ambassador Brock? Did you give them any assurances of any help for our problems on trade?

FC
GR1

PRIME MINISTER

We are very much aware of the problems concerning agriculture both this side of the Atlantic and in Europe, and the fact that there could be a conflict here between the two and we will do everything we can, as far as Great Britain is concerned, to try to avoid that conflict. The United States has great surpluses, Europe has great surpluses, and there are considerable subsidies both sides of the Atlantic for those surpluses and we do not wish to get into competition in selling those surpluses and competitive subsidies.

I note very much what the President has proposed in his message to Congress about agriculture. We in the Community are trying to hold down the prices for agricultural products in surplus and the Commission has proposed zero price changes this year overall. I again cannot give you a sudden solution. Just to say that of course we discussed it. We discussed the problems of agriculture here, which are very well known to us, and the problems of the Common Agricultural Policy and its effect on the United States we also discussed in detail.

QUESTION

MINERS

.....Back home, the miners' special delegate conference has given full support to Arthur Scargill to continue the strike. Can you give us your reaction to that please.

PRIME MINISTER

Naturally, I am disappointed, but when I agreed to see the TUC and when we asked the National Coal Board to take into account the points raised by the TUC, providing always that we maintained fully the right of the National Coal Board to manage the industry and their final decision after all due procedures have been followed, their final decision and right to close uneconomic pits, then there was a very detailed document which we had understood would not be a basis for negotiation, but which would form part of a settlement. The document itself was not to be a basis in any way, and the TUC also accepted that. So we were always ready to try; that we did not succeed did not fundamentally surprise me, because I have had to take the view by driving necessity of the evidence that the NUM Executive has not moved its position since the start of the strike and that the position which has been adopted is totally different from that ever taken by any other NUM Executive or any other trade union in industry.

So yes, I am disappointed, but for reasons of past experience and for reasons of what the NUM Executive has been saying, I had not really allowed my expectations to get too high. Disappointing but perhaps more miners will consider themselves now what to do.

QUESTION

ARMS CONTROL

Madame Prime Minister, what were your suggestions and advice you gave to President Reagan on arms control and secondly, what are the East-West affairs you discussed with him in the Congress?

PRIME MINISTER

What did I advise about arms control? Well, we do not necessarily reveal all the advice and all the discussions which we have. Our interest is the same on trying to secure reduction on both intercontinental ballistic missiles and on the intermediate missiles, and the question is how to bring that about. I believe that the Soviet Union also is interested in that, but it is not going to be easy to decide tactically how to handle the opening rounds, and obviously that will be the subject of very intense consideration during the coming days, as it has been during past days. But I would be surprised if the final tactics are determined more than a few days before because continual discussion usually raises new facets of the problem, and it always helps to discuss it with someone else.

What other subjects did we discuss? Of course, we discussed Central America.

EAST WEST

East-West: I found the greatest possible interest in the view that we have taken in Britain that we really must try to have more talks with more members of the Soviet Government. You know that that arises from the viewpoint that we had taken that we should do that and from the visit of Mr. Gorbachev to Britain. I think that you are the better likely to get good results from arms control talks if you have more knowledge of the people whom you are negotiating with; more understanding of their concepts and their ideas; and therefore the approach that they are likely to take and also more understanding of the kind of reassurances from the West that they are likely to require. And you will understand the need for that because of certain things I said in my speech

yesterday, because one of the things that I have found as I have gone round in the last year is the great difficulty of convincing some of the Soviet Union and of the Warsaw Pact countries that the United States and the West are absolutely sincere in wanting armaments reductions, and that the whole tendency of democratic peoples is of the way of the kind of people we are, to want perpetual peace, but to want it and to make certain that the defence of our values is secure.

So I do think that if we are to get better results in arms control talks we ought to have more dialogue and more understanding of one another's viewpoint, because they want security too.

QUESTION

Madame Prime Minister, Dame Rebecca West once said with respect to you that men would rather be ruined by one of their own sex than saved by a woman. Is there any one event in your early life that comes to mind that was instrumental in forming your character and later on you took over the leadership of Great Britain's leading establishment....

PRIME MINISTER

I do not think one's character is formed by one event. As I said, I have been at it nearly 60 years now and I cannot remember any one event that was outstanding. I think it is just the cumulative effect.

QUESTION

Madame Prime Minister, ever since the period of Gorbachev's visit to the United Kingdom, there have been problems with various of the US allies and a number of Commonwealth nations. New Zealand, Australia, and so on. Canada, of course, has had long-standing opposition to policies involving the defence of the West. Recently, a dispute has arisen involving the Ol stations that are on Canadian territory. You yourself sent your Foreign Minister, Geoffrey Howe, to meet with the government of Bulgaria, which has been considered anathema in many Western circles.

How much do you know, or how much can you tell us about the deal which was struck between Queen Elizabeth, Lord Peter Carrington and Gorbachev?

EAST/WEST

PRIME MINISTER

The Queen did not see Mr. Gorbachev. I simply do not understand. The Queen did not see Mr. Gorbachev. Point No. 1, we did not have any deal struck between Great Britain and the Soviet Union through Mr. Gorbachev. There were not any deals struck, so you are asking a question on the premise that deals were struck. The premise is wrong, so the question falls. That is plain straightforward logic. Now what was the other question?

(NEW ZEALAND)

New Zealand. Can I just go on, because you did ask quite a complicated question which must have taken you a very long time to work out! New Zealand. I am as disappointed as you are in the approach taken by the New Zealand Prime Minister. He is very much aware of my views. He is saying that no ships can visit New Zealand unless there is a clear declaration to the effect that they do not carry nuclear weapons. He knows my view and I

will just repeat it: that all our ships are seconded to NATO. At any moment's notice they might have to be asked - instructed - to take up NATO positions, and therefore they must carry whatever is appropriate to their NATO task, and I have no intention whatsoever of revealing whether or not a nuclear armoury is part of their weaponry aboard any particular ship, and therefore either they must not ask whether they are carrying them or must accept that if they ask we will not say. I shall be very disappointed if Royal Naval ships cannot visit New Zealand. The people of New Zealand are very close to the people of Britain and I think they will be disappointed too, but I cannot answer and will not answer that question.

Now, Canada: can I just point out that Canada did do some testing of Cruise missiles on her territory, and that was, I think, her contribution to getting the Cruise missiles deployed on time. So I think we can get over most of these problems, but I confess I am very worried about the New Zealand one.

QUESTION

Are you speaking.....(inaudible)....

PRIME MINISTER

Look! I can only speak - as you would know - if I might very respectfully say to you the question is superfluous. The only government I can speak for is the Government of the United Kingdom. Other governments are totally independent.

CENTRAL AMERICA

QUESTION

You have twice today mentioned your conversations with President Reagan on the subject of Central America. May I ask you are you in full agreement with the President on his view that US support of the Contras in Nicaragua is a moral responsibility, a moral duty of the United States, in the same way that it would be to support the rebels in Afghanistan?

PRIME MINISTER

That is a matter for the President. I do not interfere in the view which he takes. That is a matter for the President.

MINERS

QUESTION

Prime Minister, can I return to the question of the coal strike. Given what has happened, to avoid further disappointment, would it now be wise to refrain from making any further attempts at negotiation until more than half of the miners are back at work?

PRIME MINISTER

We made this one last effort. I do not see any prospect of any further effort.

FALKLANDS

QUESTION

Yesterday, you spoke about the presence of British troops in the South Atlantic. Do you have any plans, or are you considering any new ideas, to get the talks with Argentina on the Falklands dispute moving again?

PRIME MINISTER

No, certainly not! The Falkland Islands are under British sovereignty; their people wish most earnestly to stay British. Their wishes are paramount. That is a right to self-determination enshrined in the United Nations Charter. A nation now like Argentina, which has just come to democracy and has expressed its own self-determination, cannot require self-determination for itself and deny the same right to others.

QUESTION

Prime Minister, have you drawn any conclusions about the role of intervention in foreign exchange markets from your discussions? And if the pressures on sterling continue, would you be prepared to increase interest rates again?

PRIME MINISTER

Has one drawn any conclusions? I do not think there are any that I can....just pull out of the hat. No, as you know the dollar is surging again this morning and the Deutschmark has gone down again. It must be a new 15-year low for the Deutschmark and, as you know, you will be the first to know. You always have a go about interest rates and you always know that I cannot answer.

QUESTION

Prime Minister, yesterday on the Hill, you made an understandably negative allusion to Adolf Hitler and you quoted Bismark perjoratively. With the 40th anniversary of the end of World War II coming up, how deep is Anglo-West German

reconciliation and how will your government and you personally observe May 8th this year?

PRIME MINISTER

How...I'm so sorry. The last part of your question...

QUESTION

How will your government..I understand Baroness Young made an announcement that may be taken back. How will you observe the anniversary this year on May 8th?

PRIME MINISTER

The Federal Republic of Germany is a staunch member of NATO and the Western Alliance and she is a very true and faithful member of the Western Alliance.

With regard to how we will celebrate VE-Day and the celebration will also include the memory of those who have lost their lives in the Far East and recollection of their sacrifice, we propose to do it by having a service on VE-Day in Westminster Abbey where, of course, there is the tomb of the unknown warrior. And there will, of course, be a number of other special celebrations by various parts of the Armed Dorces or by various groups of our people, but those will be privately organised. The main observance of VE-Day will be by the service in Westminster Abbey attended by the Queen.

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CONFIDENTIAL

Private Secretary to the Prime Minister cc Private Secretary

PRIME MINISTER'S BREAKFAST WITH US OFFICIALS 21 FEBRUARY: PROTECTIONISM

The Department of Commerce have told us that Mr Baldrige will be briefed to reply to any pitch the Prime Minister makes on protectionism and the import surcharge to the effect that the Administration will have difficulty in maintaining its free trade stance if the Community starts increasing tariffs on consumer electronics. This is a reference to discussions in Coreper and the Article 113 Committee. There is as yet no formal proposal, but it is generally agreed that the present structure of the EC tariff on consumer electronics (like that on semi conductors and computers) is anomalous, in that a higher duty is levied on components than on finished products. The French would probably like to increase the duty on components in such a way that the overall aggregate of duties on consumer electronics increased. DTI told us this morning that no detailed UK position has yet been agreed, but that we have been taking the line that we would oppose any change which increased the aggregate duty. They suggest that the Prime Minister should be briefed to say, if the issue is raised:

(i) There is as yet no formal proposal, though ideas for rationalising the tariff are under discussion. The UK would not endorse a proposal which would increase the aggregate of protection. In a related area it has of course been pushing for a substantial reduction in the tariff on semi conductors.

(ii) The Community, unlike the US, was willing to implement the OECD commitment to accelerate the Tokyo Round Tariff cuts.

B Crowe

B Crowe

20 February 1985

UNCLASSIFIED
FM WASHINGTON 202310Z FEB 85
TO IMMEDIATE F C O
TELEGRAM NUMBER 593 OF 20 FEBRUARY
AND TO ALL CONSULATES IN THE USA

PRIME MINISTER'S VISIT

THE FOLLOWING TEXT OF PRESIDENT REAGAN'S STATEMENT ON THE WHITE HOUSE LAWN AT 2.30 TODAY

IT'S ALWAYS A PLEASURE TO EXCHANGE VIEWS WITH PRIME MINISTER THATCHER, A DEAR FRIEND AND A RESPECTED LEADER OF ONE OF AMERICA'S CLOSEST ALLIES. WE'VE HAD A CORDIAL DISCUSSION ON A WIDE RANGE OF MATTERS. OUR CONVERSATION HAS REFLECTED THE EXCELLENT RELATIONSHIP WHICH EXISTS BETWEEN OUR TWO COUNTRIES AS WELL AS THE WARM FRIENDSHIP BETWEEN MRS THATCHER AND MYSELF.

WE DISCUSSED EAST/WEST RELATIONS AND IN PARTICULAR THE PREPARATIONS FOR THE UPCOMING GENEVA TALKS WITH THE SOVIETS. WE FULLY AGREED THAT THE UNITY, PATIENCE AND THE DETERMINATION OF THE NORTH ATLANTIC ALLIANCE ARE ESSENTIAL IF ARMS CONTROL NEGOTIATIONS ARE TO SUCCEED. WHAT WE'RE SEEKING ARE SIGNIFICANT REDUCTIONS IN THE NUMBERS OF NUCLEAR WEAPONS THROUGH FAIR AND VERIFIABLE AGREEMENTS. PRIME MINISTER THATCHER AND I AGREED THAT IT'S ABSOLUTELY NECESSARY TO CONTINUE NATO'S INF DEPLOYMENTS ON SCHEDULE IN ACCORD WITH THE ALLIANCE'S 1979 DECISION. WE BOTH ARE HOPEFUL THAT THE DIALOGUE OPENING IN GENEVA WILL RESULT IN PROGRESS. AND WHILE THAT PROGRESS CONTINUES HOWEVER WE WILL BE STEADFAST IN THE MODERNISATION OF OUR FORCES AND IN OUR DETERMINATION TO PROMOTE FULL ADHERENCE TO EXISTING ARMS CONTROL AGREEMENTS. THESE ARE CRUCIAL INCENTIVES TO ANY REAL PROGRESS.

PRIME MINISTER THATCHER AND I ALSO DISCUSSED THE CURRENT SITUATION IN THE MIDDLE EAST AND AGREED ON THE NEED FOR PARTIES IN THAT REGION TO TAKE CONCRETE STEPS TOWARDS PEACE. WE REVIEWED THE SITUATION IN CENTRAL AMERICA AND I ASSURED THE PRIME MINISTER OF OUR DETERMINATION TO PRESERVE DEMOCRACY AND TO SEEK PEACEFUL SOLUTIONS TO THE PROBLEMS OF THAT AREA.

(RAB/INF) / WE ALSO

DIST:
CHANCERY GENERAL

O.L. 1863/A.P.H.

WE ALSO DISCUSSED THE THREAT OF INTERNATIONAL TERRORISM AND WE AGREED THAT INCREASED INTERNATIONAL COOPERATION IS CALLED FOR TO COMBAT THIS EVIL. WE EXPRESSED OUR WILLINGNESS TO WORK TOGETHER AND WITH OTHER GOVERNMENTS TO FIGHT TERRORISM AND DETER THOSE WHO GIVE SUPPORT TO TERRORISM. WE DISCUSSED THE SITUATION IN NORTHERN IRELAND AND I TOLD THE PRIME MINISTER THAT THE UNITED STATED APPLAUD THE CONTINUATION OF HER DIALOGUE WITH IRISH PRIME MINISTER FITZGERALD AND ASSURED HER OF OUR SUPPORT OF ALL THOSE WORKING FOR PEACEFUL SOLUTIONS AND RECONCILIATION. PRIME MINISTER THATCHER AND I REVIEWED THE CURRENT ECONOMIC SITUATION OF THE PROSPECTS OF OUR ECONOMIES IN THE FUTURE.

AND IN CLOSING I WISH TO NOTE THAT 1985 MARKS THE 200TH ANNIVERSARY OF THE ESTABLISHMENT OF DIPLOMATIC RELATIONS BETWEEN THE UNITED STATES AND GREAT BRITAIN. OVER THE YEARS THESE RELATIONS HAVE TAKEN ON A VERY SPECIAL QUALITY, IN FACT THEY'RE QUITE EXTRAORDINARY. WE AS AMERICANS ARE PROUD OF OUR RELATIONS WITH OUR ALLIES THE BRITISH AND I AM PERSONALLY PROUD OF MY CLOSE COLLABORATION WITH MY FRIEND MARGARET THATCHER.

WRIGHT

6.

Copy despatched
CDT 20/2.

PS/No 10

cc: Private Secretary
Mr Hunt

PRIME MINISTER'S VISIT: LAKER

1. I attach a telegram based on Mr Kerr's report from Mr Butler. I should be grateful if you could amend/amplify/approve it so that we can get it off overnight for a meeting in London in the morning at 9am GMT.

2. I should be grateful, if Mr Hollaway could, if at all possible, show the Ambassador the draft: London would value even preliminary advice on the next steps in time for tomorrow's meeting. I have covered this in the draft, but would be grateful for his approval. The point about Friday is both that the word will have had time to get through to Fielding and that the Ambassador will then have the time to pursue it. It might be worth the Private Office telephoning the White House on Thursday afternoon to seek an appointment with Mr Fielding on Friday.

3. I shall be at tonight's dinner and can take delivery then of any comments you may have, sending the telegram off after the dinner.

B L Crowe

B L Crowe

20 February 1985

SECRET DEDIP

File No. .....

Department COMMERCIAL

Drafted by (Block Capitals) CROWE

Tel. Extn. 2365

OUTWARD

TELEGRAM

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[TEXT]

LAKER

1. The Prime Minister raised Laker during her tete-a-tete with the President this morning. She said that she was anxious to seee a settlement soon both to avoid damage to our wider relations and the Government's objective of privatising British Airways. But Eximbank were being particularly difficult. The President said that he was aware of the problem and that pressure would be brought to bear on Eximbank.

2. Although this was a tete-a-tete, an NSC note-taker was present. It ~~should~~ might therefore ~~be possible~~ make sense for me to resume contact with Fielding to discuss where to go

/from

A.W.O. Ltd. 11:82. 56-3683. 250m.

from here. I would propose to do this on Friday 22 February.

3. For the record I should report that when I tried to elicit a response from Fielding before the Prime Minister's visit, the only message I got back from him was that he had nothing to say.

4 Resident Clerk please inform Dept of Transport Duty Officer.

5. FCO please advance deskby 0800Z to Dept Transport Duty Officer and Knighton, Holmes, Fortnam (DTp), Braithwaite, O'Neill, Gray (FCO), Aust (Legal Advisers, FCO), Ayling (Sols Dept, DTI), Gardiner (Law Officer's Dept), Healey, Rickford (DTI), Gregson (Cabinet Office), Wilson (Treasury).

E.R.

SUBJECT
in Master Set

JD3 AAQ

RESTRICTED

SUMMARY OF RECORD OF PRIME MINISTER'S MEETING WITH SENATOR DOLE AND OTHER US SENATORS: 20 FEBRUARY, 1985 AT 3.45 PM

Present:

Senator Dole (R- Kansas)	Prime Minister
Senator Simpson (R-Wyoming)	Foreign and Commonwealth Secretary
Senator Goldwater (R-Arizona)	HM Ambassador
Senator Danforth (R-Missouri)	Mr. Alison
Senator Lugar (R-Indiana)	Mr. Powell
Senator Hatfield (R-Oregon)	Mr. Ingham
Senator Wallop (R-Wyoming)	Mr. Hannay
Senator Warner (R-Virginia)	Mr. Pellew
Senator Byrd (D-West Virginia)	Mr. Sheinwald
Senator Cranston (D-California)	
Senator Nunn (D-Georgia)	
Senator Long (D-Louisiana)	
Senator Pell (D-Rhode Island)	
Senator Hollings (D-South Carolina)	

1. After being welcomed by Senators Dole and Byrd, the Prime Minister said that in her speech to the Joint Meeting she had wanted to thank America for keeping freedom alive in the world. Britain too was living up to her responsibilities, including out of area, and there was funadmental approval in Britain for what the Americans were doing. On East/West relations and arms control, we believed that research was essential in order to maintain deterrence. We strongly supported SDI research - and indeed hoped that our own industries would share in it. But there was an immense gap between research and deployment. The latter could only take place by negotiation. Meanwhile Cruise and Pershing deployments in Europe must go ahead, and Britain was committed to updating Polaris with Trident. The Alliance was facing a

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difficult public relations battle with the Soviet Union, who found it hard to understand that we genuinely wanted reductions in nuclear weapons. If talks were to succeed, it was important that we should get to know the Soviet leaders better.

2. On the international economic situation, the Prime Minister said that all democratic governments were facing similar problems. In the UK we were keeping our budget deficit within bounds by orthodox financial management. She shared the Administration's view that a vigorous society could not be built on higher taxation. But the size of the US deficit and the strength of the dollar were causing us problems.

3. Senator Goldwater agreed that we needed to get to know the Russians better. They were not historically a warlike people. Many of the younger generation of Russians were unhappy with their economic plight. The Prime Minister commented that the Soviet system was rigid and unadaptable. Their standard of living could only be raised by relaxing the grip of Communism. The Chinese, on the other hand, were adapting. The UK was trying to get to know both countries. We had had a successful negotiation with the Chinese over Hong Kong. Senator Pell asked for the Prime Minister's views on how to improve communication with the Soviet bloc. The Prime Minister said that she had gone to Hungary first, and Sir Geoffrey Howe had been busy visiting other East European countries. There was a new generation of Soviet leaders coming forward, and we had found Gorbachev surprisingly open to dialogue during his visit to London in December. We were hoping to build on this with further ministerial visits in both directions.

4. Senator Nunn said that the US was well aware of Britain's contribution to defence, including out of area. Unfortunately not all the European allies were doing as well. The Prime Minister pointed out that there was no provision in the North Atlantic Treaty for the allies to act out of area. Germany,

for example, was precluded from doing so. Yet she was a staunch Alliance member, and her soil would be fought on in any war in Europe. Senator Hatfield thanked the Prime Minister for her remarks about the European contribution to defence. We should get away from the idea of a bi-polar US/Soviet world. The Prime Minister commented that Europe was part of the Western Alliance. It was important for the future of democracy to bring Spain and Portugal into the European Community. Senator Hollings referred to the frustration in Congress that some Western Allies (he mentioned the Netherlands and Belgium) were not playing their full part. The Prime Minister said that European heads of government were in very close touch with each other. The Dutch had moved in the right direction on INF deployment, and she was confident that the Belgians would do so too. Prime Minister Martens had a difficult coalition to manage, but he was doing everything he could.

5. Senator Lugar asked about the problems of unemployment in the UK. The Prime Minister said that we had created 350,000 new jobs last year. But unemployment still had risen. There were many factors involved, such as the number of married women coming on to the job market, more school-leavers, and the impact of new technology on industries which had long suffered from restrictive trade union practices. We had not yet recaptured the spirit of enterprise which was prevalent in America. Senator Long asked about UK experience of corporation tax reform. The Prime Minister said that there had been too many reliefs in our tax structure. We had tightened our depreciation provisions and reduced corporate tax rates.

6. Senator Danforth referred to the US's $123 billion trade deficit. How could the US resist protectionist pressures, especially as regards trade with Japan? He also wondered what action could be taken on exchange rates. The Prime Minister said that there was a cultural problem with Japan. We had to persuade them voluntarily to limit their exports, while keeping up the pressure on them to open their own markets. It

was important to avoid protectionist solutions: that was why she supported President Reagan's call for another GATT round. As regards exchange rates, UK industries had been forced to be competitive when exchange rates were unfavourable to them. If intervention was required, it should be done by the G5 countries acting together.

7. Other Senators spoke only to congratulate the Prime Minister on her speech. Senator Dole closed the meeting at 4.50 pm.

6 March, 1985.

SUBJECT JR 37
cc Master Set

SUMMARY RECORD OF PRIME MINISTER'S MEETING WITH MEMBERS OF THE HOUSE OF REPRESENTATIVES: 20 FEBRUARY 1985 AT 5.15 p.m.

Present

Speaker O'Neill (D-Massachusetts)
Congressman Wright (D-Texas)
Congressman Foley (D-Washington)
Congressman Alexander (D-Arkansas)
Congressman Fascell (D-Florida)
Congresswoman Mary Rose Oakar (D-Ohio)
Congressman Michel (R-Illinois)
Congressman Lott (R-Mississippi)
Congressman Kemp (R-New York)
Congresswoman Lynn Martin (R-Illinois)
Congressman Dick Cheney (R-Wyoming)
Congressman William Broomfield (R-Michigan)

Prime Minister
Foreign and Commonwealth Secretary
HM Ambassador
Mr. Alison
Mr. Powell
Mr. Ingham
Mr. Hannay
Mr. Pellew
Mr. Sheinwald

****

After welcoming the Prime Minister and introducing his colleagues, the Speaker asked for the Prime Minister's views on dealing with the Russians. The Prime Minister said that Soviet society was closed, rigid and unadaptable. The Soviet leaders had a pathological fear of being attacked by the United States. We could only hope to change their attitudes by getting to know them. The Gorbachev visit to London had been useful, and we were seeking further opportunities for contact with their leaders through Ministerial visits in both directions.

The Speaker asked about the UK economy. The Prime Minister pointed out that we had achieved 2½ per cent growth in the last year, despite the coal strike. As she had said in her speech to the Joint Meeting, we were seeking to recover the spirit of enterprise which the United States had never lost. We had created 350,000 new jobs last year, but for various

reasons - e.g. the number of married women coming on to the job market, demographic factors, overmanning caused by restrictive trade union practices - we had not yet shared the Americans' success in reducing unemployment. An encouraging sign was the rate of creation of new industries. Congressman Wright asked if small business failures were a problem in the United Kingdom as in the United States. The Prime Minister said that the greatest risks were in the high technology field. It was interesting that the highest small business failure rate was in Japan.

Congressman Wright referred to the question of interest rates and their effect on economic recovery. The Prime Minister said that US interest rates and the strength of the dollar caused us problems. She believed that the budget deficit would be tackled: what really worried her was the possibility of a resurgence of protectionism in the United States. In the United Kingdom, we had refused to protect our own industries at a time when the pound was unjustifiably strong. United Kingdom industries had been forced to start their drive for efficiency when exporting was most difficult for them. She hoped that the United States would follow our example and avoid protectionist remedies. Congressman Fascell said that the pressure for protection was very real. He was bound to say that he thought the policies of the European Community were aggravating the problem. The Prime Minister agreed that this was so as regards the Common Agricultural Policy, but not so far as other trade sectors were concerned. But she pointed out that the subsidies paid to US farmers had in fact exceeded those paid to European farmers. Congresswoman Oakar referred to the forthcoming expiry of the US agreement with Japan on voluntary restraints on car imports, which was important for her home district in Ohio. The Prime Minister said that in the United Kingdom, voluntary agreements had been made on an industry-to-industry basis.

Congressman Kemp congratulated the Prime Minister on her speech which he thought had been very perceptive on international

economic policy. He wondered whether current difficulties in the world trading system were in fact a reflection of breakdown in the world monetary system. Should the United States, Europe and Japan get together to try to devise some new system? The Prime Minister said that with so much money moving about the world, it would be impossible to go back to a fixed exchange rate system. The current strength of the dollar was due to psychological factors relating to the strength of the US economy. But the dollar could not go on rising for ever. To restore the balance, America's partners needed to get their own recoveries up to the US level. It was vital for the United States to avoid resorting to protectionism as a remedy. She had heard there was talk of an import surcharge. That would be very damaging. Several Congressmen said there was no question of that. The Prime Minister said in that case there was no need to talk about it.

In closing the meeting, the Speaker remarked that he was less afraid than the Prime Minister that there would be a resurgence of protectionism.

6 March 1985

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TO FLASH WASHINGTON
TELEGRAM NUMBER 319 OF 20 FEB

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21/2

FOLLOWING FOR PRIME MINISTER'S PARTY FROM BARCLAY, NO 10
PRIME MINISTER'S MEETING WITH MRS DOLE

1. THE PRIME MINISTER MAY LIKE TO MAKE THE FOLLOWING POINTS ON PRIVATISATION GENERALLY AT HER MEETING WITH MRS DOLE:

(I) EXTENDING THE OWNERSHIP OF CAPITAL IS AN IMPORTANT OBJECTIVE FOR THE GOVERNMENT PER SE, AND HIS PREDISPOSES MINISTERS TOWARDS FLOTATION WHERE POSSIBLE:

(II) FLOTATION ALSO PROTECTS THE GOVERNMENT FROM CRITICISM OF SELLING ON PREFERENTIAL TERMS TO VESTED INTERESTS:

(III) WHERE POSSIBLE, PRIVATISATION SHOULD ENCOURAGE COMPETITION. IT SHOULD CERTAINLY NOT INHIBIT IT. SO SALES TO COMPANIES IN THE SAME INDUSTRY ARE RARE:

(IV) WE HAVE USED A VARIETY OF METHODS ACCORDING TO THE CIRCUMSTANCES OF INDIVIDUAL CASES, INCLUDING TENDERS, FIXED PRICE, AND PLACEMENT. THERE HAVE BEEN EXAMPLES OF UNDER AND OVER-PRICING BUT IN EACH CASE THE OBJECTIVE OF TRANSFERRING THE COMPANY TO THE PRIVATE SECTOR HAS BEEN ACHIEVED.

ON RAILWAYS SPECIFICALLY, THE PRIME MINISTER MIGHT SAY:

(I) SINCE 1979, BR HAVE SOLD SEALINK, HOTELS, THEIR HOVERCRAFT COMPANY, AND ABOUT POUNDS STERLING 300 MILLION OF PROPERTY:

(II) THE EMPHASIS HAS THUS BEEN ON THE NON-RAIL SUBSIDIARIES:

(III) THERE ARE SOME SUCCESSFUL PRIVATE RAILWAYS IN THIS COUNTRY, AND PRIVATISATION OF BR'S MAIN BUSINESS HAS NOT BEEN RULED OUT:

(IV) BUT IT WOULD NOT BE EASY, PRINCIPALLY BECAUSE OF THE PROBLEM OF ALLOCATING JOINT COSTS.

THE GOVERNMENT'S PRESENT PRIORITIES ARE CUTTING SUBSIDY: RETURNING INTERCITY AND FREIGHT TO PROFIT: AND ENCOURAGING COMPETITION IN THE SUPPLY OF GOODS AND SERVICES TO BR.

HOWE
LIMITED
NAD
PS

COPIES TO:-
MR BARCLAY
NO 10 DOWNING ST.

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

19 February 1985

REPLY TO CONGRESSMAN BIAGGI

Thank you for your letter of 18 February conveying HM Ambassador Washington's recommendation that he should reply on the Prime Minister's behalf to Congressman Biaggi's letter after her departure from Washington.

The Prime Minister agrees.

(CHARLES POWELL)

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

CONFIDENTIAL

DID

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CCPG

(1)

Foreign and Commonwealth Office

London SW1A 2AH

18 February 1985

Prime Minister
Agree that Oliver Wright should reply as proposed?
CDP 18/2

Yes

Dear Charles.

Northern Ireland: Letter to the Prime Minister from US Congressman Biaggi

On 13 February HM Ambassador in Washington received a request from Congressman Biaggi for a meeting with the Prime Minister during her forthcoming visit to Washington.

You will be aware that the Congressman and his 'Ad Hoc Committee for Irish Affairs' are no friends of this country and in reporting Biaggi's approach HM Ambassador proposed (subject to any instructions to the contrary) to tell him that the programme would not allow a meeting with him and his colleagues. We gave no countermanding instructions.

The Embassy has since forwarded today the enclosed letter to the Prime Minister from the Congressman and 39 of his colleagues calling on her to deal with Northern Ireland issues when she addresses Congress on Wednesday. Northern Ireland issues are of course covered in the speech for the Prime Minister's use, which has been submitted separately. The Ambassador has recommended that he should send a brief reply on the Prime Minister's behalf, at the end of the week, enclosing the text of her address. This seems sensible. If you agree, we will inform Washington.

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

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19TH DISTRICT, NEW YORK

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BRONX, NEW YORK 10461
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YONKERS, NEW YORK 10704
(914) 375-0500

Congress of the United States
House of Representatives
Washington, D.C. 20515

COMMITTEES:
EDUCATION AND LABOR
SUBCOMMITTEES:
ELEMENTARY, SECONDARY AND VOCATIONAL EDUCATION
LABOR MANAGEMENT
SELECT EDUCATION
VICE-CHAIRMAN
MERCHANT MARINE AND FISHERIES
CONGRESSIONAL PORT CAUCUS
SUBCOMMITTEES:
CHAIRMAN,
MERCHANT MARINE
COAST GUARD AND NAVIGATION
SELECT COMMITTEE ON AGING
SUBCOMMITTEE:
CHAIRMAN, HUMAN SERVICES
CHAIRMAN, AD HOC CONGRESSIONAL COMMITTEE FOR IRISH AFFAIRS

February 13, 1985

The Honorable Margaret Thatcher
Prime Minister of Great Britain and Northern Ireland
c/o Embassy of Great Britain and Northern Ireland
3100 Massachusetts Avenue, N.W.
Washington,D.C.

Dear Prime Minister Thatcher:

We the undersigned members of Congress share a deep concern about Northern Ireland and are united in our hope that a peaceful political solution can be developed. We are therefore writing to respectfully request that you discuss Northern Ireland during your address to a joint session of Congress on February 20, 1985.

We would be especially interested in your perspective on the recent meeting you held with Prime Minister FitzGerald and what prospects there might be for future meetings. Congressman Biaggi was informed by Ambassador Oliver Wright that during your December 22 meeting with President Reagan that you did brief the President on your talks with Dr. FitzGerald. This was also confirmed by the White House. In particular, we would appreciate your addressing yourself to the nature of your opposition to the various recommendations put forth by the New Ireland Forum and whether you might reconsider your position.

There are various other issues which do concern us and we would hope could be addressed on February 20. These include systematic discrimination and the effects of emergency legislation which continues to plague the Catholic community in Northern Ireland. Further, if you do in fact address Northern Ireland we would anticipate that you will use the occasion to condemn violence in Northern Ireland and properly so. However, in the condemnation we would hope that your remarks would be directed at all forms of violence in Northern Ireland. This would include the indiscriminate use of plastic bullets by the British Army and other security forces in the North of Ireland, which remains a matter of profound concern. We believe that both civilian and official violence must end if there is to be any real basis for peace.

We contend that your February 20 address provides an unprecedented and historic opportunity to discuss the Northern Ireland issue. We hope you will give our views some consideration in the preparation of your address.

With best wishes, we remain

Sincerely,

MARIO BIAGGI, M.C.

ARLEN SPECTER, U.S.S.

BENJAMIN A. GILMAN, M.C.

MAJOR R. OWENS, M.C.

ROBERT G. TORRICELLI, M.C.

EDOLPHUS TOWNS, M.C.

EDWARD P. BOLAND, M.C.

RONALD DELLUMS, M.C.

THOMAS MANTON, M.C.

RAYMOND MCGRATH, M.C.

WILLIAM J. COYNE, M.C.

FRANK ANNUNZIO, M.C.

ROBERT ROE, M.C.

NORMAN LENT, M.C.

ROBERT BORSKI, M.C.

HAMILTON FISH, M.C.

CHARLES E. SCHUMER. M.C.

MELVIN PRICE, M.C.

WILLIAM CLAY, M.C.

JAMES JEFFORDS, M.C.

JAMES SCHEUER, M.C.

GARY L. ACKERMAN, M.C.

BRUCE MORRISON, M.C.

JAMES FLORIO, M.C.

TED WEISS, M.C.

WILLIAM CARNEY, M.C.

ROBERT J. MRAZEK, M.C.

BOB EDGAR, M.C.

ROBERT K. DORNAN, M.C.

ALFONSE D'AMATO, U.S.S.

PARREN MITCHELL, M.C.

MARY ROSE OAKAR, M.C.

SILVIO CONTE, M.C.

PATRICIA SCHROEDER, M.C.

MATTHEW F. MCHUGH

NORMAN MINETA, M.C.

NICHOLAS MAVROULES, M.C.

MATTHEW RINALDO, M.C.

WALTER FAUNTROY, M.C.

GUS SAVAGE, M.C.

OW

CDP

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18.2.85

HOUSE OF LORDS

Prime Minister

CDP
18/2

Dear Prime Minister,

Here is a copy of a letter to Janet Young which I hope your staff may be able to take into account in Washington.

Yours sincerely,

Wayland Kennet

18th February, 1985

SHADDOCK in the Geneva talks.

Dear Janet,

I realise full well that the received opinion in Whitehall (both MOD and FCO) is that it is safe to leave some weapon-types off "the table" and look permanently askance at "complicating a particular basket by bringing in additional systems".

This was the logic which, over the years, allowed the SS4's and 5's to be left out, not only of negotiations, but of mind, with the result that the Soviet Union concluded we had no objection to them and that they could replace them by SS20's with equal impunity.

For that blind eye NATO in general, and individual Western Governments, continue to pay a very high price indeed. What, on the other side of the balance, was gained? I cannot think of anything: can your advisers? I think not.

The inconvenience of "complicating a particular basket" is once and for all: the damage from turning a blind eye is endless. Given that these particular negotiations are expected to go on for a very long time, any failure to include this type of weapon now is likely to be conclusive: they will be left out.

These are weapons which particularly threaten coastal areas in Europe: the use of the word "tactical" in your letter is presumably related to the weapons "less than 600 km." range. As they are ship-launched,

this means nothing. Nor does the fact that they "constitute an older generation". If they are usable, and deployed, and carry large nuclear warheads, then they are no more and no less objectionable than SS20's and the land-based weapons the Soviet Union has placed in Eastern Europe to "counter-balance" the American Pershing II's and Cruise Weapons. Are those "counter-balancing" weapons also being excluded from the new negotiations? If so, does the German public know?

General Rogers believes an awareness of Soviet offensive deployments would do wonders to revive appreciation of NATO: here is a class of Soviet weapons which HMG has been more concerned to hide (I can show you correspondence with MOD Ministers which suggests no less) than to let people be aware of. CND found them thoroughly inconvenient to consider.

Yours

Wayland

Lord Kennet.

Baroness Young.

IMMEDIATE

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ADVANCE COPY

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HO/NAD
HO/Protocol Dept
HO/News Dept
PS
PS/Lady Young
PUS
Sir W Harding
Mr David Fernand
Mr Ingham } Press Office
Mr Wall } No 10 Downing St

RC

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GRS 430

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DESKBY 190900Z

FM WASHINGTON 181801Z FEBRUARY, 1985

TO IMMEDIATE F C O

TELEGRAM NUMBER 559 OF 18 FEBRUARY

INFO ROUTINE BIS NEW YORK AND ALL US POSTS.

PRIME MINISTER'S VISIT: AMERICAN BREAKFAST TELEVISION INTERVIEWS.

1. THE PRIME MINISTER'S 5 TO 8 MINUTE INTERVIEWS WITH EACH OF THE MAJOR US BREAKFAST SHOWS ON 20 FEBRUARY WILL ALL TAKE PLACE IN TWO ROOMS IN THE RESIDENCE.

2. ABC ''GOOD MORNING AMERICA'' AND CBS ''MORNING NEWS'' WILL BROADCAST THEIR INTERVIEWS SHORTLY AFTER 7.00 A.M. AND IT SHOULD BE POSSIBLE TO HAVE A 5 MINUTE BREAK BETWEEN THE TWO INTERVIEWS. NBC TODAY SHOW ARE VERY KEEN TO GO LIVE WITH THEIR INTERVIEW AS SOON AS POSSIBLE THEREAFTER IN ORDER TO PUT IT ON THE AIR NATIONALLY IN THE LAST MAJOR NEWS SEGMENT AT THAT TIME BEFORE THE REGIONAL AND SPORTS NEWS AT ABOUT 7.22 A.M. IF THE PRIME MINISTER HAS NO OBJECTION, THIS WILL THEREFORE MEAN MOVING BRISKLY TO THE NBC POSITION IN THE NEXT ROOM TO START THE INTERVIEW AS SOON AS THE MICROPHONES HAVE BEEN FITTED. IT SHOULD THEN BE POSSIBLE TO HAVE ANOTHER TWO/THREE MINUTE BREAK BEFORE THE PRIME MINISTER DOES THE FOURTH AND LAST INTERVIEW WITH CNN AT ABOUT 7.30 A.M. INFORMATION DEPARTMENT STAFF (ANSON/ELLACOTT) WILL BE ON HAND TO HELP ESCORT THE PRIME MINISTER BETWEEN THE VARIOUS NETWORK POSITIONS.

3. ALL FOUR NETWORKS HAVE TOLD US THAT THEY WANT TO ASK THE PRIME MINISTER ABOUT:-

(A) EAST/WEST RELATIONS AND ARMS CONTROL, INCLUDING THE LATEST DEVELOPMENTS IN ATTITUDES TO THE SDI.

(B) THE UK ECONOMY AND THE POSITION OF STERLING, EUROPEAN ATTITUDES TO THE US DEFICIT ETC.

(C) MRS THATCHER'S 10 YEARS AS LEADER AND THE CURRENT BRITISH POLITICAL SCENE.

(D) THE PRIME MINISTER'S VIEWS ON ANY MAJOR NEW STORY THAT MAY BREAK BEFORE THE INTERVIEWS TAKE PLACE. WE SHALL OF COURSE MONITOR THE WIRE SERVICES EARLY ON THE MORNING OF 20 FEBRUARY BEFORE THE PRIME MINISTER'S INTERVIEWS TO CHECK THIS ASPECT.

THE WIRE SERVICES EARLY ON THE MORNING OF 20 FEBRUARY BEFORE THE PRIME MINISTER'S INTERVIEWS TO CHECK THIS ASPECT.

4. IF THERE IS TIME, CNN ALSO WANT TO RAISE TERRORISM/NORTHERN IRELAND AND OBSERVANCE OF THE 40TH ANNIVERSARY OF VE DAY.

5. THE INTERVIEWERS FOR EACH PROGRAMME ARE AS FOLLOWS:-
0645-0700 A.M. - ABC GOOD MORNING AMERICA - STEVE BELL (WHO INTERVIEWED THE P.M. IN SEPTEMBER 1983)
0700-0715 - CBS MORNING NEWS - BOB SCHIEFFER (WASHINGTON CORRESPONDENT)
0715-0730 - NBC TODAY SHOW - ANDREA MITCHELL (WHO INTERVIEWD THE PM IN SEPTEMBER 1983)
0730-0745 - CABLE NEWS NETWORK - RALPH BEGGLEITER.

6. FCO PLEASE ADVANCE TO INGHAM AND WALL, NO. 10 PRESS OFFICE.

WRIGHT

NNNN

E.R.

MR. BUTLER

OIL AND GAS AS A PROPORTION OF GDP

You asked me to investigate what proportion oil and gas represented of US GDP. I was largely unsuccessful in this. One official source - Current Business - gives a figure of 1½ per cent but the Department of Energy regard this as substantially too low. The problem related principally to gas where it is difficult to establish the true selling when much gas is "sold" as an inter-company transfer. Total sales of oil and gas as a percentage of GDP are about 4 per cent. For these reasons the Chancellor gave up a similar attempt to compare the UK and US.

In the process of investigating this I discovered that the figure of 5 per cent for oil and gas as a proportion of UK GDP is out-dated. The figures should be:

	OIL	GAS	TOTAL
1983	5½	½	6
1984	6	½	6½

The higher figure reflects increased production and the rising sterling price of oil.

In any speech material I think you should use a figure of "about 6 per cent" and not attempt a comparison with the US.

AT

15 February 1985

ANDREW TURNBULL

5 ES/PC

Prime Minister
The Navy-to-Navy links are primitive. But news on Skyhawks much more worrying. Can might mention it privately to the President.
CDP 15/2.

Foreign and Commonwealth Office
London SW1A 2AH

15 February 1985

CDP

Dear Charles,

Argentina: Naval Cooperation with the US

You suggested in your letter of 6 February that the Prime Minister might be briefed to raise during her visit to the United States the matter of US-Argentine relations, with particular reference to military contacts, on which the JIC has just produced a Note (JIC(85)(N)18).

The recent approaches by the US Navy to the Argentine Navy are apparently part of a wider exercise to encourage South American navies (Colombia and Venezuela are also mentioned) to review their maritime strategy. The approach has been made on a Navy-to-Navy basis rather than through political channels.

The US Navy's aim is to encourage the Argentines to look more to the West, and to consider their strategy in the South Atlantic in the light of a proper appreciation of the dangers of Soviet naval activity. The Americans have argued that it is both in their national interest to repair their formerly close relations with the Argentine and other South American navies, and in the wider Western interest that the Argentines should be steered away from any temptation to try to develop service-to-service relations with less desirable partners. They say that initial dialogue with the Argentine Navy is likely in practice to consist only of proposals for limited personnel exchanged and the offer of some places on staff and command level courses in the US. The Pentagon recognised that this could be a matter of concern to us, and emphasised that they envisaged the development of relations being a very slow process. There had been some talk of a Memorandum of Understanding, which could lead to other areas of cooperation and eventually perhaps to some defence sales. But the Chairman of the US Joint Chiefs of Staff has categorically ruled this out.

These developments are not welcome, particularly when Argentina still refuses to declare a formal cessation of hostilities. We have made this view plain to the Americans

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through both military and political channels. The Chief of Defence Staff sent a message of concern to the Chairman of the US Joint Chiefs of Staff, and we took the opportunity of a visit by a senior FCO official to Washington in January to raise the matter with the State Department. In his reply General Vessey gave an assurance that the US Navy was simply taking tentative first steps to re-open some lines of communication with the Argentine Navy. He added that there were "no plans for anything resembling a Memorandum of Understanding" (para 3 above), nor any plans for sales of major defence equipment; and he expressed confidence that no wrong signals would be given to the Argentine armed forces; and that the United Kingdom interests in the South Atlantic would not be jeopardised. The Director of the Southern Cone in the US State Department subsequently assured us that it was not the US intention that the future US/Argentine military relationship should develop in any way prejudicial to the United Kingdom, and stressed that the commitment the US had made to us for prior consultation on arms sales continued to stand.

These assurances are authoritative and wide-ranging though the JIC Note rightly concludes that they may be tested if the military relationship between the US and Argentina develops. We must clearly continue to keep a close eye on this and be ready to speak again firmly to the Americans if there are any signs of their military contacts with Argentina developing in a way which does not accord with the assurances they have given us. But the Foreign Secretary does not consider that the Prime Minister need raise the matter at this stage.

The Embassy in Washington have, however, reported that the Americans are reviewing their policy of opposing the sale of Israeli Skyhawk aircraft to Artentina. You will remember from my letter of 29 January that the Americans undertook to consult us if any such change were contemplated. The contract with the Israelis would be for 24 Skyhawks and would almost double the Argentines' holding of these aircraft.

Sir Geoffrey Howe intends to leave Mr Shultz in no doubt of our concern at this possibility. Besides drawing attention to the increased threat which the aircraft would pose to our forces, he will emphasise that the Americans would be making a serious political mistake if they were to permit this sale to go ahead. The provision of combat aircraft with the clear offensive capability of the Skyhawk would merely add to the risk of a repetition of the deplorable action of 1982 which caused the damage to US/Argentine relations in the first place. Sir Geoffrey Howe hopes that the Defence Secretary will speak similarly to Mr Weinberger. They would also point out that we have successfully urged several of our European Allies not to

/enter

enter into new arms contracts with Argentina: the supply of Skyhawks by Israel could force these Governments to reconsider their position, whether they liked it or not.

Sir Geoffrey Howe does not, however, consider it necessary for the Prime Minister herself to raise this in Washington.

I am copying this letter to Richard Hatfield (Cabinet Office) and Richard Mottram (MOD)

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

USA: PM's Visit: Pt 4.

Foreign and Commonwealth Office

London SW1A 2AH

15 February, 1985

Prime Minister
CDP
15/2.

Dear Charles,

Argentina: Possible Arms Supplies

I wrote to you earlier today about US military cooperation with Argentina, including the possibility that the Americans might be reviewing their policy of opposing the sale of Israeli Skyhawk aircraft to the Argentines. I recorded the Foreign Secretary's view that he and the Defence Secretary should urge Mr Shultz and Mr Weinberger respectively to maintain the American ban on the Skyhawk contract.

We have since seen your letter of 15 February recording the Prime Miniter's conversation with the Italian Prime Minister on 14 February. We have no independent evidence for the Italians' claim that the Argentines are trying to procure modern torpedoes from the USA. The standing arrangements for the Americans, whereby they consult us about the possible supply of weaponry to Argentina that could cause us difficulty, would certainly cover torpedoes. If the Italian claim is true, we should therefore have heard from the Americans about it. We have not had any indication from them that this is being discussed.

Since Sir Geoffrey, and we understand Mr Heseltine, propose to raise other potential US arms sales to Argentina with their interlocutors in Washington, we recommend that they should also raise the question of torpedo sales. In that case it would not be necessary for the Prime Minister to raise the subject specifically, unless she particularly wished to do so.

I am copying this letter to Richard Mottram (MOD).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

The National Archives

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US/SOVIET ARMS CONTROL TALKS

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MR GOODALL — DACU }
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BALLISTIC MISSILE DEFENCE (BMD)

SUMMARY

1. THE NAC HELD A FOUR-HOUR DISCUSSION TODAY ON BMD, ON THE BASIS OF A BRIEFING ON SOVIET AND US (SDI) PROGRAMMES PROVIDED BY A US TEAM LED BY GENERAL ABRAHAMSON (SDI PROGRAMME DIRECTOR, DOD). NO STARTLINGLY NEW POINTS EMERGED ON THE TECHNICAL SIDE. A LOW-KEY BUT VALUABLE MEETING.

2. US REPRESENTATIVES UNDERLINED THEIR WISH TO KEEP IN CLOSE TOUCH WITH ALLIES: ALSO EMPHASIZED COMPREHENSIVE OBJECTIVES OF SDI, AND NEED FOR ANY DEPLOYMENTS TO BE DECIDED AT LATER STAGE AND IN PROPER STRATEGIC CONTEXT. RECOGNITION OF NEED FOR ALLIANCE TO MAINTAIN COHESION, IN FACE OF LIKELY SOVIET TACTICS, AND HENCE FOR CONTINUED CONSULTATIONS. RESERVATIONS AND SCEPTICISM FROM EUROPEANS COUCHED IN INTERROGATIVE AND NON-CONFRONTATIONAL TERMS. BUT EUROPEAN CONCERNS STILL CLEARLY UNSATISFIED. NON-SUBSTANTIVE REFERENCES TO EUROPEAN PARTICIPATION IN RESEARCH.

DETAIL

3. THE DISCUSSION WAS PREFACED BY A DIA BRIEFING ON SOVIET BMD. IN SUMMARY, THE SOVIET STRATEGY FOR WAR-FIGHTING AND THE DEVELOPMENT OF A FIRST STRIKE CAPABILITY PROVIDED STRONG INCENTIVES

DETAIL

3. THE DISCUSSION WAS PREFACED BY A DIA BRIEFING ON SOVIET BMD. IN SUMMARY, THE SOVIET STRATEGY FOR WAR-FIGHTING AND THE DEVELOPMENT OF A FIRST STRIKE CAPABILITY PROVIDED STRONG INCENTIVES FOR BMD DEPLOYMENTS, WHICH THEY WOULD BE ABLE TO IMPLEMENT RAPIDLY. AT PRESENT THEY WERE PURSUING SDI-TYPE PROGRAMMES. DETAILS OF THESE WERE PROVIDED IN FAMILIAR TERMS. ONE NEW ELEMENT WAS THE POSSIBLE IDENTIFICATION OF A NEW GROUND-BASED ASAT CAPABILITY IN THE PAMIR MOUNTAINS. THE DIA CONCLUSION WAS THAT, WHATEVER THE WEST DID, THE RUSSIANS WOULD PROCEED TO DEPLOY NEW SYSTEMS FOR BMD PURPOSES.

4. THE SECOND BRIEFING, BY ABRAHAMSON, COVERED THE US SDI PROGRAMME. HE EMPHASISED REPEATEDLY THAT US AIMS HAD NOT CHANGED, AND SPECIFICALLY HAD NOT BEGUN TO FOCUS MAINLY ON LIMITED OR POINT DEFENCE. COMPREHENSIVE PROTECTION FOR ALL THE PEOPLES AND WEAPONS OF THE ALLIANCE WAS THE CONTINUED OBJECTIVE. ABRAHAMSON ALSO EMPHASISED THAT THE US WAS ONLY COMMITTED TO RESEARCH, THAT DECISIONS ON DEVELOPMENT WOULD ONLY BEGIN TO ARISE IN THE EARLY 1990S, AND THAT UNTIL THEN THE US WAS DETERMINED TO REMAIN WITHIN THE BOUNDS OF THE ABM TREATY. IN PROVIDING DETAILS OF CURRENT US RESEARCH, ABRAHAMSON DID NOT BREAK NEW GROUND. HIS BRIEFING INDICATED THE WIDE RANGE OF TECHNOLOGIES NOW UNDER STUDY AND SUGGESTED THAT, WHILE IN THE SHORT TERM THERE MIGHT ALREADY BE SOME MEANS TO COUNTER MINOR MISSILE THREATS, IMPROVEMENTS IN ORDERS OF MAGNITUDE WERE STILL NEEDED FOR CREDIBLE DEFENCES AGAINST THE WIDER THREAT.

5. IN THE FOLLOWING DISCUSSION ALLIED REPRESENTATIVES WELCOMED THE EVIDENCE OF CONTINUED US EAGERNESS TO CONSULT, AND WERE CAREFUL TO AVOID ANY DIRECT TONE OF CRITICISM. CURIEN (FRANCE) AND BORCH (DENMARK) WERE LEAST SUCCESSFUL IN CONCEALING THEIR RESERVATIONS ABOUT US INTENTIONS AND SCEPTICISM ABOUT THEIR EVENTUAL SUCCESS. CURIEN DREW ATTENTION TO THE WIDE RANGE OF UNCERTAINTIES (INCLUDING FINANCIAL AND TECHNICAL PROBLEMS) AND POTENTIAL INSTABILITIES WHICH SURROUNDED THE SDI. WHILE PAYING TRIBUTE TO US QUOTE CREATIVE INGENUITY UNQUOTE, HE UNDERLINED THE NEED FOR CAUTION IN REVIEWING THE SCIENTIFIC POSSIBILITIES AND IN PREVENTING RESEARCH RUNNING OUT OF CONTROL. THE ABM TREATY LIMITS WERE OF PARTICULAR IMPORTANCE IN THAT CONTEXT. HE NOTED THE IMPACT OF NEW BMD WORK ON PUBLIC OPINION, AND CAUTIONED AGAINST ENCOURAGING THE VIEW THAT NUCLEAR DETERRENCE COULD BE REPLACED AS THE BASIC WESTERN STRATEGY IN THE FORESEEABLE FUTURE.

6. RANTZAU (FRG) RAISED FAMILIAR POINTS ABOUT THE VULNERABILITY OF DEFENSIVE SYSTEMS, THE NEED TO COUNTER NON-BALLISTIC THREATS, AND THE ROLE OF LIMITED DEFENCES AS A WAY TOWARDS COMPREHENSIVE PROTECTION. HE ALSO UNDERLINED THE NEED FOR AN IMPROVED PUBLIC PRESENTATION OF US ARGUMENTS AND VIEWS, INCLUDING ON THE SOVIET EFFORT. BERG (NORWAY) WARNED AGAINST THE DANGER THAT US UNWILLINGNESS TO NEGOTIATE ON BMD COULD ALLOW THE SOVIET UNION TO BLOCK PROGRESS IN OTHER AREAS OF ARMS CONTROL MATHYS (CANADA) ASKED WHAT EVIDENCE THERE WAS FOR SOVIET READINESS TO CO-OPERATE IN RE-NEGOTIATING THE ABM TREATY, AS WOULD BE NECESSARY IF DEPLOYMENTS WERE TO PROCEED. HE ALSO ASKED ABOUT THE SOVIET NEED TO UPGRADE THEIR COMPUTER CAPABILITIES IF THEY WERE TO PARALLEL US ADVANCES.

7. AFTER REAFFIRMING UK SUPPORT FOR RESEARCH IN THE CONTEXT OF THE FOUR POINTS OF CAMP DAVID, I ASKED FOR FURTHER DETAILS ON HOW THE AMERICANS PLANNED TO COUNTER NON-BALLISTIC MISSILE THREATS; TO WHAT EXTENT SDI-RELATED FACILITIES WOULD NEED TO BE BASED IN

HOW THE AMERICANS PLANNED TO COUNTER NON-BALLISTIC MISSILE THREATS: TO WHAT EXTENT SDI-RELATED FACILITIES WOULD NEED TO BE BASED IN EUROPE: HOW FUTURE SDI FUNDING MIGHT BE PLANNED, AND IN THAT CONTEXT WHETHER THE AMERICANS COULD SAY ANYTHING AT THIS STAGE ABOUT THE LIKELY COST TRADE-OFF BETWEEN DEFENCES AND SOVIET COUNTER-MEASURES, INCLUDING INCREASED LEVELS OF OFFENSIVE FORCES. I ALSO WONDERED HOW FAR THE US HAD DEVELOPED THEIR INTERPRETATION OF THE AIM IN THE SHULTZ-GROMYKO COMMUNIQUE TO NEGOTIATE QUOTE ON PREVENTING AN ARMS RACE IN SPACE UNQUOTE.

8. IN RESPONSE TO THESE AND OTHER QUESTIONS, ABRAHAMSON, DOBBINS (STATE DEPARTMENT) AND GAFFNEY (OSD/DOD) NOTED THAT NO DECISIONS COULD OR WOULD BE TAKEN ON DEPLOYMENTS FOR A NUMBER OF YEARS: THAT THE SDI RESEARCH WAS PARTLY STIMULATED BY SOVIET EFFORTS AND PARTLY INTENDED AS A SEARCH FOR A BETTER FUTURE: AND THAT ANY DEVELOPMENT OF DEFENSIVE SYSTEMS WOULD BE EVOLUTIONARY, I.E. A BASIS FOR COMPREHENSIVE DEFENCE WOULD BE BUILT UP FROM A PROGRESSIVE ACCUMULATION OF SUB-SETS OF DEFENCES, WITH THE ULTIMATE AIM OF COMPREHENSIVE PROTECTION ALWAYS IN MIND.

9. ON EUROPEAN PARTICIPATION, GAFFNEY SAID THAT THE ADMINISTRATION BELIEVED THAT THE ALLIES SHOULD BE INVOLVED BOTH IN THE RESEARCH AND IN ANY DEPLOYMENTS, IF THESE WERE DECIDED. THE PENTAGON WAS STILL ASSESSING THE POTENTIAL CONTRIBUTION WHICH THE ALLIES MIGHT MAKE. IT WOULD BE PREMATURE TO TRY TO TAKE DECISIONS NOW. IN SUBSEQUENT COMMENTS OTHER US REPRESENTATIVES EMPHASIZED THAT THE US WOULD LOOK FOR EUROPEAN HELP, PROVIDED THEY WERE SURE THAT THE ABM TREATY WOULD NOT BE VIOLATED AND THAT EUROPEAN GOVERNMENTS WISHED TO CONTRIBUTE.

10. ON US INTENTIONS FOR NEGOTIATIONS ON SPACE WITH THE RUSSIANS, DOBBINS SAID THAT THE SOVIET RETURN TO GENEVA WAS INFLUENCED BY THE SDI. IT WAS HOWEVER UNCLEAR WHETHER THEY WOULD BE SEEKING A DEAL ON IT, OR ONLY USING IT AS A PLATFORM FOR THEIR OWN PROPAGANDA PURPOSES. TALKS WOULD START VERY SOON ABOUT THE IMPLICATIONS OF DEFENCES FOR ARMS CONTROL, STRATEGY, STABILITY ETC. BUT REAL NEGOTIATIONS COULD ONLY BEGIN WHEN IT HAD BEEN ESTABLISHED WHETHER DEFENCES WERE ACTUALLY FEASIBLE, I.E. IN THE EARLY 1990S AT THE EARLIEST. SUBSEQUENTLY, DOBBINS SPOKE OF THREE STAGES ENVISAGED BY THE US:

I) FIRST, THE ACHIEVEMENT OF SHARP REDUCTIONS IN OFFENSIVE FORCES AND THE REINFORCEMENT OF THE ABM TREATY:

II) SUBSEQUENTLY (PERHAPS IN THE EARLY 1990S), NEGOTIATION ON FURTHER REDUCTIONS IN THESE FORCES, AND COOPERATION ON THE TRANSITION TO A STRATEGIC ENVIRONMENT IN WHICH DEFENCES PLAYED A GREATER PART: THIS SECOND STAGE WOULD DEPEND UPON THE RESULTS OF CURRENT RESEARCH: AND

III) ULTIMATELY, THE ELIMINATION OF NUCLEAR WEAPONS.

11. ON SOVIET COUNTER-MEASURES, THE US TEAM NOTED THAT THE FLETCHER STUDY HAD CONCLUDED THAT THESE COULD BE OFF-SET BY EFFECTIVE DEFENCES. THE US WOULD CONTINUE, AS A SECONDARY ELEMENT OF THE MAIN SDI PROGRAMME, TO STUDY POSSIBLE DEFENCES AGAINST THE NON-BALLISTIC MISSILE THREAT. ABRAHAMSON WAS CHAIRING A REVIEW BODY (SDA 2000) ON THIS.

12. ON FUNDING, ABRAHAMSON FELT THAT THE PROJECTED INCREASES MIGHT BEGIN TO LEVEL OFF TOWARDS THE END OF THE DECADE AS THE RESEARCH BECAME MORE TIGHTLY FOCUSSED. HE RECOGNISED THE NEED FOR DEFENCES TO BE COST-EFFECTIVE, AND SUGGESTED THAT WITH A MULTIPLE LAYERED SYSTEM THIS SHOULD NOT BE IMPOSSIBLE. THE US WOULD BE READY TO SHARE WITH THE ALLIES THE RESULTS OF THIS RESEARCH WHEN COMPLETED: SO FAR, THESE HAD BEEN ENCOURAGING.

12. ON FUNDING, ABRAHAMSON FELT THAT THE PROJECTED INCREASES MIGHT BEGIN TO LEVEL OFF TOWARDS THE END OF THE DECADE AS THE RESEARCH BECAME MORE TIGHTLY FOCUSSED. HE RECOGNISED THE NEED FOR DEFENCES TO BE COST-EFFECTIVE, AND SUGGESTED THAT WITH A MULTIPLE LAYERED SYSTEM THIS SHOULD NOT BE IMPOSSIBLE. THE US WOULD BE READY TO SHARE WITH THE ALLIES THE RESULTS OF THIS RESEARCH WHEN COMPLETED: SO FAR, THESE HAD BEEN ENCOURAGING.

13. ON SOVIET COMPUTING ABILITY, THE DIA REPRESENTATIVE ACKNOWLEDGED THAT THE RUSSIANS WOULD SEEK TO UPGRADE THEIR PRESENT CAPABILITY, AND WARNED THAT THEY WOULD TRY TO ACQUIRE NEW TECHNOLOGY FOR THIS PURPOSE FROM WESTERN EUROPE AND JAPAN. THE WEST WOULD NEED TO EXERCISE CAUTION.

14. SUMMING UP, THE SECRETARY GENERAL NOTED THE GREAT IMPORTANCE ATTACHED BY ALL ALLIES TO THE ISSUE. GIVEN THE SOVIET INTEREST IN EXPLOITING DIFFERENCES, SUCH BRIEFINGS WOULD CONTINUE TO BE A VITAL NECESSITY. WIDER BRIEFINGS FOR WESTERN PUBLIC OPINION WOULD ALSO BE HELPFUL. IF ASKED, HIS SPOKESMAN WOULD SAY ONLY THAT THE DISCUSSION WAS PART OF CONTINUING CONSULTATION ON THE ISSUE, AND THAT GENERAL ABRAHAMSON AND HIS TEAM HAD BRIEFED ON THE US SDI AND ON SOVIET CAPABILITIES.

15. SINCE THIS DISCUSSION OCCUPIED BOTH MORNING AND AFTERNOON, NO OTHER MEETINGS WERE HELD.

16. FULL RECORD BY BAG.

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SECRETARY OF STATE

SECURITY

PERIMETER SECURITY AT RAF GREENHAM COMMON

the secure area housing the missiles and warheads.

Background

1. As a result of a continuing high number of incursions into RAF Greenham Common by the Women's peace camp (220 in January alone) and two attempted penetrations by the women of the GAMA itself (in the second, last month, the inner GAMA fence was cut for the first time). This topic is understood to be on both the President's and Mr Weinberger's agenda.

2. For some time the US authorities in the UK have been concerned at the high level of trespass and the low level of arrests for criminal damage (trespass is not a criminal offence) and have urged that on both counts the size of the UK military security force (MSF) which supplements the established 50 MDP be increased from the level of 120 RAF personnel at which it has stood since June 1984. MOD has resisted such numbers because of manpower pressures but the attempts at penetration of the GAMA - which carried grave political issues as well as a rise of injury to the demonstrators had they been successful - have caused a review of the position.

3. Following discussions between MOD officials and USAF staff in the UK the following measures have been agreed:

a. military bye-laws will be introduced as quickly as possible - preferably by Easter - which will make trespass at Greenham Common an arrestable offence of itself (without any need to prove criminal offences such as fence cutting).

b. a weld mesh fence is to be erected around the GAMA site to give security forces more time to apprehend demonstrators before they can penetrate to the GAMA fences. The weld mesh fence will be inside the main perimeter fence. Cost sharing will be negotiated but this will not delay fence construction.

c. An additional 60 UK personnel will be deployed to Greenham Common to enhance GAMA security until the weld mesh fence is complete.

Line to Take

Share US concerns at continuing trespass and GAMA incidents in particular, but believe the above security measures will enhance both immediate and longer term security of GAMA as well as posing greater deterrent to trespassers.

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MR POWELL

Prime Minister's Briefing Meeting for Washington

We agreed this morning that, although the Prime Minister's briefing meeting later today is intended to cover the non-arms control aspects of her Washington visit, it would be a wise precaution for you to have by you advance copies of the revised Speaking Notes which we have prepared (on the Geneva negotiations and Chemical Weapons) and of our suggested passages on arms control for inclusion in the Public Statement on leaving the White House on 20 February. I therefore attach these. The top copies, together with all the background material, will reach you during the course of tomorrow, 15 February.

B G Cartledge

14 February 1985

SPEAKING NOTE

THE APPROACH TO RENEWED UNITED STATES/SOVIET ARMS CONTROL NEGOTIATIONS

1. Much appreciated McFarlane/Abrahamson briefing in London. Noted your encouragement for United Kingdom ideas on possible United States negotiating positions. Do not wish to re-open Camp David discussions on SDI last December. Re-affirm value and importance of Camp David Four Points, which have now increasingly become basis for wider Alliance stance.

2. As resumption of US/Soviet negotiations at Geneva approaches, we particularly value this opportunity to hear more about your expectations and intentions. You will already be giving consideration to a long-term strategy for the negotiations: expect you share our view that this should

- serve Western interests;
- unite the Alliance; and
- deny Russians the potential for wedge-driving or gaining advantage in negotiations.

Against background of these broad objectives, there are a number of more specific questions which we would like to explore with you. Realise time does not permit in-depth discussion now, but they could serve as reference points for continuing exchanges between us at all levels in coming months.

Negotiating Strategy and Linkage

3. Are we right in assuming that your broad objective will be to achieve during your second term at least the outline of an agreement limiting and reducing offensive nuclear arms?

If so, might be useful to try to identify the key elements necessary for the West in any such agreement.

4. Would you agree that the main challenge will be to avoid being impaled on the hook of likely Soviet insistence that any agreement (and perhaps any real negotiations) on the limitation or reduction of offensive nuclear weapons must depend on some US undertaking to restrict SDI-related activities (particularly field testing and/or deployment)?

5. Seems to us that one way to blunt this hook might be to aim for some formal high level re-affirmation of the commitment by both sides to the spirit and letter of the ABM Treaty. Have noted with interest that you told Congress in your message of 1 February "our objectives in new negotiations which begin in March are to reverse the erosion of the ABM Treaty".

Could this best be done by seeking more precise and specific definitions of the scope for permissible research, together with agreed limits on testing and deployment of SDI-related systems or components, drawing on the provisions and mechanisms of the ABM Treaty (e.g. Article V, Article XIII and Agreed Statement D)?

6. If, as we agreed at Camp David, the principal objective of the negotiations is to secure reduced levels of offensive systems on both sides, would there not in any event need to be some kind of joint political understanding that for any such reductions agreement on offensive arms to be successfully implemented, both sides would have to be explicitly agreed about what would and what would not be permissible in terms of strategic defence over the period of the agreement?

7. Would you agree that probable Soviet linkage tactics could perhaps be turned back on them by arguing that, unless outline agreement can be reached within the lifetime of this Administration on limitations or reductions on offensive nuclear weapons, the United States might find it politically untenable to abide by the existing legal constraints on the developing, testing or deployment of BMD systems?

8. In attempting to explain to the Russians the rationale for your vision, and to dispel mutual misconceptions about the current level and status of each side's BMD-related research, would it be worth trying to register formal agreement with the Russians now that both sides should review the overall position with respect to offensive and defensive strategic forces at the date on which an offensive force reductions agreement would be due to expire (say 1995) to see whether any major new departures might by then be indicated to maintain or enhance strategic stability?

START

9. Can you give us any idea of what you think a framework START agreement might look like?

Do you envisage an approach combining aggregates of launchers and warheads?

Comparing existing US and Soviet negotiating positions, it seems to us that it should be feasible to construct a package comprising acceptable overall launcher aggregates (ballistic missiles and heavy bombers), matched with overall warhead aggregates, with a sub-limit on ballistic missile warheads [see Background Note].

Would this not represent significant reductions by comparison with existing force levels, as well as some reduction in the disparity between ballistic missile throw-weight?

We assume that sea-launched Cruise missiles as well as air-launched Cruise missiles would be covered in such START negotiations. Ground-launched Cruise missiles, of course, would be dealt with in INF.

INF

10. The INF negotiating context seems likely to be particularly tricky. No question of British (or French) systems being included. But Russians seem likely to argue that Pershing 2 and Cruise missiles can only be bargained against Soviet counter deployments, whereas the price for reductions in SS20s is to accept their equivalence with British and French forces.

To spike Russian arguments, do you agree that NATO should continue to work along lines reached when negotiating broke off? [See Background Note.] In particular, do you see scope for US not matching in Europe Soviet global deployments?

ASATS [See also Background Note]

11. Should not a time-limited ban on further testing and deployment of ASATs which respects the principle of balance also be one of our negotiating objectives?

Given Soviet deployments and work in this field, recognise US need to re-establish balance. But West is more dependent and potentially more vulnerable in respect of existing and projected communications, surveillance and navigating satellites in high geo-stationary orbit. Highly destabilising if vulnerable to small scale, high-confidence

ASAT attack. SDI space-based assets might themselves then be vulnerable to Soviet ASAT attack.

12. Recognise problems of verification. But on basis of technical exchanges with US, these do not seem to us insuperable, at least in respect of testing of future systems.

Would you, like us, see some advantage in the following possibilities:

(a) mutual restrictions to one low altitude ASAT system on each side;

(b) a ban on the development and testing of new ASAT systems, including high altitude ASATs; and

(c) confidence-building measures, designed to increase the two-way flow of information and to prevent accidents affecting satellites?

13. Recognise problem of inter-relationship with BMD development. But note separate timescales. ASATs now in process of deployment or full-scale testing, whereas decisions to move beyond BMD research unlikely in this decade. If in near term ASAT constraints agreed, always possible at later stage in light of BMD requirements to propose appropriate changes, perhaps in parallel to whatever was relevant in the context of the ABM Treaty.

CONCLUSION

14. Would welcome continuing opportunity for our people to keep in close touch with yours, bilaterally, as your thinking on all this develops. Meanwhile, support US

research programme taking account of Soviet developments, as stated at Camp David. Hope British scientists and firms may have a part to play. Would welcome your assurance that any such participation will not be inhibited by US restrictions in scientific exchanges and access to research or the US market [see Background Note].

SPEAKING NOTE

CHEMICAL WEAPONS (CW)

1. In the light of serious Soviet threat, UK/US agree negotiated and adequately verifiable ban best answer. Threat of US binary production offers important leverage. Despite political sensitivities, recognise case for modernisation in order to improve negotiating hand. But negotiating position must be sound to enable UK and others to express support for politically controversial move.

2. If negotiations failed, strong case for modernisation. But political sensitivity of issue would not disappear. Again, easier to offer public UK support if we can demonstrate that West had been negotiating seriously and constructively, and that blame for failure must be laid at Soviet door.

3. US draft Treaty generally sound. But Article X proposal, while bold and imaginative, also unrealistic; easily exploited by the Russians; and already produced potential division in Alliance. Most important: it does not offer an effective deterrent to Soviet cheating, even if it could be negotiated.

4. UK concept (explained in paper) builds on US approach. Provides better basis for effective deterrence; or if negotiations fail, better ammunition with which to blame Russians. Urge re-evaluation of US position; UK ready to discuss details further.

/PRC ...

Presidential Review Commission (PRC)

5. Note PRC's establishment; possibility of approach to Allies soon. CW politically sensitive issue in UK; no wish to interfere in internal conduct of important US policy review. But prepared for UK to state in strict confidence advantage of "twin-track" approach at Geneva, if approached by PRC and if you consider this would be helpful.

ELEMENTS FOR PUBLIC STATEMENT BY THE PRIME MINISTER
FOLLOWING WHITE HOUSE MEETING, 20 FEBRUARY 1985

I have had a wide-ranging and extremely useful meeting with the President, during which we reviewed the prospects for resumed arms control negotiations in Geneva on 12 March covering nuclear and space weapons. I re-affirmed my satisfaction that, thanks to United States efforts, negotiations have now been resumed; and my firm support for the United States position. There was full agreement between us on the principles which the West should observe during the negotiations; on the need for the West to show patience and perseverance throughout the process, which could well be lengthy; and on our joint determination to work for a successful outcome.

In our review of the prospects we re-affirmed our attachment to the four basic points which we had earlier agreed at Camp David - the maintenance of balance; the need for SDI-related deployments to be a matter for negotiation; the aim of enhancing deterrence; and the achievement of security at reduced levels of offensive forces. The negotiations in Geneva, the purpose of which is to achieve security with reduced levels of offensive systems on both sides, are bilateral between the United States and the Soviet Union. These two countries account for the overwhelming preponderance of nuclear weapons in the world today. I agreed with the President that British nuclear systems, which constitute a minimum national strategic deterrence of last resort, have no place there. On the other hand, I confirmed that if the two super-powers can achieve substantial reductions in their nuclear forces and

there is no significant change in Soviet defensive capabilities, Britain would be prepared to review the position and to consider how best she might contribute to arms control in the light of the reduced threat.

I spoke to the President of the need, taking account of Soviet developments, for SDI research to continue. I noted that British companies are already involved to some extent in the preliminary stages of the programme, and I would like to believe that they would be enabled to make an appropriate contribution to future work. The continued exploitation of new technology is crucial to Western strength and security. A two-way flow of ideas and business in the defence sector is important for both pillars of the Alliance.

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Postponed
AR.

Ref. A085/498

MR POWELL

Prime Minister's Briefing Meeting on Visit to United States: Thursday 14 February 1985 at 4.30 pm

The following Ministers and officials have been invited to attend the Prime Minister's briefing meeting:

Chancellor of the Exchequer
Foreign and Commonwealth Secretary
Secretary of State for Defence
Secretary of State for Transport
Parliamentary Under Secretary of State, Department of Trade and Industry, Lord Lucas

Mr J G Littler, Treasury
Mr D M D Thomas, Foreign and Commonwealth Office
Mr R Williams, Department of Trade and Industry
Mr D A Hadley, Ministry of Agriculture, Fisheries and Food
Mr J F Howe, Ministry of Defence

Rosalind Mulligan

ROSALIND MULLIGAN

14 February 1985

Prime Minister
You might like to have these briefs over the week-end. Briefing meeting set for Tuesday.
CDP

PRIME MINISTER

VISIT TO WASHINGTON: BRIEFING MEETING: 14 FEBRUARY

We have set aside just over an hour for a briefing meeting tomorrow. This is intended to cover non-arms control issues(you have already had a seminar on this : fresh material is being prepared).

You will not have time to read the briefs now, but there will be time on the plane and an opportunity to discuss them with the Foreign Secretary and Defence Secretary. Most of the issues are familiar.

I suggest that you use tomorrow's meeting to focus on trade, economic and financial issues, Laker and Ireland.

1 You might take Laker first since Mr. Ridley has to leave. How much prominence do we wish to give this issue? Are there specific points to make to President Reagan? Should it be raised at the Economic Roundtable discussions? Should anything be said to Congress?

2 You might take the US economy next. You will want to focus on a few key points with the President: what are they? (budget deficit, concerted intervention, effect of US policies on other countries?). What more general points should you make at the Economic Roundtable? How should you handle the economic issues with Congress, so as not to alienate the Administration?

Trade issues and protectionism will follow from this. It is something on which you will wish to press both Administration and Congress hard. How far should you deal publicly with the possibility of an import surcharge? How forthcoming can you be about a new GATT round (given foot-draggers in the EC)?

On defence issues its mainly a question of what points

you can best make to Congress , on US troops in Europe, on European co-operation (i.e. WEU) and on procurement.

Finally you could raise the line you should take on Northern Ireland: which is likely to feature in a big way with Congress.

Two final and more general points which might be discussed are:

1. what points do we want to focus on in your Departure statement at the White House?

2. what are the main themes we want to get out to the press as a result of the visit? (As opposed to the December visit, the emphasis might best be on economic issues and particularly the external impact of US policies rather than on the Strategic Defence Initiative).

CDP.

13 February, 1985

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MS

YOUR TELNOS 249 AND 250 AND MY TELNO 482: PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN: LAKER

1. I SHALL WISH TO RESERVE MY RECOMMENDATION ON HOW THE PRIME MINISTER SHOULD HANDLE THIS SUBJECT UNTIL I HAVE HEARD FROM FIELDING (SEE MY TELNO 477), BUT FOR IMMEDIATE BRIEFING PURPOSES THE TEXT IN MIFT INCORPORATES OUR SUGGESTED AMENDMENTS TO YOUR DRAFT BRIEF ON LAKER. I THINK IT IMPORTANT THAT WE SHOULD AVOID GIVING THE AMERICANS THE IMPRESSION THAT IF THEY NOW HELP OVER EXIMBANK THE PROBLEM WILL BE RESOLVED. THERE WILL REMAIN NOT ONLY THE UNDERLYING PROBLEMS POSED BY UNCHANGED ANTI-TRUST LAW BUT ALSO THE OUTSTANDING CLASS ACTION, POSSIBLE FUTURE COURT ACTIONS OR EVEN NEW CRIMINAL INVESTIGATIONS. WE MUST ALSO AVOID GIVING THE IMPRESSION OF ASKING THE PRESIDENT FOR A FAVOUR TO THE UK AND A REPETITION OF THE RESENTMENT ARISING FROM HIS DECEMBER DECISION: RATHER THE OBJECTIVE MUST BE TO PERSUADE THE AMERICANS OF THEIR OWN INTEREST IN INFLUENCING EXIMBANK.

2. YOU WILL ALSO WISH TO CONSIDER HOW TO BRIEF THE PRIME MINISTER FOR MRS DOLE. THE LATTER HAS MADE IT CLEAR THAT SHE HAS NOTHING SHE WANTS TO RAISE AND THAT SHE WOULD PREFER AN INTIMATE AND POLITICAL DISCUSSION. I NEVERTHELESS RECOMMEND THAT THERE SHOULD BE A BRIEF DISCUSSION OF AVIATION ISSUES. IT WOULD LOOK ODD IF THERE WERE NONE AND THE PRESS WOULD EXPECT IT. BUT I WOULD ALSO RECOMMEND THAH THE PRIME MINISTER SHOULD NOT (REPEAT NOT) RAISE THE PROBLEMS IN THE CURRENT LAKER LITIGATION. MRS DOLE HAS HAD NO ROLE IN THIS AND THE WHITE HOUSE SHOW EVERY SIGN OF WANTING TO KEEP THE WIRES IN THEIR OWN HANDS: BRINGING MRS DOLE IN IS LIKELY TO CROSS THEM. AGAINST THIS BACKGROUND I SUGGEST THE PRIME MINISTER SHOULD SAY SOMETHING ON THE FOLLOWING LINES TO MRS DOLE: THE ANTI-TRUST LITIGATION ARISING OUT OF THE COLLAPSE OF LAKER POSED SERIOUS PROBLEMS NOT ONLY FOR OUR BILATERAL RELATIONS BUT ALSO FOR OUR WIDER RELATIONS. WE THEREFORE WELCOMED THE PRESIDENT'S DECISION TO DROP THE INDICTMENT. WE NOW BELIEVE IT WOULD BE IN EVERYBODY'S INTEREST TO GET THE CURRENT CIVIAL LITIGATION OUT OF THE WAY SO AS TO REMOVE THE UNCERTAINTY AND POTENTIALLY SERIOUS DAMAGE TO AIRLINES AND EQUIPMENT MANUFACTURERS IF IT WERE ALLOWED TO DRAG ON. SO HMG ARE SUPPORTING BRITISH AIRWAYS' EFFORTS TO SETTLE. WE CAN THEN LOOK FORWARD TO GETTING OUR AVIATION RELATIONS BACK ON TO A MANAGEABLE FOOTING WHICH ENCOURAGES COMPETITION WHILE AVOIDING CONFLICT BETWEEN THE LAWS OF OUR TWO COUNTRIES. PREPARED TO NEGOTIATE LIBERALISATION ALONG WITH ARRANGEMENTS TO PREVENT LEGAL CONFLICT.

3. MRS DOLE HAS ASKED THAT THE PRIME MINISTER SHOULD BE ACCOMPANIED ONLY BY ME, BUT LEAVES IT TO THE PRIME MINISTER (MY TELNO 482). I SUGGEST THAT IN ADDITION A PRIVATE SECRETARY AND MY MINISTER COMMERCIAL SHOULD ATTEND.

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4. SEE MIFT.
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MS

PRIME MINISTER'S SPEECH TO CONGRESS: NORTHERN IRELAND

1. I HAVE BEEN TURNING OVER IN MY MIND HOW BEST TO MEET SPEAKER O'NEILL'S REQUEST THAT THE PRIME MINISTER ADDRESS THE PROBLEM OF NORTHERN IRELAND AND COMBINE IT WITH A CLEAR STATEMENT OF HMG'S POLICY WHICH WOULD ATTRACT THE OVERWHELMING SUPPORT OF THE CONGRESS AND THE AMERICAN PEOPLE. PRESENTATION WILL BE IMPOPTANT. SINCE AN OUNCE OF HELP IS WORTH A TON OF ADVICE, I HAVE TRIED MY HAND AT A DRAFT PASSAGE WHICH I THINK WOULD BE WELL RECEIVED HERE IN YOUR AMERICAN CONSTITUENCY - AND HOPE WOULD NOT CAUSE DAMAGE IN YOUR OTHER CONSTITUENCIES. IT WOULD ALSO, WHEN YOU HAVE GONE HOME, PROVIDE THOSE OF US WHO STAY BEHIND TO PROMOTE THE BRITISH INTEREST HERE WITH AN AUTHENTIC AND DEFINITIVE TEXT WITH WHICH TO OPERATE.

BEGINS

I SHOULD LIKE, IF I MAY, TO SAY A FEW WORDS ABOUT NORTHERN IRELAND.

I DO SO BECAUSE I BELIEVE THAT AT YOUR LAST CENSUS WELL OVER 60 MILLION AMERICANS CLAIMED BRITISH ANCESTRY AND MORE THAT 40 MILLION AMERICANS CLAIMED IRISH ANCESTRY: AND BECAUSE YOU, MEMBERS OF THE HOUSE AND SENATE, REPRESENT THESE AMERICANS, NEARLY HALF THE POPULATION OF THE UNITED STATES. I ACKNOWLEDGE THE LEGITIMATE INTEREST OF YOU AND YOUR FELLOW CITIZENS IN THE INTRACTABLE PROBLEM OF THE LANDS FROM WHICH THEY CONE.

THE POSITION OF THE BRITISH GOVERNMENT IS CLEAR. IT IS BASED UPON THE PRINCIPLE OF CONSENT, ENSHRINED IN YOUR CONSTITUTION AND AN ESSENTIAL PART OF OUR COMMON HERITAGE, BRITISH OR IRISH.

THE BRITISH GOVERNMENT HAS REPEATEDLY STATED THAT SO LONG AS A MAJORITY OF THE PEOPLE OF NORTHERN IRELAND WISH TO MAINTAIN THE UNION WITH GREAT BRITAIN, THEIR WISHES WILL BE RESPECTED. THE COROLLARY OF THAT POLICY IS THAT IF EVER THE WISHES OF THE MAJORITY SHOULD CHANGE, THEN THOSE WISHES WOULD ALSO BE RESPECTED BY THE GOVERNMENT AT WESTMINSTER.

THERE IS NO DISAGREEMENT ON THIS PRINCIPLE BETWEEN THE BRITISH GOVERNMENT AND THE GOVERNMENT OF THE REPUBLIC OF IRELAND. INDEED THE FOUR CONSTITUTIONAL NATIONALIST PARTIES OF IRELAND, NORTH AND SOUTH, WHO CAME TOGETHER TO ISSUE THE FOPUN REPORT, MADE CLEAR THAT ANY SUCH ARRANGEMENTS IN NORTHERN IRELAND MUST BE QUOTE FREELY NEGOTIATED AND AGREED BY THE PEOPLE OF THE NORTH. UNQUOTE

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WHILE I WAS UNABLE TO ACCEPT CERTAIN PROPOSITIONS IN THAT PEPORT BECAUSE THEY WERE BOUND, IN MY JUDGEMENT, TO FAIL THE TEST OF CONSENT, THERE WAS MUCH IN THE REPORT WHICH THE BRITISH GOVERNMENT WELCOMED. WE WELCOMED, FOR EXAMPLE, THE RECOGNITION THAT THERE WERE TWO TRADITIONS IN THE NORTH, THE UNIONIST TRADITION AND THE NATIONALIST TRADITION, OF EQUEL VALIDITY. WE WELCOMED THE RECOGNITION THAT ANY CHANGE IN THE CONSTITUTIONAL POSITION COULD COME ABOUT ONLY BY CONSENT. AND WE WELCOMED THE FORUM'S UNEQUIVOCAL REPUDIATION OF THE USE OF VIOLENCE AS A MEANS TO POLITICAL ENDS.

THE RESPONSIBILITY FOR THE FUTURE OF NORTHERN IRELAND RESTS UNEQUIVOCALLY UPON THE BRITISH GOVERNMENT AND PARLIAMENT. WE CANNOT EVADE IT. NOR CAN WE SHARE IT. BUT THE REALITIES OF LIFE TELL US THAT OTHERS CAN, BY WORD AND DEED, HELP OR HINDER US IN THE DISCHARGE OF THAT RESPONSIBILITY. THE BRITISH GOVERNMENT IS IN CONSTANT TOUCH WITH THE IRISH GOVERNMENT. I HAVE HAD MANY PRODUCTIVE MEETINGS WITH THE IRISH PRIME MINISTER AND LOOK FORWARD TO HAVING MANY MORE. WE ARE AGREED ON THE NEED TO CREATE IN NORTHERN IRELAND A POLITICAL FRAMEWORK ACCEPTABLE TO BOTH THE MAJORITY AND MINORITY COMMUNITIES. I BELIEVE THAT BOTH THE BRITISH GOVERNMENT AND, I MAY SAY, THE GOVERNMENT OF THE REPUBLIC MAY COUNT UPON THE SUPPORT OF THIS GREAT LEGISLATURE WHEN WE APPLY THESE ESSENTIAL PRINCIPLES OF DEMOCRACY: CONSENT AND THE REPUDIATION OF VIOLENCE FOR POLICAL ENDS.

THE WAY TO PEACE, DEMOCRACY AND PROSPERITY FOR ALL IN NORTHERN IRELAND IS LONG AND HARD. THE BRITISH GOVERNMENT WILL NOT FALTER NOR FAIL IN ITS TASK. BUT WE HAVE TO DEAL WITH REALITIES, FOR THERE IS NO WAY ROUND THEM. AND THE REALITIES ARE AS I HAVE DESCRIBED THEM.

WRIGHT.

ENDS

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M.I.P.T.: (NOT TO ALL): PRIME MINISTER'S VISIT - ECONOMIC ASPECTS

1. FEW HERE IN WASHINGTON QUESTION THAT IN HIS FIRST TERM THE PRESIDENT WROUGHT AN ECONOMIC MIRACLE. EVEN THE DEMOCRATS CANNOT GAINSAY THE ANNUS MIRABILIS OF 1984 WHEN AT 6.8 PERCENT ECONOMIC GROWTH WAS THE FASTEST SINCE 1951 (AND THE FIGURES ARE LIKELY TO BE REVISED UPWARDS, FOR GROWTH IN THE LAST QUARTER WAS ABOVE THE ORIGINAL 3.9 PERCENT ESTIMATE), AND INFLATION, AT 4 PERCENT, HAD BEEN KEPT LOW FOR FOUR CONSECUTIVE YEARS - TWO FACTORS WHICH MATERIALLY HELPED TO DELIVER A MASSIVE PRESIDENTIAL ELECTION VICTORY. THE ADMINISTRATION BELIEVE THAT THE ECONOMY IS SET FAIR THROUGH 1985.

2. TRUE, THERE IS A LOT OF TALK ABOUT THE PERILS OF THE BUDGET AND TRADE DEFICITS. BUT THERE IS NO SENSE IN THE ADMINISTRATION'S TOP ECHELONS OF EMERGING CRISIS OR NEED FOR URGENT ACTION. THE PERILS, IF PERILS THEY BE - AND SOME INFLUENTIAL VOICES EVEN DISPUTE THAT - ARE THOUGHT TO ARISE ONLY IN THE MEDIUM TERM. THUS, NISKANEN, MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS, LIKENS THE BUDGET DEFICIT TO QUOTE A SLOW-ACTING BUT POTENTIALLY LETHAL CANCER UNQUOTE. EVEN THE ORTHODOX CONGRESSIONAL BUDGET OFFICE COUCHES ITS WARNINGS IN TERMS OF QUOTE THE LONG RUN CONSEQUENCES OF SUSTAINED DEFICITS UNQUOTE WHERE THE LONG RUN MEANS QUOTE INTO THE NEXT DECADE UNQUOTE. TRUE TO FORM, VOLCKER IS STILL PUBLICLY MAINTAINING THE CALL FOR EARLY ACTION, THOUGH HE HAD ADMITTED TO ME PRIVATELY THAT HE DOES NOT THINK HIS WARNINGS HAVE MUCH IMPACT.

3. THE CURRENT STRENGTH OF THE DOLLAR DOES NOW GIVE RISE TO SOME CONCERN IN THE ADMINISTRATION, BUT NOT, APPARENTLY, TO THE EXTENT OF STIMULATING REMEDIAL ACTION. ITS RISE IS ASCRIBED TO THE BELIEF THAT UNITED STATES ECONOMY OFFERS INVESTORS A SAFE AND PROFITABLE HAVEN, OR AS MCNAMAR WOULD HAVE IT QUOTE THE BEST AFTER TAX RETURN AND THE LEAST SOVEREIGN RISK UNQUOTE. EQUALLY THE SLUMP IN THE EUROPEAN CURRENCIES IS, TO A LARGE EXTENT, SEEN IN THE ADMINISTRATION AS A REFLECTION OF THE WEAKNESS OF THE EUROPEAN ECONOMIES

ATION AS A REFLECTION OF THE WEAKNESS OF THE EUROPEAN ECONOMIES, FLOWING FROM OVER-UNIONISATION, MARKET RIGIDITES, AND LACK OF OPPORTUNITY FOR ENTREPRENEURIAL TALENT. (THEY HAVE A DIFFERENT EXPLANATION FOR THE WEAKNESS OF THE YEN EXCLAM). INSTEAD OF GRUMBLING ON ABOUT THE DOLLAR, THE ADMINISTRATION BELIEVE THAT WE SHOULD BE GRATEFUL FOR THE OPPORTUNITIES WHICH THEIR TRADE DEFICIT AFFORDS OUR EXPORTERS. THERE IS AN INCLINATION TO REGARD ANY CRITICISM AS WHINGEING AND WHINGEING WON'T WORK IN THE EBULLIENT WASHINGTON OF 1985. IN ANY CASE, THEY SUSPECT THAT IF THE DOLLAR FELL WE SHOULD FIND OTHER THINGS TO COMPLAIN ABOUT: INCREASED COMPETITION FROM U.S. EXPORTS, E.G.

4. CERTAINLY THE HIGH DOLLAR AND HIGH REAL INTEREST RATES ARE PUSHING MANY FARMERS, AND THEIR LOCAL BANKS, INTO DEEP TROUBLE. AND THE SAME IS HAPPENING TO THOSE OTHER PARTS OF THE AMERICAN ECONOMY FACING FOREIGN COMPETITION. BUT THE ADMINISTRATION DEALS WITH THESE INDUSTRIES' PROBLEMS BY PROGRAMMES DIRECTED TO THEIR PARTICULAR NEEDS, SUCH AS HELP TO FARMERS STRUGGLING WITH INDEBTEDNESS (WHILE TRYING TO REDUCE FARM SUPPORT GENERALLY) AND EVEN SPECIFIC MEASURES OF PROTECTION (E.G. STEEL AND TEXTILES) RATHER THAN BY AN EARLY CHANGE IN OVERALL ECONOMIC POLICIES WHICH WOULD ENABLE INTEREST RATES AND THE DOLLAR TO COME DOWN.

5. SO THE PRIME MINISTER WILL BE GREETED BY AN ADMINISTRATION SATISFIED WITH ITS PAST ECONOMIC SUCCESSES, CONFIDENT IN ITS PRESENT POLICIES, AND OPTIMISTIC ABOUT FUTURE SUCCESS.

6. THE PRIME MINISTER'S APPROACH IN ANY DISCUSSION WITH THE PRESIDENT AND SECRETARY BAKER ABOUT THE TURBULENCE IN THE EXCHANGE MARKETS WILL NEED TO BE JUDGED IN THE LIGHT OF UP-TO-DATE MARKET EVENTS.

7. MORE GENERALLY, I SUGGEST THAT, WHILE RECOGNISING THE IMPRESSIVE AMERICAN ECONOMIC PERFORMANCE, AND ITS ROLE IN STIMULATING EUROPEAN GROWTH, AND ENABLING THE INTERNATIONAL BANKING SYSTEM TO MANAGE 3RD WORLD DEBT, SHE SHOULD SEEK TO REINFORCE AND QUICKEN THE PRESIDENT'S RESOLVE IN DEALING WITH THE BUDGET DEFICIT. THE PRIME MINISTER MIGHT POINT TO THE DANGERS OF PROTECTIONISM, ARISING FROM THE TRADE DEFICIT: AND THE RISK TO THE ECONOMY OF THE FREE WORLD IF THEY WERE NOT SUCCESSFULLY RESISTED. VOLCKER TOLD ME LAST NIGHT THAT HE TAKES VERY SERIOUSLY THE THREAT OF AN IMPORT SURCHARGE (IN TRUTH, A TAX ON IMPORTS), WHICH I WARNED ABOUT IN MY TELNO 414. IT IS ALWAYS BETTER HERE TO ACCENTUATE THE POSITIVE: WE SHOULD KEEP THE ADMINISTRATION COMMITED TO A NEW G.A.T.T. ROUND AS THE BEST METHOD OF STAVING OFF PROTECTIONIST MEASURES.

8. BEYOND THIS, THE HIGH DOLLAR, AS WELL AS BRINGING ENORMOUS PROBLEMS FOR THE PRESIDENT'S ALLIES IN THE MANAGEMENT OF THEIR OWN ECONOMIES, WILL BRING A SUBSTANTIAL PENALTY IN THE LONGER TERM FOR THE UNITED STATES. SHE MIGHT POINT OUT THAT THE U.S. ECONOMY IS INCREASINGLY BEING KEPT AFLOAT ONLY BY CURRENCY INFLOWS FROM ABROAD, FINANCING THE U.S. DOLLARS 100 BN CURRENT ACCOUNT DEFICIT. HOW LONG WILL THE FINANCIAL MARKETS BE WILLING TO OBLIGE - AND AT WHAT COST IN INTEREST RATES? IT WOULD BE A TRAGEDY IF THE PRESIDENT, WHO HAS DONE SO MUCH TO RESTORE HIS COUNTRY'S, AND THE ALLIANCE'S, MILITARY SECURITY, WERE TO GO DOWN IN THE HISTORY BOOKS AS THE PRESIDENT WHO HAD UNDERMINED HIS COUNTRY'S ECONOMIC SECURITY BY PUTTING THE UNITED STATES INTO HOCK WITH THE REST OF THE WORLD.

AS THE PRESIDENT WHO HAD UNDERMINED HIS COUNTRY'S ECONOMIC SECURITY BY PUTTING THE UNITED STATES INTO HOCK WITH THE REST OF THE WORLD.

9. I BELIEVE THAT SUCH AN APPROACH WOULD PROVIDE THE FRAMEWORK IN WHICH THE PRIME MINISTER COULD MAKE, AT THE VARIOUS MEETINGS, THE POINTS ON PROTECTIONISM AND OTHER TRADE AND ECONOMIC ISSUES IN MY TELNO 414. SHE MIGHT INVITE THE PRESIDENT TO WORK TOGETHER TO STRENGTHEN FREE TRADE. MOVES TO INCREASE PROTECTION, SUCH AS THE CONSULTATIONS WITH THE E.C. ON SEMI-FINISHED STEEL, WHICH THE U.S. HAVE DEMANDED, AND THE NEW TEXTILE ORIGIN RULES WHICH ARE PUNITIVE TO HONG KONG, ARE HARDLY COMPATIBLE WITH THIS.

10. IT IS PERHAPS A LITTLE SANGUINE TO BELIEVE THAT WE CAN BRING AN EARLY SHIFT IN U.S. ECONOMIC PRIORITIES. BUT I HOPE THE PRIME MINISTER WILL TAKE THIS OPPORTUNITY TO BRING HOME TO THE PRESIDENT, AS ONLY SHE CAN, THE LIKELY ECONOMIC AND POLITICAL CONSEQUENCES, FOR THE UNITED STATES AND ITS ALLIES, OF THIS ECONOMY'S GROWING DEBT. WITHDRAWAL FROM ANY DEPENDENCY ALWAYS REQUIRES DIFFICULT DECISIONS. BUT IF THE UNITED STATES ECONOMY REALLY BECOMES HOOKED, THE PROSPECTS ARE DIRE. IT WOULD, I SUGGEST, BE BETTER TO EXPRESS CONCERN ABOUT THE EFFECTS ON AMERICA THAN ABOUT THE DEFICIT'S CONSEQUENCES FOR US, AND AMERICA'S OTHER TRADING PARTNERS. FOR THE LATTER COULD BE CONSTRUED AS WHINGEING, AND COULD PROVOKE REMINDERS THAT THE U.S. HAS IN THE LAST 3 YEARS FULFILLED ITS TRADITIONAL ROLE AS MOTOR OF THE FREE WORLD'S ECONOMIES. WE CAN ACKNOWLEDGE THAT IT HAS PLAYED THIS ROLE: WHILE WARNING THAT THE FUTURE LOOKS LESS ROSY. AND WE CAN ALSO REMIND THE PRESIDENT OF THE BENEFITS WE HAVE GAINED FROM THE TOUGH MEASURES OF THE 1981 U.K. BUDGET.

11. IN ADDITION, I STRONGLY RECOMMEND THAT, IN CONTACTS WITH THE ADMINISTRATION AND ON THE HILL, AND IN PRESS AND TELEVISION INTERVIEWS, THE PRIME MINISTER SET LONDON'S RECENT FINANCIAL TURBULENCE IN ITS PROPER LONGER TERM CONTEXT. SCARGILL AND THE DOLLAR ARE THE CURRENT FLAVOURS OF THE MONTH AND AS A RESULT OUR RECORD ON GROWTH, INFLATION, AND - NOT LEAST - BORROWING NOW GETS LESS ATTENTION HERE THAN IT DESERVES. IT WOULD DO MUCH GOOD - IF THE PRIME MINISTER COMES WITH A CONFIDENT MESSAGE ON THE FUTURE OF BRITAIN. AMERICANS ADMIRE SUCCESS AND SELF-CONFIDENCE, SO A LITTLE PRIDE IN OUR ACHIEVEMENTS, WHICH ARE MANY, WILL GO DOWN WELL HERE, AT THE WHITE HOUSE ON THE HILL AND WITH THE MEDIA.

12. ADVANCE COPIES TO POWELL (NO. 10): PS/S OF S, PS/PUS, BRAITHWAITE, MARSHALL (NAD), FCO: PS/S OF S, MOD: PS/CHANCELLOR, LITTLER, LAVELLE, (HM TREASURY): PS/S OF S, DTI: HADFIELD, CARTLEDGE (CABINET OFFICE).

F.C.O. PASS SAVING: UKREP BRUSSELS, BONN, PARIS.

WRIGHT

NNNN

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

01-211 4391

SIR KENNETH COUZENS KCB
PERMANENT UNDER-SECRETARY OF STATE

13 February 1985

Dear Charles

BRIEF FOR THE PRIME MINISTER'S VISIT TO WASHINGTON:

OIL PRICES

This Department earlier provided a brief to the FCO on oil prices, which will now have reached you.

As I mentioned earlier today to the Duty Clerk in your absence, I am now sending you a revision of the brief and shall be grateful if you would substitute it for the previous version. It has been drafted by Sir Kenneth Couzens to meet my Secretary of State's view that a more robust line was called for.

I am sending a copy to Michael Jay at the FCO.

Yours sincerely,

Philip Evans.

P R EVANS
Private Secretary

Charles Powell Esq
10 Downing Street

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MY 2 IPTS: PRIME MINISTER'S VISIT: FOREIGN POLICY ISSUES.

1. THE MAIN FOREIGN POLICY FOCUS OF THE VISIT WILL BE THE SEMINAR ON ARMS CONTROL IN WHICH YOU, THE PRIME MINISTER AND THE DEFENCE SECRETARY WILL PARTICIPATE AFTER LUNCH WITH THE PRESIDENT ON 20 FEBRUARY. OTHER IMPORTANT AREAS FOR DISCUSSION WILL BE THE MIDDLE EAST, CENTRAL AMERICA, SOUTHERN AFRICA, THE FIGHT AGAINST TERRORISM AND THE TRAVAILS OF ANZUS. U S INTEREST IN ANGLO-IRISH RELATIONS WILL CERTAINLY SURFACE.

ARMS CONTROL

2. IN THE TWO MONTHS SINCE THE PRIME MINISTER MET THE PRESIDENT AT CAMP DAVID, THE CLEAR DISTINCTION THEN DRAWN BETWEEN THE SDI RESEARCH PROGRAMME, WHICH THE MAIN ALLIES AND MOST DOMESTIC POLITICIANS NOW SUPPORT, AND THE TESTING AND DEPLOYMENT OF DEFENSIVE WEAPONS, WHICH RAISES SERIOUS DOUBTS AT HOME AND DIFFICULTIES WITH THE ALLIES, HAS BECOME THE CONVENTIONAL WISDOM. IT IS IMPORTANT TO KEEP IT THAT WAY AND TO AVOID LETTING FURTHER DISCUSSION OF THE SDI BLUR OR FUDGE THE FOUR POINTS THEN AGREED. AS YOU KNOW I HOPE THE PRIME MINISTER WILL INDICATE THAT WE WOULD LIKE THE ADMINISTRATION TO OPEN THE DOOR TO BRITISH FIRMS AND RESEARCH ESTABLISHMENTS TO PARTICIPATE IN THE SDI RESEARCH PROGRAMME. WEINBERGER'S RECENT SPEECHES IN EUROPE CONFIRM THAT SUCH AN APPROACH WOULD BE WELCOME HERE.

3. BUT ATTENTION ON THIS OCCASION SHOULD, I THINK, BE CENTRED MAINLY ON THE GENEVA NEGOTIATIONS, NOW LESS THAN A MONTH AWAY. THE ADMINISTRATION'S STRATEGY FOR BRINGING ABOUT OUR SHARED OBJECTIVE OF BALANCED AND VERIFIABLE REDUCTIONS IN OFFENSIVE NUCLEAR WEAPONS WILL NEED DISCUSSION. IT WILL BE IMPORTANT TO AVOID GIVING ANY IMPRESSION OF TEACHING GRANDMOTHERS TO SUCK EGGS. BUT THE ADMINISTRATION ARE CONCERNED TO CARRY THE ALLIES WITH THEM, AND WILL VALUE OUR VIEWS. IT WOULD BE GOOD, IN THIS CONTEXT, TO UNDERLINE TO THE PRESIDENT THE IMPORTANCE OF MAKING EVERY EFFORT TO SECURE PROGRESS IN INF ARMS CONTROL EVEN IN THE FACE OF LIKELY DIFFICULTIES ON STRATEGIC AND DEFENSIVE SYSTEMS.

4. OUR EFFORTS TO PERSUADE THE ADMINISTRATION TO MODERATE THEIR POSITION ON CW CHALLENGE INSPECTION WILL BE BEST PURSUED IN THE CONTEXT OF OUR SUPPORT FOR THE OVERALL ARMS CONTROL EFFORT. IT SHOULD ALSO BE ADDRESSED AS ONE ASPECT OF OUR APPROACH TO THE OVERALL CW PROBLEM, INCLUDING THE MODERNISATION ASPECT, RATHER THAN AS A SEPARATE TECHNICAL ISSUE WHICH THE PRESIDENT MAY NOT FEEL INCLINED TO ADDRESS. THE PRESIDENT'S BRIEF ON THIS SUBJECT WILL BE WRITTEN PRIMARILY IN DOD, AND IS UNLIKELY TO BE HELPFUL TO US.

MIDDLE EAST.

5. THE AMERICANS REMAIN RELUCATANT TO PLAY A MORE ACTIVE ROLE IN THE PEACE PROCESS. THEIR (AND EVERYONE ELSE'S) EFFORTS IN LEBANON HAVE RUN INTO THE SANDS AND THIS WILL HAVE CONFIRMED SHULTZ'S DISTASTE FOR ACTIVISM IN THE REGION. THE DECISION TO STALL ON ARMS SALES IS A CLEAR SIGN THAT THE ADMINISTRATION WANT TO AVOID A MIDDLE EAST ROW ON THE HILL WHILE THEY HAVE SO MANY OTHER IRONS IN THE FIRE. THEY MAINTAIN THAT THEIR RELATIONS WITH KING HUSSEIN ARE NOW IMPROVED FROM LAST YEAR'S NADIR, AND THAT HE AGREES WITH THEIR CURRENT TACTICS OF REMAINING AT A DISTANCE FROM HIS DIALOGUE WITH ARAFAT.

6. BUT A TOTALLY ''HANDS OFF'' POLICY IS NEVER FOR LONG A REAL OPTION FOR THE UNITED STATES. THE SUCCESSION OF MIDDLE EAST VISITORS TO WASHINGTON CREATES A DYNAMIC OF ITS OWN. MUBURAK'S VISIT IN EARLY MARCH SEEMS LIKELY TO MARK AN IMPORTANT STAGE IN THE JORDAN/PLO DIALOGUE. SHULTZ REMAINS DETERMINED TO OPERATE ONLY ON U S TERMS: I E ESSENTIALLY THAT KING HUSSEIN BE WILLING TO ENTER DIRECT NEGOTIATIONS WITH ISRAEL ON THE BASIS OF SCR 242, AND THAT THE U S ADMINISTRATION NOT BE REQUIRED TO PUT PRESSURE ON ISRAEL. WE NEED TO PREPARE THE GROUND FOR A MORE FLEXIBLE AND POSITIVE U S RESPONSE IF, AS IS ALL TOO LIKELY, HUSSEIN AND ARAFAT PRODUCE THE SORT OF AGREEMENT THE AMERICANS DO NOT MUCH LIKE.

CENTRAL AMERICA

7. AMERICAN POLICY ON CENTRAL AMERICA IS IN THE DOLDRUMS AND THE SITUATION ON THE GROUND IS GETTING NO BETTER. THE PRESIDENT SEEMS DETERMINED TO EMBARK ON A FURTHER CONFRONTATION WITH CONGRESS OVER FUNDING THE CONTRAS: IT WILL AT BEST PROVIDE A SUM INADEQUATE TO ACHIEVE THE OBJECTIVES OF THOSE WHO WANT TO SEE THE SANDINISTAS BROUGHT LOW AND AT WORST GIVE A MAJOR BOOST TO SANDINISTA MORALE AND PROPAGANDA. BUT THERE IS NO QUESTION OF THE U S QUITTING IN CENTRAL AMERICA. THE SUMS EARMARKED IN THE 1986 BUDGET FOR HELPING AMERICA'S FRIENDS IN THE REGION ARE LARGER THAN EVER. THE REALITY IS THAT THIS IS A LONG HAUL.

8. I AM NOT SURE WE HAVE A GREAT DEAL TO CONTRIBUTE TO DISCUSSION AT THIS STAGE. WE CANNOT REALLY APPROVE THE FUNDING OF THE CONTRAS, BUT NOR DOES IT MAKE MUCH SENSE TO ARGUE AGAINST IT. WE CAN REITERATE OUR FIRM SUPPORT FOR U S OBJECTIVES IN THE REGION WHILE MAKING IT CLEAR THAT WE CANNOT ALWAYS BACK THE MEANS THEY USE. WE SHOULD CONTINUE TO EMPHASISE THE IMPORTANCE OF KEEPING ALIVE AND EDGING FORWARD THE CONTADORA PROCESS. WITHOUT IT THEY (AND WE) WILL FACE MUCH MORE UNPALATABLE CHOICES.

SOUTHERN AFRICA

9. THE PRESIDENT'S POLICY OF CONSTRUCTIVE ENGAGEMENT, WHICH WE

SOUTHERN AFRICA

9. THE PRESIDENT'S POLICY OF CONSTRUCTIVE ENGAGEMENT, WHICH WE SUPPORT AND TO SOME EXTENT EMULATE, IS TAKING A GOOD DEAL OF DOMESTIC CRITICISM. CONCERN ABOUT SOUTH AFRICA, AND SUPPORT FOR ECONOMIC SANCTIONS, IS GROWING, INCLUDING ON THE HILL, BUT THE ADMINISTRATION SEEMS DETERMINED TO HOLD THE LINE. CROCKER'S EFFORTS TO NEGOTIATE NAMIBIAN INDEPENDENCE AND CUBAN WITHDRAWAL FROM ANGOLA CONTINUE AND ARE AT A CRUCIAL STAGE. THEY DESERVE OUR CONTINUED SUPPORT AND I HOPE THAT CRITICISMS OF OUR ''INACTIVITY'' WILL NOT DIVERT US FROM GIVING IT.

TERRORISM

10. SHULTZ AND WEINBERGER HAVE STOPPED SWAPPING PHILSOPHICAL DEBATING POINTS ABOUT RETALIATION, AND THE PRESIDENT'S DISTASTE FOR LASHING OUT IS THE DETERMINING FACTOR. BUT THE AMERICANS ARE DETERMINED TO STEP UP COOPERATION BETWEEN THE ALLIES IN THIS FIELD. THEY WELCOME OUR SUPPORT BOTH BILATERALLY AND MULTILATERALLY. I HOPE WE WILL BE ABLE TO BACK THEIR EFFORTS TO STRENGTHEN THE BONN DECLARATION ON HIJACKING. BY AGREEING TO RENEGOTIATE OUR BILATERAL EXTRADITION TREATY TO REMOVE THE POLITICAL OFFENCE LOOPHOLE, THEY ARE TAKING STEPS TO DRAW ONE OF THE MOST PAINFUL AND POISONOUS THORNS IN OUR RELATIONSHIP. I AM SURE YOU AND THE PRIME MINISTER WILL WISH TO THANK THEM VERY WARMLY FOR THIS STEP, WHICH WILL REQUIRE A WHOLEHEARTED ADMINISTRATION EFFORT ON THE HILL IF IT IS TO BE BROUGHT TO A SUCCESSFUL CONCLUSION.

ANZUS

11. A CONSIDERABLE FURORE HAS BLOWN UP OVER NEW ZEALAND'S POLICY ON SHIP VISITS. MURPHY'S LAW HAS BEEN WORKING OVERTIME: AND A COMBINATION OF BAD LUCK, BAD TIMING AND BAD MANAGEMENT HAS LED TO A SITUATION IN WHICH BRINGING ABOUT A CHANGE IN NEW ZEALAND'S POLICY IS MADE MUCH MORE DIFFICULT TO ACHIEVE. BUT AS THE U S SEE IT, DOING NOTHING BY WAY OF REACTION COULD HAVE REALLY SERIOUS SIDE-EFFECTS ELSEWHERE IN THE PACIFIC (JAPAN, AUSTRALIA) AND ALSO IN EUROPE (WHERE MR KINNONCK'S COMMENDATION OF NEW ZEALAND POLICY WILL NOT HAVE ESCAPED NOTICE).

12. THE CASE FOR NOT MONKEYING ABOUT WITH THE INTELLIGENCE RELATIONSHIP AS A MEANS OF RETALIATION IS A COMPELLING ONE, AND WE ARE ALREADY PUTTING IT HERE. BUT IF WE ARE TO HAVE ANY INFLUENCE ON U S POLICY AS IT EVOLVES I THINK WE WILL NEED TO DEMONSTRATE THAT OUR OBJECTIVE - LIKE THEIRS - IS TO WORK FOR A CHANGE IN NEW ZEALAND'S POLICY, NOT JUST TO SHIELD THE NEW ZEALANDERS FROM THE CONSEQUENCES OF THEIR PRESENT ONE.

NORTHERN IRELAND

13. THIS WILL BE MORE OF AN ISSUE IN CONTACTS ON THE HILL THAN IN THE TALKS WITH THE ADMINISTRATION. MR HURD'S VISIT IN MARCH WILL BE A VALUABLE OPPORTUNITY TO EXPLAIN THE REALITIES OF THE SITUATION AND THE EFFORTS WE ARE MAKING TO IMPROVE IT. THE INTEREST HERE IS NOT SO MUCH IN THE DETAILED FACTS AS IN THE TONE WITH WHICH WE ADDRESS THEM. SUPPORT FOR DR FITZGERALD, AND THE WISH TO BE REASSURED THAT WE ARE SERIOUSLY COOPERATING WITH HIM, ARE VERY STRONG. I HAVE SUGGESTED A PASSAGE FOR INSERTION IN THE P.M.'S SPEECH TO CONGRESS WHICH I BELIEVE CAN MORE THAN HOLD THE POSITION HERE.

HERE.

14. ADVANCE COPIES TO POWELL (NO 10): PS/S OF S, PS/PUS, GOODALL, FERGUSSON, HRDING, MARSHALL (NAD) FCO: PS/ S OF S, DUS(P), DACU, MOD: HADFIELD, CARTLEDGE (CABINET OFFICE).

F C O PASS SAVING TO BONN AND PARIS.

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FM WASHINGTON 132202Z FEB 85
TO IMMEDIATE F C O
TELEGRAM NUMBER 496 OF 13 FEBRUARY
INFO BIS NEW YORK, CG NEW YORK, DUBLIN, NIO(B)

MY TELNO 488: PRIME MINISTER'S VISIT: NORTHERN IRELAND

1. CONGRESSMAN BIAGGI AND FIVE OTHER MEMBERS OF HIS UNOFFICIAL AD HOC COMMITTEE FOR IRISH AFFAIRS HAVE WRITTEN TO ME TO REQUEST A MEETING WITH THE PRIME MINISTER DURING HER FORTHCOMING VISIT. THEIR PURPOSE WOULD BE QUOTE TO ENTER INTO A DIALOGUE AND AN EXCHANGE OF VIEWS ON NORTHERN IRELAND UNQUOTE. THE PRIME MINISTER'S VISIT IS DESCRIBED AS QUOTE A UNIQUE AND HISTORIC OPPORTUNITY UNQUOTE FOR SUCH AN EXCHANGE.

2. THE AUTHORS OF THIS LETTER ARE THE HARD CORE OF THE BIAGGI GROUP IN CONGRESS. FIVE (INCLUDING SENATOR D'AMATO REPRESENT NEW YORK DISTRICTS, ONE A DISTRICT IN NEW JERSEY.

3. I HAVE NO HESITATION IN RECOMMENDING THAT THE PRIME MINISTER SHOULD NOT SEE BIAGGI AND HIS COLLEAGUES. I WOULD NOT IN ANY CASE RECOMMEND A SEPARATE MEETING SPECIFICALLY ON NORTHERN IRELAND. BUT IF ONE WERE EVER TO BE CONSIDERED, IT SHOULD BE WITH THE CONGRESSIONAL FRIENDS OF IRELAND WHO, UNLIKE BIAGGI, UNAMBIGUOUSLY OPPOSE VIOLENCE.

4. UNLESS I RECEIVE INSTRUCTIONS TO THE CONTRARY BY 151300Z, I PROPOSE TO REPLY TO BIAGGI BY SAYING THAT THE PRIME MINISTER'S BUSY PROGRAMME IN WASHINGTON WILL NOT ALLOW A MEETING WITH HIM OR HIS COLLEAGUES. I SHALL REFER TO HER ADDRESS TO THE JOINT MEETING OF CONGRESS ON 20 FEBRUARY AND TO THE ARRANGEMENTS MADE FOR HER TO MEET MEMBERS OF THE LEADERSHIP OF BOTH HOUSES.

WRIGHT

NORTHERN IRELAND
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RESEARCH D
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PS/LADY YOUNG
PS/MR RENTON
PS/PUS

MR DEREK THOMAS
SIR W HARDING
MR GOODALL
MR BARRINGTON
MR O'NEILL
MR JENKINS
MR D C THOMAS
BUCKINGHAM PALACE

ADDITIONAL DISTRIBUTION
NORTHERN IRELAND

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FM WASHINGTON 140625Z FEB 85

TO IMMEDIATE F C O

TELEGRAM NUMBER 510 OF 13 FEBRUARY

INFO IMMEDIATE MODUK

INFO SAVING UKDEL NATO, UKMIS NEW YORK, BONN, PARIS, UKREP BRUSSELS.

PS/SofS DTI

HADFIELD
CARTLEDGE } CABINET OFFICE

(XY)

PRIME MINISTER'S VISIT.

1. THE PRIME MINISTER WILL FIND THE PRESIDENT ON THE CREST OF A WAVE OF PERSONAL POPULARITY AND PUBLIC SUPPORT. HIS PERSONAL RATINGS ARE AS HIGH AS IN THE AFTERMATH OF THE ASSASSINATION ATTEMPT: AND THE WAVE SHOWS NO SIGN OF BREAKING.

2. REAGAN RIDES IT WITHOUT AN APPARENT CARE IN THE WORLD. CONCERN ABOUT THE TWIN DEFICITS IS MOUNTING, AND WITH IT THE PROTECTIONIST PRESSURES WHICH HE STOUTLY OPPOSES, BUT REAGAN IS NOT BLAMED FOR THEM. HIS DEFICIT REDUCTION PACKAGE IS FLAWED, PERHAPS FATALLY, BY WEINBERGER'S OVER-BID ON DEFENCE (5.9 PERCENT REAL TERMS INCREASE) WHICH INCENSES THE DEFENDERS OF THE DOMESTIC PROGRAMMES ON WHICH CUTS ARE SOUGHT - BUT REAGAN IS NOT BLAMED. BAKER SEEMS FOR THE PRESENT AS OPPOSED TO A TAX INCREASE AS WAS HIS PREDECESSOR. THE GENERAL ADMINISTRATION COMPLACENCY ABOUT THE ECONOMY NEEDS TO BE TAKEN INTO ACCOUNT IN DECIDING HOW TO MAKE THE POINTS SET OUT IN MY TELEGRAM NO 414. M I F T - NOT TO ALL- GIVES THE WIDER ECONOMIC CONTEXT.

3. THE PRESIDENT'S SUPPORT IS PERSONAL TO HIM: IT DOES NOT OF COURSE EXTEND TO ALL HIS POLICIES. WHILE THE DEMOCRAT PARTY IN THE COUNTRY HAS FALLEN INTO DISARRAY, IT REMAINS FIRMLY ENTRENCHED IN CONGRESS: AND THERE WILL BE TROUBLE THERE TOO WITH RECALCITRANT REPUBLICANS: PARTICULARLY THOSE JOCKEYING FOR THE SUCCESSION OR UP FOR RE-ELECTION IN 1986. SO THE PRESIDENT FACES TOUGH BATTLES ON THE HILL - ON THE BUDGET, AND PARTICULARLY DEFENCE (THOUGH NOT SDI RESEARCH, WHICH IS POLITICALLY POPULAR), ON TAX REFORM, FINANCE FOR THE CONTRAS, ETC ETC.

4. SHULTZ TOO IS ON THE CREST OF A WAVE, THOUGH A DIFFERENT ONE. HE HAS EMERGED FROM THE CHANGES OF PERSONNEL AS THE UNDISPUTED MASTER OF THE BUREAUCRACY ON FOREIGN POLICY ISSUES. THE DEPARTURE OF MRS KIRKPATRICK TO ACADEME, AND HER REPLACEMENT BY WALTERS, SYMBOLISE SHULTZ'S SUCCESS IN PUTTING HIS OWN STAMP ON THE HANDLING OF FOREIGN AFFAIRS, DOWN-GRADING IDEOLOGY AND UP-GRADING PRAGMATIC PROFESSIONALISM. THE SUCCESS OF THE GENEVA MEETING WITH GROMYKO DEMONSTRATED HIS PERSONAL SKILL AND STRENGTHENED HIS REPUTATION. WEINBERGER, WHO THE MEDIA SEE AS HIS RIVAL, HAS TAKEN UP A SEVERELY EXPOSED POSITION ON THE DEFENCE BUDGET, AND IS LIKELY TO BE BOGGED DOWN ON THE HILL FOR SEVERAL MONTHS TO COME.

5. ACROSS THE BOARD, THERE IS LITTLE NEW IN THE POLICIES OF REAGAN II. THE DRIVE TO REDUCE THE SCALE OF GOVERNMENT, GETTING IT OFF THE BACKS OF THE PEOPLE, WILL CONTINUE: AND THE PRESIDENT STILL CONTRIVES TO BE SEEN AS THE OPPONENT, RATHER THAN THE HEAD, OF THE BUREAUCRACY. THE DRIVE TO REINSTATE ''TRADITIONAL'' VALUES - IN EDUCATION, ON SOCIAL ISSUES, AND ON THE FRONTIER BETWEEN CHURCH AND STATE, WILL GO ON, BUT IS TAKING NO STRIKINGLY NEW DIRECTIONS. THE DETERMINATION TO MAKE AND KEEP AMERICA STRONG ABROAD IS UNDIMINISHED. THE REAL CHANGE HERE, CF 1980/81, IS IN THE TERMS OF THE NATIONAL DEBATE. POSITONS WHICH, WHEN FIRST ADVANCED BY THE PRESIDENT, WERE DESCRIBED AS EXTREME, HAVE NOW WON WIDE ACCEPTANCE.

6. THE PRESIDENT CERTAINLY IS NOW IN NO HURRY. THE ADMINISTRATION PROCLAIMS THE VIRTUES OF LEADERSHIP, BOTH DOMESTICALLY AND ABROAD: BUT LEADERSHIP IS SEEN IN TERMS OF WAITING UPON EVENTS, AND THEN MASTERING THEM. THE VISION IS STILL THE 1980 VISION: THE POLICIES - GENEVA AND SDI APART - UNCHANGED. HENCE THE RELUCTANCE TO GRASP THE NETTLE OF THE DEFICIT.

7. MY SECOND IFT CONTAINS SOME SUGGESTIONS ON THE HANDLING OF FOREIGN POLICY ISSUES DURING THE PRIME MINISTER'S VISIT.

8. ADVANCE COPIES TO POWELL (NO 10): PS/S OF S, PS/PUS, MARSHALL (NAD) FCO: PS/S OF S, DUS(P), MOD: PS/CHANCELLOR, LAVELLE (H M TREASURY): PS/S OF S DTI: HADFIELD, CARTLEDGE (CABINET OFFICE).

FCO PASS SAVING TO UKDEL NATO, BONN, PARIS, UKREP BRUSSELS.

WRIGHT

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FERB
I am still pursuing contribution of
oil and gas to US GNP AT 13/2

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

Secretary of State for Trade and Industry

12 February 1985

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andrew,

US DIRECT INVESTMENT

As requested in your telephone conversation with Maureen Dodsworth earlier today, I now enclose a note which, in its first paragraph, shows that the US is, by a very substantial margin, the largest direct ivestor into the UK. For completeness, you may be interested in the statistics in paragraph 2, which show that the UK is the largest inward investing country into the US.

Yours Sincerely,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

JH3BJI

999-1

OVERSEAS DIRECT INVESTMENT IN THE UK

1 The most recent information on the level of direct investment in the UK, by country of investor, is for end-1981. This is as follows:-

INWARD DIRECT INVESTMENT IN THE UK AT END 1981 - BOOK VALUE OF NET ASSETS

	Total - all industries	All industries except oil, banking and insurance
	£ million	
World	28,703	16,962
of which:		
US	16,396	9,559
(Switzerland - next largest	1,394	1,225)

Source: Census of Overseas Assets 1981

2 According to US statistics, published in the US Survey of Current Business, the UK is the largest inward investing country in the US.

FOREIGN DIRECT INVESTMENT POSITION IN THE US - 1983

	US $ million
All countries	135 313
of which	
UK	32 512
(Netherlands - next largest	28 817)

Source: US Survey of Current Business. October 1984.

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1. CP
2. Prime Minister (4)

AT
13/2

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

12 February 1985

Andrew Turnbull Esq
10 Downing Street
LONDON
SW1

Dear Andrew

Ahead of her visit to the US the Prime Minister might care to see the records of interesting conversations which the Ambassador had recently with Gerald Corrigan, the new President of the New York Federal Reserve, and with Felix Rohatyn, Lazard Freres.

Yours ever
Rachel.

MRS R LOMAX
Principal Private Secretary

CALL ON MR E GERALD CORRIGAN, PRESIDENT, FEDERAL RESERVE BANK OF NEW YORK: JANUARY 23, 1985

Present: Mr Corrigan — HM Ambassador

Mr Sam Y Cross, Executive Vice President, Foreign & International — HM Consul-General

HM Ambassador asked why the currency markets were taking so unfavourable a view of sterling when British exports to the United States had been rising and the British economy was fundamentally stronger than for many years. Did we need a new economic theory to explain these contradictions ?

Mr Cross did not believe that sterling had been falling so much as the dollar rising but the market had exaggerated the consequences for sterling when the price of oil was rising and was again exaggerating the consequences now that the price of oil was falling. Sterling had had another bad day following reports that Sheikh Yamani was considering a further reduction in the price of oil of $2.50.

Mr Corrigan found the current euphoria over the performance of the US economy worrying. A 4% increase in real growth of GNP was certainly very good news but the serious problem of the huge budgetary and trade account deficits remained. Trends in currency markets tended to feed on themselves. In 1978 every item of news had been interpreted by money men as a reason to sell dollars. Now all assumed that the dollar could only rise. There had been enormous capital outflows from Japan: perhaps $45 billion of which 85% would have come to the US. Investment opportunities were fewer in Japan and US bonds yielded about 5% more than the Japanese equivalent.

Mr Corrigan was not ready to concede that former Treasury Secretary Regan had been proved right and that - except in the short-run - interest rates could decline in spite of growing deficits. Two things of profound importance had influenced the decline which had been seen in interest rates since the end of 1983. There had occurred a very significant step-down in inflationary expectations and business demand for credit had abated. With a more stable money supply the Fed had had more room for manoeuvre. Falling interest rates had not sapped the strength of the dollar because the spread between US and foreign rates especially in the longer end of the bond market still favoured the dollar and the US economy still looked good to foreign eyes.

/But

But the argument that the deficit had serious negative implications for the economy remained valid. It might turn out that the US had been granted only a breathing space. If the economy were to grow at faster than a 3% - 4% rate for any length of time pressures could build up rapidly which the credit markets would be unable to accommodate. Cash flow in US corporations had been ebbing for some months. The rate of increase in profits had begun to slow down in the second half of 1984. Decelerating productivity gains were also curtailing internal cash flow. The point had not been reached where cash flow was less than investment in absolute terms but the gap had been narrowed. The lines would probably cross in the next year. A growth rate in the 7-8% region in real terms would involve significant external financing.

Mr Corrigan agreed with HMA that the atmosphere in Washington had improved. There was a better understanding between Senate Republicans and Mr Volcker. It was conceivable that either by accident or design the President could accept a deficit-cutting budget without measurable damage to Presidential leadership. He agreed also that it was important that the Administration should continue to resist protectionist pressures. The US public were beginning to adopt a different attitude towards foreign competition. They were beginning to see that even in the automobile industry the presence of Toyota and Datsun was not all bad. The situation became tricky when growth edged higher than 4%. The risks to interest rates then became keener. At that point the hope would be that some of the overseas economies would begin to spark more strongly.

HMA thought that both the UK and German economies were looking forward to reasonable growth. In the UK the great problem was unemployment but the trend was in the right direction.

overall economic

Mr Cross pointed out that much of the remarkable growth in US employment had come from small businesses, many of them in the high tech sector. Only in Italy did anything comparable seem to be happening in Europe.

Mr Corrigan could not go so far as to say that 1985 would be better than 1984. There was unlikely to be so much growth in the world economy. Growth in the US and in Japan was likely to be slower. But they could all agree that the Western world had come a long way since 1982.

pp F Kennedy

January 23, 1985

CALL ON MR FELIX G ROHATYN, SENIOR PARTNER, LAZARD FRERES AND COMPANY: JANUARY 23, 1985

Present: Mr Rohatyn
HM Ambassador
HM Consul-General

Mr Rohatyn said that when he looked at the euphoria sweeping US markets he sometimes felt that he was living in a Kafka novel. He did not profess to be able to explain all that had been happening in the US economy but feared that the laws of economic gravity would not indefinitely be defied. . Markets were dominated by huge flows of capital that were hardly controllable by central banks. A whole range of new financial instruments had been developed. The psychological factor was immensely important. There was great confidence around the world in US politics and in the US economy. The US had been remarkably successful in reducing the cost of doing business and had witnessed an extended burst of technological innovation. Both Japan and the US were inventing a lot and investing a lot and if the trend continued for 2 or 3 years more the European economies would find it very difficult to close the gap. Labour markets were much less flexible in Europe. As adviser to a number of French companies and friend of President Mitterand, Mr Rohatyn was more familiar with conditions in France than in Britain. It was vastly easier to bring Chrysler back to profitability than Renault. At Chrysler the break-even point had been lowered by up to 50% in 3 years. To attempt anything similar in France would provoke something akin to revolution.

HMA gave an account of the favourable developments that had been taking place in the UK economy. There had been a satisfactory rise in investments. Habits of thought which had developed over decades could not be reversed in months but things were moving in the right direction.

Mr Rohatyn remarked that many of the people creating new small businesses in the US were women. But he could not rid himself of the fear that the US economy was approaching catastrophe at great velocity as it borrowed the savings of the world and skewed the world's economy. It was possible to construct scenarios for a soft landing but alternative scenarios were also possible.

If US interest rates started to rise again what would happen to the European economies, to Brazil and to the LDCs? The decline in US rates had been possible only because of the huge inflows of foreign capital. The current euphoria made it unlikely that the deficit would be tackled in any serious way. Even the stock market was

/now

now overcoming its scepticism. Mr Dole was backing away from a freeze in defence expenditure. Nothing would be done about farm support. Half the banks in the Mid-West would go broke. The credit situation was as bad in the Mid-West as it was in the South-West. The decline in interest rates would certainly help the budget but even Ronald Reagan had not eliminated the business cycle. Perhaps the best solution would be for Paul Volcker and Tip O'Neill to get together in the seclusion of Camp David and work out a deal for a budgetary freeze and a $5 billion gasoline tax. The US could cooperate with foreign countries on exchange rates and outstanding international loans. A soft landing of this type might set the world on the path of sustainable economic growth for 10 years or more but it was unlikely to happen. There was a great need to enable the LDCs to expand and to absorb European goods. It was possible that President Reagan would be able to blame Congress for a budget that reduced the deficit but a reduction of $20 - $30 billion would not be enough. What we were facing was the possibility of deficits in the $250 - $300 billion range. What would happen then if the dollar was falling, interest rates rising and the LDCs defaulting on their debts? What would happen then would be inflation and the printing of money and the prospect was scary. This might not happen next year or at all but it was a danger. Money flows were now very rapid.

HMA pointed out flows had formerly been determined by trade but 85% of the movement was now in speculative flows.

Mr Rohatyn agreed. Lazard's could buy yen forward with no deposit. It was quite easy to buy, say, $10 million of yen for 6 months delivery on a margin of 5%. A great deal of hedging was taking place. Every corporation finance manager in the country would be ready to move the moment he thought the dollar was turning down. If oil prices fell further a lot of US banks would be in difficulty; not only those with loans outstanding to Mexico but those carrying large energy-related loans. He agreed that the market exaggerates sterling's dependence on the oil price but dealers would not go against the market. The forces were too great. Even the Central Banks could not do so. The Fed and the Bank of England acting together could not move the price of sterling against the market trend. There was great volatility and a high level of risk in the present situation. The banks had been guaranteed but the debts outstanding to them had not been paid. If the LDCs eventually defaulted on half of the $ trillion outstanding that would be the amount which would have to be printed. Some of the arguments about cause and effect in the present extraordinary economic circumstances bordered

/on

on the insane: e.g. that the US deficit was actually causing low inflation by stimulating growth. If the dollar is the world's reserve currency then the bigger the deficit the bigger the economic growth of the world, so the argument would run in a theory beyond the dream even of John Maynard Keynes. Felix G Rohatyn was going to remain very liquid.

Anthony

pp

F Kennedy

January 23, 1985

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FM WASHINGTON 130357Z FEB 85 CONFIDENTIAL

TO IMMEDIATE F C O

TELEGRAM NUMBER 488 OF 12 FEBRUARY

INFO N I O BELFAST, B I S NEW YORK, C G NEW YORK, DUBLIN,

INFO SAVING ALL OTHER C G'S IN THE U S A.

PRIME MINISTER'S VISIT: NORTHERN IRELAND

SUMMARY

1. CONSIDERABLE CONGRESSIONAL INTEREST IN WHAT THE PRIME MINISTER WILL SAY ON NORTHERN IRELAND. THE EXTREMIST MINORITY ARE BEHAVING PREDICTABLY - BIAGGI'S INVITATION TO GERRY ADAMS, AND A DEMONSTRATION ON 20 FEBRUARY.

DETAIL

2. SPEAKER O'NEILL'S HOPE (MY TELNO 119) THAT THE PRIME MINISTER WOULD REFER TO NORTHERN IRELAND IN HER SPEECH TO THE JOINT MEETING OF CONGRESS IS SHARED BY MANY ON THE HILL, PARTICULARLY OF COURSE THOSE WITH AN IRISH-AMERICAN BACKGROUND. THE MODERATES IN THE CONGRESSIONAL FRIENDS OF IRELAND HOPE THAT THE PRIME MINISTER WILL FIND AN OPPORTUNITY IN HER SPEECH TO CORRECT THE PRESS REPORTS, AFTER THE LAST ANGLO-IRISH SUMMIT, OF A STAND-OFF BETWEEN LONDON AND DUBLIN, WHICH THEY BELIEVED WEAKENED THEIR OWN STANDING WITHIN THE IRISH-AMERICAN COMMUNITY. THEY WERE HEARTENED BY THE ACCOUNT THEY RECEIVED FROM THE WHITE HOUSE OF WHAT THE PRIME MINISTER SAID TO THE PRESIDENT AT CAMP DAVID, AND HOPE THAT WHAT SHE SAYS ON THE HILL ON 20 FEBRUARY WILL PROVIDE THEM WITH AMMUNITION FURTHER TO FRUSTRATE THE ACTIVITIES OF IRISH-AMERICAN REPUBLICANISM.

3. THE FRIENDS OF IRELAND DO NOT INTEND TO WRITE TO THE PRESIDENT (AS THEY DID IN DECEMBER) OR TO THE PRIME MINISTER, BEFORE NEXT WEEK'S VISIT. THEIR PRESENT INTENTION IS THAT THE SPEAKER SHOULD RAISE NORTHERN IRELAND AT THE MEETING HE WILL CHAIR ON THE AFTERNOON OF 20 FEBRUARY. (THIS MEETING WILL ALSO BE ATTENDED BY THE HOUSE MINORITY LEADER, CONGRESSMAN MICHEL, AND THE HOUSE MAJORITY WHIP, CONGRESSMAN FOLEY, BOTH - LIKE O'NEILL - LEADING MEMBERS OF THE FRIENDS OF IRELAND).

4. NEWS OF THE VISIT HAS STIMULATED ACTIVITY BY THE BIAGGI GROUP IN CONGRESS AND THE EXTREMIST ELEMENT IN THE WIDER IRISH-AMERICAN COMMUNITY. BIAGGI IS CIRCULATING TO CONGRESSIONAL COLLEAGUES A DRAFT LETTER TO THE PRIME MINISTER (TEXT ALREADY SENT BY BAG) URGING HER TO ADDRESS VARIOUS ASPECTS OF BRITISH POLICY TOWARDS NORTHERN IRELAND IN HER SPEECH ON 20 FEBRUARY. THE LETTER IS NOT DRAFTED IN SUCH STUDIOUSLY TEMPERATE TERMS AS THE ONE SENT BY BIAGGI TO THE PRESIDENT IN ADVANCE OF CAMP DAVID, BUT HE MAY GET NEAR TO THE 60 CO-SIGNATURES ACHIEVED THEN.

5. BIAGGI AND 9 OF THE INNER CORE OF HIS GROUP IN CONGRESS HAVE ALSO INVITED GERRY ADAMS TO SPEAK TO THEM ON 20 FEBRUARY (YOUR TELNO 244). THIS IS A PREDICATABLE PUBLICITY-SEEKING PLOY. THE U.S. CONSULATE GENERAL IN BELFAST RECEIVED A VISA APPLICATION BY ADAMS ON 11 FEBRUARY. THE STATE DEPARTMENT ARE TAKING THE LINE

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IN PUBLIC THAT THEY WILL TREAT IT ON ITS MERITS. BUT THEY HAVE ASSURED US PRIVATELY THAT THEY INTEND TO REFUSE IT. THEIR DECISION IS LIKELY TO BE MADE IN 4-5 DAYS TIME. IN RESPONSE TO PRESS INQUIRIES WE HAVE BEEN PLAYING DOWN THE BIAGGI INVITATION, AND HAVE POINTED TO THE SMALL NUMBER OF CONGRESSMEN WHO JOINED HIM IN ISSUING IT, AND TO THE FACT THAT ADAMS HAS NEVER PREVIOUSLY RECEIVED A U.S. VISA. ON THE RECORD OUR LINE SHOULD OF COURSE BE THAT ADAMS' VISA APPLICATION IS A MATTER FOR THE U.S. AUTHORITIES.

6. THERE WAS A SMALL DEMONSTRATION BY IRISH-AMERICANS OUTSIDE THE EMBASSY AT THE TIME OF THE PRIME MINISTER'S VISIT IN DECEMBER. ON THIS OCCASION THE MAIN FOCUS WILL BE ON THE CAPITOL ON 20 FEBRUARY. A NUMBER OF GROUPS, INCLDUING THE IRISH NATIONAL CAUCUS, N.O.R.A.I.D. , AND THE ANCIENT ORDER OF HIBERNIANS, WILL BE SENDING MEMBERS AND OFFICE-HOLDERS TO WASHINGTON. THE CAPITOL POLICE WILL KEEP THE DEMONSTRATORS WELL AWAY FROM THE CAPITOL BUILDING ITSELF. AT PRESENT WE HAVE NO INDICATION OF NUMBERS.

7. IT IS ALSO POSSIBLE THAT THERE WILL BE A DEMONSTRATION AT THE EMBASSY ON 20 FEBRUARY. WE RECEIVED WARNING OF ONE SOME WEEKS AGO, BUT WE BELIEVE THAT THE ORGANISERS WILL NOW DIVERT THEIR ENERGIES TO CAPITOL HILL.

8. WE HAVE NOT SO FAR RECEIVED ANY PRESS ENQUIRIES ABOUT POSSIBLE DEMONSTRATIONS. IF WE DO, WE SHALL ACKNOWLEDGE THAT WE ARE AWARE OF THE POSSIBILITY FOLLOWING ARTICLES IN THE IRISH-AMERICAN PRESS. IF NECESSARY, WE SHALL OF COURSE SAY THAT THE POLICE WILL NO DOUBT HANDLE ANY DEMONSTRATION IN THE NORMAL WAY.

WRIGHT

NORTHERN IRELAND
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RESEARCH D
PS
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PS/MR RENTON
PS/PUS

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SIR W HARDING
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MR BARRINGTON
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NORTHERN IRELAND

Mr Powell

PRESS RELEASE

Issued by the British Embassy Information Department,
3100 Massachusetts Avenue, N.W., Washington, D.C., 20008
Telephone: (202) 462-1340

8 February 1985

MRS THATCHER TO RECEIVE CHRISTIAN A HERTER AWARD

The British Prime Minister, Mrs Margaret Thatcher, will be presented with the Christian A Herter Memorial Award by the Boston World Affairs Council at 6.00 p.m. on Wednesday 20 February at a ceremony in the British Embassy, Washington DC.

The plaque will be presented by Charles F Adams, President of the Boston World Affairs Council, and will be inscribed as follows:-

"The Christian A Herter Award for contributing to world understanding presented to the Right Honourable Margaret Thatcher, FRS, MP, Prime Minister of the United Kingdom of Great Britain and Northern Ireland. The World Affairs Council of Boston, February 1985".

The Award

The Christian A Herter Award is named after President's Eisenhower's Secretary of State, the 60th Governor of Massachusetts. The Award, established in 1974, is presented annually by the Boston World Affairs Council to distinguished leaders who have made significant contributions to better international understanding. Past recipients include Elliot Richardson, Senator Edward Kennedy, Henry Kissinger, Robert McNamara, President Carter, Averell Harriman, David Rockefeller,

.../...

Henry Cabot Lodge, Sol Linowitz (Middle East negotiator under President Carter) and, last year, George Shultz. A special award was presented in 1981 to President Sadat.

Christian Herter

Christian Archibald Herter (1895-1966) was born in Paris of American parents. Graduated from Harvard in 1915, he began his career in the State Department in 1916 and ended it as Secretary of State from 1959-1961 (succeeding John Foster Dulles). He also served as a visiting lecturer at Harvard; as a member and speaker of the Massachusetts House of Representatives; in the US Congress from 1943-53; and from 1953 to 1957 as Governor of Massachusetts.

In its obituary notice the "Washington Post" wrote as follows: "What American policy in the post-war years might have been without Christian Herter ... no man can say. But it can be said that few men in public life did more to put an end to the sterile isolationism of the years betwen the wars. Few worked harder or more effectively to persuade the people of the United States to endorse and approve the active employment of American power to shaping world events ... There might have been a Marshall plan without him, but without him that plan might never have had the strong bipartisan support that made it a national instead of an Administration purpose. There might have been a Test Ban Treaty without him, but he gave the striving for such a treaty its initial impulse and its earliest attention, and the foundations he laid resulted in the final achievement".

Mr Powell
See Y. Trouble ahead

DIGEST OF MORNING NEWSPAPERS FRIDAY 8 FEBRUARY 1985

IRISH TIMES:
HUME TALKS:
IF JOHN HUME KNOWINGLY MET MEMBERS OF THE PROVISIONAL IRA, HE COULD BE SUBJECT TO A LAW REQUIRING PEOPLE TO GIVE POLICE ANY INFORMATION WHICH THEY HAVE ABOUT OTHER PERSONS COMMITTING AN OFFENCE, IT WAS STATED BY UNIONIST AND CONSERVATIVE MPS IN THE HOUSE OF COMMONS YESTERDAY.

DURING QUESTION TIME IN THE HOUSE OF COMMONS MR K HARVEY PROCTOR ASKED MR HURD IF HE WOULD GUARANTEE THAT THE PROVISIONS OF THE PREVENTION OF TERRORISM ACT WOULD APPLY TO ANY MEETING WITH THE IRA. 'THESE ARE TREASONOUS TALKS,' HE SAID. MR HURD SAID IT WAS NOT FOR HIM BUT FOR THE POLICE AUTHORITIES TO DECIDE OR DIRECT HOW THE LAW IN NI COULD BE UPHELD. HE ADDED HOWEVER, IF MEMBERS OF THE IRA ARMY COUNCIL WERE TO MEET IN NI THEY WOULD BE COMMITTING THE CRIMINAL OFFENCE OF MEMBERSHIP OF AN ILLEGAL ORGANISATION.

MR HURD SAID THAT MR HUME'S COURAGE IN DENOUNCING VIOLENCE WAS UNMATCHED IN THE HOUSE. THE PRINCIPLE REASON THAT MR HURD HOPED THE MEETING WOULD NOT TAKE PLACE WAS THAT HE BELIEVED THE SITUATION HAD BEEN REACHED WHERE DISCUSSIONS BETWEEN THE CONSTITUTIONAL PARTY LEADERS IN THE NORTH MIGHT PROVE FRUITFUL.

AN EDITORIAL IN 'AN PHOBLACHT' SAID THAT 'A MAJOR OPPORTUNITY FOR A POINT BY POINT REPUDIATION OF THE CLAIM THAT CONSTITUTIONAL METHODS WILL WORK IN REMOVING THE BRITISH PRESENCE' HAD BEEN PRESENTED TO THE PROVISIONAL IRA LEADERSHIP BY MR JOHN HUME'S C ALLENGE TO MEET THEM FOR TALKS. THE EDITORIA
CLAIMED THAT A MAJOR GAIN HAD ALREADY BEEN ACHIEVED BY MR HUME'S AGREEMENT TO MEET THE IRA/'THE BREAK UP OF THE SHAM UNITY WHICH THE PARTIES TO THE DUBLIN FORUM BOASTED ABOUT.' IT WENT ON TO WARN THAT THE IRA 'BEING IN CONTROL OF THE SITUATION' WOULD 'NOT LET HUME OFF THE HOOK WHICH HE HAS UNWITTINGLY FASHIONED FOR HIMSELF.' IT CLAIMED THAT AFTER THE TALKS THE SDLP LEADER WOULD BE 'LEFT IN NO DOUBT THAT SINN FEIN IS AN INDEPENDENT ORGANISTION WHICH MAKES ITS OWN POLITICAL DECISIONS AND THAT HE SDLP IF THEY WANT AGREEMENT ON POLITICAL MATTERS RELEVANT TO THE UNIONIST COMMUNITY, WILL HAVE TO TALK TO THEM'.

GERRY ADAMS:
9 MEMBERS OF CONGRESS HAVE INVITED GERRY ADAMS TO WASHINGTON ON 20 FEBRUARY, THE DAY ON WHICH MRS THATCHER IS TO ADDRESS A JOINT MEETING OF THE HOUSE AND SENATE. CONGRESSMAN MARIO BIAGGI SAID THAT MR ADAMS REPRESENTED 'A PERSPECTIVE SHARED BY MANY' NATIONALISTS IN THE NORTH OF IRELAND AND AT THE 9 SIGNATORIES TO THE INVITATION WANTED HIM TO INFORM INTERESTED MEMBERS OF CONGRESS ON THE SITUATION IN NI.

NEWS LETTER:
LEAD STORY IS ALSO ON THE EDITORIAL IN THE REPUBLICAN NEWSPAPER. IT SAYS THAT SDLP LEADER JOHN HUME WAS LAST NIGHT LEFT RED-FACED OVER HIS IRA TALKS INITIATIVE WHEN THE PROVISIONAL BOSSES SAID 'WE CALL THE SHOTS'.

EDITORIAL SAYS THAT THE SECRETARY OF STATE DROPPED A CLANGER WHEN HE TALKED ABOUT THE DESIRABILITY OF REDUCING PUBLIC EXPENDITURE IN NI. FOR MR HURD TO GIVE THE IMPRESSION HAT THERE WILL BE A VIABLE
A
ERNATIVE O A HIGH LEVEL OF STATE SPENDING IN NI IN THE FORESEEABLE FUTURE IS DANGEROUS, SIMPLISTIC NONSENSE.

UDR:
FOREIGN MINISTER, PETER BARRY, WAS ALLEGED BY DUP CHIEF WHIP JIM ALLISTER, TO BE 'WORKING HAND IN GLOVE WITH THE IRA' TO DESTROY THE UDR. THE ACCUSATION CAME AFTER MR BARRY'S PROTEST OF THE GOVERNMENT OVER THE DETENTION OF A CO SLIGO MAN FOR 6 HOURS BY NI SECURITY FORCES.

IRISH NEWS:
JOYRIDER:
LEAD STORY IS ON THE SHOOTING OF A 20 YEAR-OLD JOYRIDER BY THE RUC IN THE SPRINGFIELD ROAD AREA LAST NIGHT. LOCAL PEOPLE CLAIM HE WAS SHO IN THE CHEST BY A POLICEMAN AFTER THE STOLEN CAR HAD BEEN BROUGHT TO A HALT NEAR THE JUNCTION OF SPRINGFIELD AVENUE AND FORT STREET. THIS MORNING'S RADIO REPORTS HAVE SINCE INDICATED THAT THE JOYRIDER DIED IN HOSPITAL.

SINN FEIN COUNCI
LOR SEAN MCKNIGHT SAID THAT THE SHOOTING WAS IN LINE WITH THE RUC AND UDR POLICY OF TAKING NO PRISONERS IN NATIONALIST AREAS. 'THERE WAS ABSOLUELY NO NEED FOR SUCH FORCE TO BE USED IN THE CASE OF A STOLEN CAR. IT WOULD BE POINTLESS TO CALL FOR A PUBLIC INQUIRY INTO THE INCIDENT SINCE IT WOULD BE JUST A MATTER OF THE POLICE INVESTIGATING THEMSELVES'.

HUME:
MR HUME CAME UNDER CONSIDERABLE ATTACK FROM CONSERVATIVE AND UNIONIST MPS IN THE HOUSE OF COMMONS YESTERDAY. BUT RETORTED BY ACCUSING THE UNIONISTS OF BEING DISHONEST AND HYPOCRITICAL. 'THEY THEMSELVES HAVE ONLY SAT DOWN NOT TO CONFRONT VIOLENT ORGANISTIONS BUT TO COLLABORATE WITH THEM IN THE OBJECTIVE OF BRINGING DOWN THE POWER-SHARING EXECUTIVE. THEY WERE MEMBERS OF THE SAME COUNCIL AS SUCH MURDEROUS ORGANISATIONS WHICH MURDERED MORE THAN 500 INNOCENT PEOPLE IN NI AND THEY DID SO NO TO STOP VIOLENCE BUT IN FACT TO COLLABORATE WITH THEM. IT IS HYPOCRISY TO CRITICISE ME FOR CONFRONTING A VIOLENT ORGANISATION IN ORDER TO GET THEM TO STOP'.

AT LEAST 6 YOUNG MEN FROM THE SOUTH ARMAGH AND NEWRY AREAS WHO HAVE SUCCESSFULLY APPLIED FOR LABOURING JOBS IN THE DOE ROAD SERVICE RECENTLY, HAVE HAD THEIR APPLICATIONS BLOCKED BY THE RUC. A LOCAL COUNCILLOR IS CALLING FOR A PUBLIC INQUIRY INTO WHAT HE CALLS 'THE DISGRACEFUL INTERFERENCE OF THE RUC INTO APPOINTMENTS TO THE PUBLIC SERVICE.'

+++ENDS+++

74272 STOCAS G
918889 NIOLON G

EB

US visit: Briefing

CR. I have prepared these names on the CAPS off. CR. 11/2

I am not sure who we have invited for the US briefing meeting. I think we need:

(a) For. Sec. plus one (probably Mr. Thomas, Political Director)

(b) Chancellor plus one.

(c) Mr. Tebbit or Mr. Channon plus one.

(d) Defence Secretary plus one.

(e) one from MAFF: either Minister or senior official.

CDP.

GRS 1500

CONFIDENTIAL

CONFIDENTIAL

FROM WASHINGTON 070446Z FEB 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 414 OF 6 FEBRUARY

INFO SAVING C.G. NEW YORK

PRIME MINISTER'S VISIT TO WASHINGTON: ECONOMIC BRIEFING

1. THE ARRANGEMENTS FOR THE PRIME MINISTER'S ROUND TABLE BREAKFAST MEETING ON 21 FEBRUARY ON ECONOMIC/TRADE ISSUES ARE IN HAND. ECONOMIC ISSUES WILL ALSO BE AMONG THOSE TO BE COVERED AT THE MEETINGS WITH SENATOR DOLE AND OTHER SENIOR SENATORS, AND IN THE HOUSE, ON 20 FEBRUARY. AND THE PRIME MINISTER WILL OF COURSE HAVE SEPARATE MEETINGS WITH SECRETARY BAKER, CHAIRMAN VOLCKER AND MRS DOLE. YOU MIGHT WELCOME SOME ADVICE ON THE HANDLING OF THESE MEETINGS.

2. I SUGGEST THAT THE OVERALL THEME MIGHT BE THE IMPACT OF THE US ECONOMY ON THE INTERNATIONAL ECONOMY: AND THAT THE PRIME MINISTER MIGHT AIM TO COVER US GROWTH, INTEREST AND EXCHANGE RATES: THE US BUDGET AND TRADE DEFICITS, AND US TRADE POLICY: THE PROSPECTS FOR TAX REFORM: AND THE HANDLING OF INTERNATIONAL DEBT PROBLEMS. I HOPE THAT SHE WILL ALSO TAKE THE OPPORTUNITY TO PRESS OUR VIEWS ON EXTRATERRITORIALITY AND UNITARY TAX.

US BUDGET DEFICIT, TAX REFORM AND INTEREST RATES

3. THE PRIME MINISTER WILL NO DOUBT WISH TO DISCUSS THE PROSPECTS FOR REDUCTIONS IN THE BUDGET DEFICIT, SINCE THESE CLEARLY ARE IMPORTANT FOR THE FUTURE COURSE OF US INTEREST RATES. SHE MAY WISH TO MAKE HER OWN ASSESSMENT OF THE ADMINISTRATION'S CHANCES (POOR IN MY VIEW) OF GETTING ALL THE DOLLARS 50BN IN REDUCTIONS PROJECTED IN THE PRESIDENT'S FY86 BUDGET (REGAN'S ESTIMATE, GIVEN TO THE CHANCELLOR ON 18 JANUARY, WAS ABOUT DOLLARS 40BN), AND OF THE LIKELIHOOD THAT ANY ALTERNATIVE PROPOSALS PUT TOGETHER IN CONGRESS MIGHT RUN BETTER. DEFENCE IS THE KEY.

4. ON TAX REFORM THE REGAN PROPOSALS ARE, IN THE CORPORATE FIELD, VERY SIMILAR TO PROVISIONS IN THE 1984 UK FINANCE ACT. THE PRESIDENT'S POSITION IS STILL RESERVED: HE HAS STRESSED THE NEED FOR BIPARTISAN SUPPORT FOR REFORM. THE PRIME MINISTER MAY WISH TO EXPLORE THE PROSPECTS BOTH ON THE HILL AND WITH SECRETARY BAKER: SHE MAY ALSO WISH TO DISCUSS THE ESTIMATES THAT VARIOUS MEMBERS OF THE ADMINISTRATION (AND PAUL VOLCKER) HAVE MADE ABOUT ITS LIKELY EFFECT ON US INTEREST RATES.

CONFIDENTIAL

/INTERNATIONAL

INTERNATIONAL DEBT

5. IT WOULD BE REASONABLE TO POINT OUT THAT THE CONTINUED SUCCESSFUL HANDLING OF INTERNATIONAL DEBT PROBLEMS ON A ''CASE-BY-CASE'' BASIS PROBABLY REQUIRES NOT ONLY SUSTAINED SOUND ECONOMIC POLICIES BY DEBTOR COUNTRIES BUT ALSO CONTINUED UNITED STATES GROWTH, REASONABLE LEVELS OF US INTEREST RATES, AND THE MAINTENANCE OF AN OPEN TRADING SYSTEM. SECRETARY SHULTZ'S VIEWS ON THIS WOULD BE WORTH HEARING. THE PRIME MINISTER MIGHT ALSO ASK ABOUT ACTION BY DEVELOPED COUNTRIES TO ENCOURAGE DEVELOPING COURTRIES TO MAKE GREATER USE OF PRIVATE DIRECT AND EQUITY INVESTMENT FLOWS. SHE MAY WISH TO DISCUSS WITH VOLCKER THE PROSPECTS FOR PARTICULARLY LARGE DEBTORS.

TRADE

6. THE PRIME MINISTER'S VISIT PROVIDES AN IMPORTANT OPPORTUNITY TO MAKE AT TOP LEVEL SOME OF THE POINTS IN FCO TELNO 86 ABOUT THE NEED FOR POSITIVE MANAGEMENT OF EC/US ECONOMIC RELATIONS OVER THE COMING YEAR. SHE MAY WANT TO SHOW THAT WE UNDERSTAND THE US DOMESTIC PRESSURES CREATED BY THE HIGH DOLLAR AND TRADE DEFICIT, AND THAT WE SHARE MANY US OBJECTIVES IN ENLARGING THE AREA OF INTERNATIONAL TRADE SUBJECT TO GATT DISCIPLINES THROUGH A NEW TRADE ROUND: BUT SHE WILL ALSO WANT TO BRING HOME THAT WE MUST ALL WORK TOGETHER TO ACHIEVE THIS, AND THAT THIS MEANS THAT ALL OF US MUST MEANWHILE RESIST PROTECTIONIST PRESSURES IF INTERNATIONAL TRADE, ON WHICH THE US TOO IS INCREASINGLY DEPENDENT FOR ITS PROSPERITY, IS NOT TO SUFFER .

IT IS IMPORTANT THAT US OPINION-FORMERS ARE CONSTANTLY REMINDED OF THIS MESSAGE.

7. BOTH IN HER MEETINGS ON THE HILL AND IN THE ROUNDTABLE MEETING HERE, THE PRIME MINISTER MIGHT WISH TO REFER TO THE INCREASING PRESSURE FOR SOME FORM OF US IMPORT SURCHARGE. THIS IDEA IS BEGINNING O

TO GATHER SUPPORT FROM INDIVIDUAL CONGRESSMEN AND IS NOW THE SUBJECT OF A STUDY BY THE CONGRESSIONAL BUDGET OFFICE. IT IS SO FAR CONDEMNED THROUGHOUT THE ADMINISTRATION, BUT IT COULD BECOME MORE ATTRACTIVE IN THE COMING MONTHS AS THE DIFFICULTIES OF BUDGET DEFICIT REDUCTION BECOME INEXORABLY CLEARER, AND AS PROGRESS ON THE INTERNATIONAL TRADE FRONT PROVES DISAPPOINTING, AS IT INEVITABLY WILL. A SURCHARGE COULD SEEM THE WAY TO KILL TWO BIRDS WITH ONE STONE. I WOULD SEE CONSIDERABLE ADVANTAGE IN THE PRIME MINISTER'S EXTRACTING FIRM, FORMAL AND FREQUENT STATEMENTS OF ADMINISTRATION AND CONGRESIONAL OPPOSITION TO A SURCHARGE.

EXTRATERRITORIALITY

8. IN ADDITION TO OUR PROBLEMS OVER LAKER (ANY REFERENCE TO WHICH WILL PRESUMABLY NEED TO BE CONSIDERED NEARER THE TIME IN THE LIGHT OF THE PROGRESS OF BA'S SETTLEMENT NEGOTIATIONS - SEE MY TELNO 378), WE STILL FACE CONTINUING DIFFICULTIES OVER THE EXTRATERRITORIAL APPLICATION OF US EXPORT CONTROLS. DESPITE THE SETTLEMENT OF THE TRANS-SIBERIAN PIPELINE CONTROVERSY, THE US ADMINISTRATION HAS NEVER ABANDONED ITS ATTEMPTS TO CONTROL CERTAIN TYPES OF ''RE-EXPORT'
'

/FROM

FROM THE UK. THE 99TH CONGRESS WILL RENEW THE ATTEMPT TO PASS NEW LEGISLATION TO REPLACE THE 1979 EXPORT ADMINISTRATION ACT. LAST OCTOBER, THE EAA CONFERENCE ABANDONED AN ATTEMPT TO LIMIT US FOREIGN POLICY CONTROLS TO GOODS OR TECHNOLOGY EXPORTED ONLY FROM THE USA, BUT DID AGREE TO RULES IMPOSING SOME DISCIPLINE ON THE ABILITY OF THE PRESIDENT TO IMPOSE FOREIGN POLICY CONTROLS ON EXPORTS SHIPPED UNDER A PRE-EXISTING CONTRACT. ALTHOUGH THERE IS UNLIKELY TO BE ANY SUPPORT FOR RADICAL AMENDMENTS DESIGNED TO REMOVE THE EXTRATERRITORIAL FEATURES OF THE EAA, IT WOULD BE WORTH PLACING ON RECORD AT A HIGH LEVEL OUR CONTINUED CONCERN AT THE POSSIBILITY OF NEW LEGISLATION TO REASSERT US EXTRATERRITORIAL CONTROL OVER ''RE-EXPORTS'' AND THE EXPORT ACTIVITIES OF FOREIGN SUBSIDIARIES OF US FIRMS. WE MIGHT ALSO SIGNAL OUR SUPPORT TO THOSE IN CONGRESS TRYING TO IMPROVE THE PROVISIONS ON CONTRACT SANCTITY, THIS LAST IS HOWEVER A LOWER PRIORITY: EVEN THE UK HAS ON OCCASION ACTED IN EMERGENCY TO PREVENT DAMAGING EXPORTS DESPITE EXISTING CONTRACTUAL COMMITMENTS.

UNITARY TAX

9. WHEN THE CHANCELLOR OF THE EXCHEQUER CALLED ON SECRETARY REGAN ON 18 JANUARY, THE LATTER SAID THAT HE WOULD BE IN TOUCH WITH GOVERNOR DEUKMEJIAN OF CALIFORNIA, IN ADVANCE OF THE PRIME MINISTER'S VISIT, ABOUT ACTION IN CALIFORNIA THIS YEAR. THE PRIME MINISTER MAY WISH TO ASK ABOUT THIS AT THE ROUNDTABLE AND WITH SECRETARY BAKER. THE KEY POINT TO MAKE IS THAT PRESSURES FOR RETALIATION IN THE UK ARE REAL AND WILL INTENSIFY IN THE UK BUDGET AND FINANCE BILL PROCESS, AND THAT LEGISLATION, OR AT LEAST SUBSTANTIAL PROGRESS, WILL BE NECESSARY IN CALIFORNIA (THE KEY REMAINING STATE WITH WORLDWIDE COMBINATION) BY THE END OF JUNE IF THIS PRESSURE IS AGAIN TO BE SUCCESSFULLY RESISTED. (IF IT HAS NOT BEEN PUBLISHED BY THEN, THE PRIME MINISTER MAY ALSO WISH TO ASK SECRETARY BAKER ABOUT THE PROGRESS OF THE FEDERAL PACKAGE OF ASSISTANCE TO BE EXTENDED TO THOSE STATES CONSIDERING IMPLEMENTING A ''WATER'S EDGE'' LIMITATION TO UNITARY TAX.)

10. THE TIDE ON UNITARY TAX IS NOW FLOWING OUR WAY: BUT THE SHEER SCALE OF THE CALIFORNIAN ECONOMY, AND OF OUR INVESTMENT THERE, MAKES A SUCCESS THERE CRUCIAL.

US VIEW OF EUROPE

11. FINALLY, LOW EUROPEAN GROWTH RATES (RELATIVE TO THE 1984 6.8 PERCENT HERE) HAVE LED SOME US COMMENTATORS TO REVIVE THIS AUTUMN/WINTER THEIR CRITICISM THAT THE UK AND OTHER EUROPEAN ECONOMIES ARE ARTHRITIC: UNABLE TO KEEP UP TECHNOLOGICALLY, TO CREATE JOBS, AND TO GROW. GLOOM OVER THE COAL STRIKE, AND HEADLINES ABOUT STERLING, HAVE IN RECENT WEEKS MEANT THAT THE CRITICAL SPOTLIGHT HAS TENDED TO FOCUS ON THE UK. IT WILL DO IMMENSE GOOD IF THE PRIME MINISTER WOULD USE EVERY OPPORTUNITY, INCLUDING MEDIA SLOTS, TO GET ACROSS THE TRUE FACTS, AND THE GOOD NEWS, ABOUT THE SOUND BASIS OF UK GROWTH SINCE 1981, AND THE ACTION ALREADY TAKEN AND IN HAND TO REDUCE RIGIDITIES, FREE MARKETS AND UNSHACKLE ENTERPRISE.

12. FCO PLEASE ADVANCE TO POWELL (NO 10 DOWNING STREET): APPLEYARD (PS/SECRETARY OF STATE, FCO): PS/PUS: D M D THOMAS, BRAITHWAITE, MARSHALL (NAD) IN THE FCO: ROBERTS AND R WILLIAMS (DTI): AND LAVELLE (TREASURY).

WRIGHT

LIMITED.

NAD
ERD
ECONOMIC ADVISERS
ECD (E)
MR DEREK THOMAS.
MR BRAITHWAITE.
SIR W HARDING.

ADVANCED AS REQUESTED

Prime Minister
CDP 7/2

(4)

CCBI.

Foreign and Commonwealth Office

London SW1A 2AH

6 February 1985

MT

Dear Charles,

Prime Minister's Visit to Washington: 19-21 February

You may wish to note that the Prime Minister will address a Joint "Meeting" of Congress and not a Joint "Session". Since the 1950s, the practice has been that only US Presidents address Joint Sessions. I attach a list, received from the Embassy in Washington, of addresses to Congress by British Prime Ministers and others. Since 1980 the following Heads of State/Government have addressed Joint Meetings:

Queen Beatrix, President Carstens, Dr FitzGerald, President Mitterrand and President De La Madrid.

The Embassy can provide further information on previous speakers if required.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

JOINT SESSIONS/MEETINGS OF CONGRESS: ADDRESSES BY BRITISH PRIME MINISTERS AND OTHERS

Name	Address to:	Date
Charles Parnell	House	2 February 1880
Arthur Balfour	House	5 May 1917
" "	Senate	8 May 1917
Ramsay McDonald	Senate	7 October 1929
Winston Churchill	Joint Session	26 December 1941
" "	" "	19 May 1943
" "	" Meeting	17 January 1952
Clement Atlee	Joint Meeting	13 November 1945
Anthony Eden	House and Senate (separately)	2 February 1956
Harold McMillan	Senate	10 June 1958
" "	"	30 March 1960

British Embassy

Washington DC

January 1985

File

10 DOWNING STREET

From the Private Secretary

6 February 1985

PRIME MINISTER'S VISIT TO WASHINGTON

In my letter earlier today about briefs for the Prime Minister's visit, I said that these should reach this office by 1630 hours on 15 February. In saying this, I overlooked the fact that the briefing meeting is on 14 February, and the briefs will therefore be required by 1630 on 13 February.

I am copying this letter to Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), Callum McCarthy (Department of Trade and Industry), Dinah Nichols (Department of Transport), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Michael Reidy (Department of Energy).

Charles Powell

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

CST.

file

TP24CN

CONFIDENTIAL

bc PC

10 DOWNING STREET

From the Private Secretary

6 February, 1985.

Prime Minister's Visit to Washington

The Cabinet Office are preparing briefing for the Prime Minister's talks with President Reagan on arms control. It was agreed that the Foreign and Commonwealth Office would be responsible for coordinating briefing on other subjects, both for the meeting with President Reagan and for the sessions with Treasury Secretary Baker, Mr. Volcker, Mrs. Dole, the roundtable discussion on trade and economic matters, and the meeting with Congressional Committee Chairmen.

The additional briefing for the meeting with President Reagan should cover (at least) the US economy, the Middle East, Central America and (possibly) Northern Ireland. There should also be a contingency brief on Laker.

The briefs for the meetings with Mr. Baker and Mr. Volcker will need to cover the US economy, exchange rates, oil prices and unitary taxation.

For the roundtable discussion on trade and economic matters, I suggest a single brief covering the whole gamut of issues, both those which the Prime Minister should raise and those likely to be brought by the US side. The brief should cover, at least; EC/US trade problems (including agriculture), protectionism, GATT round, civil aviation, extraterritoriality.

The briefing suggested above should cover most of the issues likely to come up in the Prime Minister's meetings with Congressional leaders. But it may be necessary to have slightly fuller briefing for these meetings on Northern Ireland and some defence issues (including procurement).

This list is not meant to be exclusive.

The briefs should reach us by 1630 on Friday, 15 February.

CONFIDENTIAL

ECL

I am copying this letter to Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), Callum McCarthy (Department of Trade and Industry), Dinah Nichols (Department of Transport), Ivor Llewellyn (Ministry of Agriculture, Fisheries and Food), and Michael Reidy (Department of Energy).

C.D. Powell

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

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10 DOWNING STREET

From the Private Secretary

6 February 1985

Prime Minister's Visit to the United States

I have written to you today about subjects on which briefing should be prepared for the Prime Minister's talks in Washington.

In addition to the subjects listed you will wish to consider whether the Prime Minister should be briefed to raise:-

(i) US/Argentina relations in the light of the recent JIC report (JIC(85)(N)18).

(ii) Pakistan nuclear issues.

I am copying this letter to Richard Hatfield (Cabinet Office).

Charles Powell

SHA

Len Appleyard Esq
Foreign and Commonwealth Office.

Re JD
cfo

10 DOWNING STREET

THE PRIME MINISTER

5 February 1985

Dear Mr. Speaker,

I am most honoured by the proposal that I should address a Joint Meeting of the House of Representatives and the Senate on Wednesday, 20 February, and accept the invitation with great pleasure.

I look forward to meeting you then.

Yours sincerely

Margaret Thatcher

The Hon. Thomas B. O'Neill

ADVANCE COPY

WONFO 050/05

PS
MR MARSHALL NAD
MR POWELL NO10

(x2)

PP F C O

GRS 220
RESTRICTED
FM WASHINGTON 050348Z FEB 85
TO PRIORITY F C O
TELEGRAM NUMBER 385 OF 4 FEBRUARY
INFO SAVING BOSTON

MY TWO IPT'S : PRIME MINISTER'S VISIT : CHRISTIAN A HERTER AWARD

1. THE PRIME MINISTER MIGHT WISH TO SPEAK AS FOLLOWS :
(A) THANKS TO MR ADAMS AND BOSTON WORLD AFFAIRS COUNCIL (WAC). TRIBUTE TO AIMS AND WORK OF WAC:
(B) GREAT HONOUR TO BE INCLUDED AMONG DISTINGUISHED RECIPIENTS OF THIS AWARD. REGRET NOT BEING ABLE TO VISIT BOSTON TO RECEIVE IT. CHRISTIAN HERTER: A MAN OF VISION WHO UNDERSTOOD THE INTER-DEPENDENCE OF THE CONTEMPORARY WORLD: ASSOCIATED WITH MANY IMPORTANT CAUSES. INSTITUTIONS CREATED BY HERTER AND THOSE OF HIS GENERATION (NATO, INTERNATIONAL ECONOMIC INSTITUTIONS) HAVE STOOD THE TEST OF TIME. WE CAN BE CONFIDENT ABOUT THE FUTURE THANKS TO THE SOLID FOUNDATIONS LAID IN THE PAST, AND STILL PRESENT:
(C) PROUD TO BE FIRST BRITISH RECIPIENT OF AWARD. PARTICULARLY PROUD TO RECEIVE IT IN THE YEAR WHICH MARKS THE 200TH ANNIVERSARY OF BILATERAL RELATIONS BETWEEN BRITAIN AND THE UNITED STATES. JOHN ADAMS, WHO PRESENTED HIS CREDENTIALS TO GEORGE III ON 1 JUNE 1785, A DISTINGUISHED BOSTONIAN:
(D) HOPE TO VISIT BOSTON ON ANOTHER OCCASION. DEEP HISTORICAL, COMMERCIAL, CULTURAL AND FAMILY LINKS BETWEEN BRITAIN AND BOSTON AND NEW ENGLAND. MUCH TO ADMIRE IN NEW ENGLAND - MODERNISED AND HIGH-TECH ECONOMY PROVIDES MANY EXAMPLES OF THE BEST ROAD - THE ROAD ALSO BEING FOLLOWED IN THE UK - TO ECONOMIC RENEWAL.

2. PLEASE ADVANCE TO POWELL (NO.10), APPLEYARD (PS/SOFS, FCO) AND MARSHALL (NAD)

WRIGHT

WONFO 047/05

IMMEDIATE
ADVANCE COPY

PP FCO

[RC]
PS
(X3) MR MARSHALL NAD
MR POWELL
NO 10

GRS 320
RESTRICTED
FROM WASHINGTON 050347Z FEB 85
TO PRIORITY FCO
TELEGRAM NUMBER 384 OF 4 FEBRUARY
INFO SAVING BOSTON

MIPT: PRIME MINISTER'S VISIT: CHRISTIAN A HERTER AWARD

1. CHRISTIAN ARCHIBALD HERTER (1895-1966) WAS BORN IN PARIS OF AMERICAN PARENTS. GRADUATED FROM HARVARD IN 1915. BEGAN CAREER IN STATE DEPARTMENT IN 1916 AND ENDED IT AS SECRETARY OF STATE FROM 1959-1961 (SUCCEEDING JOHN FOSTER DULLES), HAVING ALSO SERVED AS A VISITING LECTURER AT HARVARD: AS A MEMBER AND SPEAKER OF THE MASSACHUSETTS HOUSE OF REPRESENTATIVES: IN THE US CONGRESS FROM 1943-53: AND FROM 1953 TO 1957 AS GOVERNOR OF MASSACHUSETTS.

2. IN ITS OBITUARY NOTICE THE ''WASHINGTON POST'' WROTE AS FOLLOWS: ''WHAT AMERICAN POLICY IN THE POST-WAR YEARS MIGHT HAVE BEEN WITHOUT CHRISTIAN HERTER ..... NO MAN CAN SAY. BUT IT CAN BE SAID THAT FEW MEN IN PUBLIC LIFE DID MORE TO PUT AN END TO THE STERILE ISOLATIONISM OF THE YEARS BETWEEN THE WARS. FEW WORKED HARDER OR MORE EFFECTIVELY TO PERSUADE THE PEOPLE OF THE UNITED STATES TO ENDORSE AND APPROVE THE ACTIVE EMPLOYMENT OF AMERICAN POWER TO SHAPING WORLD EVENTS .....
THERE MIGHT HAVE BEEN A MARSHALL PLAN WITHOUT HIM, BUT WITHOUT HIM THAT PLAN MIGHT NEVER HAVE HAD THE STRONG BIPARTISAN SUPPORT THAT MADE IT NATIONAL INSTEAD OF AN ADMINISTRATION PURPOSE. THERE MIGHT HAVE BEEN A TEST BAN TREATY WITHOUT HIM, BUT HE GAVE THE STRIVING FOR SUCH A TREATY ITS INITIAL IMPULSE AND ITS EARLIEST ATTENTION, AND THE FOUNDATIONS HE LAID RESULTED IN THE FINAL ACHIEVEMENT.''

3. PLEASE ADVANCE TO POWELL (NO10), APPLEYARD (PS/S OF S, FCO), AND MARSHALL (NAD, FCO).

WRIGHT

ADVANCE COPY

WONFO 049/05

PS

(K2)

Mr MARSHALL NAD

Mr POWELL NO 10

PP F C O

GRS 350
RESTRICTED
FM WASHINGTON 050346Z FEB 85
TO PRIORITY F C O
TELEGRAM NUMBER 383 OF 4 FEBRUARY
INFO SAVING BOSTON

PRIME MINISTER'S VISIT : CHRISTIAN A HERTER AWARD

BOSTON WORLD AFFAIRS COUNCIL

1. THE BOSTON WORLD AFFAIRS COUNCIL WAS FOUNDED IN 1949 AND IS ONE OF 60 MEMBERS OF THE NATIONAL COUNCIL OF COMMUNITY WORLD AFFAIRS ORGANISATIONS. ITS AIM IS TO PROMOTE AWARENESS AND UNDERSTANDING OF FOREIGN AFFAIRS. IT HAS 2,000 MEMBERS INCLUDING 200 CORPORATE MEMBERS REPRESENTING 110 FIRMS. LORD CARRINGTON WILL ADDRESS THEM IN EARLY APRIL.

THE AWARD

2. THE CHRISTIAN A HERTER MEMORIAL AWARD IS NAMED AFTER EISENHOWER'S SECRETARY OF STATE, THE 60TH GOVERNOR OF MASSACHUSETTS. THE AWARD, ESTABLISHED IN 1974, IS PRESENTED ANNUALLY BY THE BOSTON WORLD AFFAIRS COUNCIL TO DISTINGUISHED LEADERS WHO HAVE MADE SIGNIFICANT CONTRIBUTIONS TO BETTER INTERNATIONAL UNDERSTANDING. PAST RECIPIENTS INCLUDE ELLIOT RICHARDSON, SENATOR EDWARD KENNEDY, HENRY KISSINGER, ROBERT MCNAMARA, PRESIDENT CARTER, AVERALL HARRIMAN, DAVID ROCKEFELLER, HENRY CABOT LODGE, SOL LINOWITZ (MIDDLE EAST NEGOTIATOR UNDER CARTER) AND, LAST YEAR, GEORGE SHULTZ. A SPECIAL AWARD WAS PRESENTED IN 1981 TO PRESIDENT SADAT.

3. MIFT CONTAINS BRIEF BIOGRAPHICAL NOTES ON CHRISTIAN HERTER.

PRESENTATION ON 20 FEBRUARY

4. 15 MEMBERS OF THE WORLD AFFAIRS COUNCIL WILL ATTEND THE PRESENTATION CEREMONY AT THE RESIDENCE IN THE LATE AFTERNOON OF 20 FEBRUARY. I AM ALSO INVITING CHRISTIAN HERTER'S SON, WHO HAS THE SAME NAME AND LIVES IN WASHINGTON, TO ATTEND. WE PLAN POOLED MEDIA COVERAGE.

5. THE PLAQUE WILL BE PRESENTED BY CHARLES F ADAMS, PRESIDENT OF THE BOSTON WORLD AFFAIRS COUNCIL AND FORMER CHAIRMAN OF THE BOARD OF RAYTHEON CORPORATION (WHICH OWN COSSOR IN THE UK).
HE IS AN OLD FRIEND OF LORD SHERFIELD. THE PLAQUE CONTAINS THE FOLLOWING INSCRIPTION : ''THE CHRISTIAN A HERTER AWARD FOR CONTRIBUTING TO WORLD UNDERSTANDING PRESENTED TO THE RT HON MARGARET THATCHER FRS MP, PRIME MINISTER OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND. THE WORLD AFFAIRS COUNCIL OF BOSTON, FEBRUARY 1985''.

6. ADAMS AND MRS ELEANOR BLEAKIE, ANOTHER SENIOR MEMBER OF THE WORLD AFFAIRS COUNCIL, WILL ALSO ATTEND MY DINNER LATER ON 20 FEBRUARY.

7. THE PRIME MINISTER WILL NEED TO SPEAK ONLY BRIEFLY. MY SECOND IFT CONTAINS SOME SUGGESTIONS.

8. PLEASE ADVANCE TO POWELL (NO.10), APPLEYARD (PS/SOFS, FCO), AND MARSHALL (NAD, FCO).

WRIGHT

1/0556

FIELD MARSHAL SIR EDWIN BRAMALL GCB OBE MC

BOX

CF

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 ..... (Direct Dialling)
01-218 9000 (Switchboard)

CHIEF OF THE DEFENCE STAFF

3 Feb 85

MT

My Dear Prime Minister

Thank you so very much for a delicious and most enjoyable lunch, and for including me in your pre-Washington briefing and discussion.

The UK-US relationship is of vital importance, as is our benefit from any technological spin off from SDI. I just wish I was more certain that President Reagan really knew where he was going. That he is determined to go there (wherever it is) there is however little doubt!

Thank you again for a most interesting and enjoyable morning and lunch.

Yours ever,

Edwin

SECRET

FILE

10 DOWNING STREET

From the Private Secretary

2 February 1985

PRIME MINISTER'S VISIT TO WASHINGTON: ARMS CONTROL

Some further work needs to be put in hand following the meeting at Chequers on 2 February to discuss the substance and handling of arms control issues at the Prime Minister's meeting with President Reagan on 20 February.

Specifically we need:

(i) a fuller speaking note on the linked arms control issues of START/INF/Space designed less to propagate particular solutions favoured by the UK and more to probe US expectations and intentions. The speaking note should take account of the Prime Minister's comments on Saturday on the psychology of our approach to the United States viz. the aims of the SDI are widely popular in the United States, that we are not going to persuade the Administration to halt research into it and that it would be counter-productive to try. The main thrust of the note should be to explore ways in which the United States can avoid being impaled on the hook of likely Soviet insistence that without agreement to restrict research, testing and/or deployment of a Ballistic Missile Defence system there can be no agreement on (or possibly even no negotiations on) the limitation or reduction of offensive nuclear weapons. The note should draw into the discussion the scope using the provisions and mechanisms of the ABM Treaty (Agreed Statement D and the Standing Consultative Committee provided for in Article XIII) to

/establish

establish agreed limits on testing and deployment. It should look at the possible need for amendments or additions to the ABM Treaty. It should canvass the idea of a joint political understanding that for any START agreement to be successfully implemented both sides would need to agree about what would and would not be permissible in terms of strategic defence over the period of the agreement. It should suggest ways in which it might be possible to establish a "reverse hostage": i.e. a tactic which would argue that unless the Russians agreed to limitations or reductions on offensive nuclear weapons by a certain date, the Americans would go ahead with the testing and deployment of a BMD system.

In addition, the speaking note should offer arguments on the pros and cons of a time limited ban on further testing and deployment of ASATs which would respect the principle of balance. There should be a fuller explanation of our thinking on aggregates of launchers and warheads in the START negotiations, and examine how low cruise missiles should be categorised. In general our approach should not be to table ready-made solutions but to cross-examine the United States on their thinking and let our ideas emerge in discussion.

(ii) We need material which could be used in an agreed statement or communique at the end of the Prime Minister's talks, if this were thought at the time to be useful (there will in any case have to be a departure statement). Possible elements in such a statement would be a confirmation of the four points agreed in December; an expression of the UK's willingness to be associated with SDI research (see below); a re-affirmation of the exclusion from the negotiations of third country systems; and, possibly, some agreed principles for the START/INF talks. This does not imply a firm decision to make a statement but simply to ensure that we have to hand material for one.

/In addition,

In addition, you will wish to note:

(i) the Prime Minister does not wish the paper on SDI to be handed over to the Americans;

(ii) the paper on chemical warfare on the other hand, should be handed over. The Prime Minister intends to pursue this with the President;

(iii) the Prime Minister is disinclined to raise the issue of non-proliferation and nuclear testing at her talks with President Reagan on the grounds that this risks needless irritation when we already have sufficient difficult points to raise. She does not, therefore, wish any paper to be handed over to the Americans in advance of her visit. She would not, however, object to the Foreign and Defence Secretaries raising the matter in the course of their separate discussions and subsequently handing over the paper;

(iv) the Prime Minister agrees with the general thrust of Sir Oliver Wright's letter of 29 January in which he proposes that we should be ready to associate ourselves with research into the SDI. Her view is that we should agree to General Abrahamson's offer to brief British business. She intends to tell the President of her hope that British scientists and firms will play a part in SDI research. She may also mention this in her speech to the Joint Session of Congress.

Lastly, the Prime Minister wishes the time provided in the programme for her visit for tête-à-tête discussion with the President to be extended to at least half an hour and that for discussion in the wider group to be correspondingly reduced. I should be grateful if the Embassy would arrange this with the White House.

/I should

I should be grateful if the work I have outlined could be completed by Friday, 15 February.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office) and Richard Mottram (Ministry of Defence).

CHARLES POWELL

Bryan Cartledge, Esq., C.M.G.

Prime Minister
CDP
18/2 [Received today]

THE VICE PRESIDENT
WASHINGTON

Overtaken
CDP 19/2

February 1, 1985

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

Dear Prime Minister Thatcher:

This is to let you know how very sorry I will be to miss your address to the Joint Session of Congress on February 20. Barbara and I will be traveling in Africa at that time, observing some of the drought and famine conditions and seeking to stimulate an appropriate and long-term American response to that growing tragedy.

I had hoped very much to be listening to your speech in the House Chamber in my capacity as President of the Senate. I know that you will receive an extremely warm reception and I am very regretful at my inability to be with you.

I hope that your visit to the United States is successful in every way and look forward to seeing you again in the near future.

With warm personal regards, in which Bar joins

Sincerely,

George Bush

00

cc PC.

The Speaker's Rooms
United States House of Representatives
Washington, D.C. 20515

Already replied
CR
6/2.

January 31, 1985

The Right Honorable
Margaret Thatcher
Prime Minister of
Great Britain

Dear Prime Minister:

It is my honor, by virtue of action by the House of Representatives today, to extend to you a cordial invitation to appear before and address a Joint Meeting of the House of Representatives and the Senate at 11:00 a.m. on Wednesday, February 20, 1985.

I remain, with great respect,

Very truly yours,

Thomas P. O'Neill Jr.

The Speaker's Rooms
United States House of Representatives
Washington, D.C. 20515

January 31, 1985

The Right Honorable
Margaret Thatcher
Prime Minister of
Great Britain

Dear Prime Minister:

It is my honor, by virtue of action by the House of Representatives today, to extend to you a cordial invitation to appear before and address a Joint Meeting of the House of Representatives and the Senate at 12:30 p.m. on Wednesday, February 20, 1985.

I remain, with great respect,

Very truly yours,

Thomas P. O'Neill Jr.

20

PREDEX

CDP 6/2.

January 30, 1985

Mr. Charles Powell
10 Downing Street
London SW1
ENGLAND

Dear Mr. Powell:

Thank you for outlining Mrs. Thatcher's itinerary for her February 20 visit to address a joint session of Congress.

We're sorry that her schedule does not permit a visit to New York, but happy to learn that the University Club was under consideration in case it did.

Our invitation stands, so I hope you won't mind my telephoning again as I learn of her next visit.

Sincerely, *

Charles Ramond

Dr. Charles Ramond
President

CR:ljb

* Undaunted!

3 EAST 54th STREET
NEW YORK, NEW YORK 10022-3108

Telephone: 212-319-6400
Telex: CI 467540

UK SECRET

File

cc Sir P C

10 DOWNING STREET

From the Private Secretary

28 January 1985

PRIME MINISTER'S VISIT TO WASHINGTON: ARMS CONTROL

Thank you for your letter of 25 January enclosing draft speaking notes and papers for the "seminar" on arms control on 20 February.

The Prime Minister has had a preliminary look at these over the weekend. Although she has not commented directly, it is clear that she sees some problems with Annex D on Ballistic Missile Defence, Anti-Satellite Systems and the Strategic Defence Initiative. In particular she thinks that the last sentence of paragraph 1 is too sweeping, at least as far as technical feasibility is concerned. Paragraph 4(i) might be recast as "a better remedy is not available". She also disagrees with the judgement in the second sentence of paragraph 5(iii) about the implications of research programmes related to deployments which, if made, would go beyond the limits of the ABM Treaty. A question which the Prime Minister will wish to consider at next week's briefing meeting is whether it would be counter-productive to our relations with the President to hand over the text of our paper on SDI to the Administration.

This is intended just to put you on notice of some of the Prime Minister's concerns, so far as I can detect them. I am not copying it more widely.

CHARLES POWELL

TNB

B. G. Cartledge, Esq., C.M.G.,
Cabinet Office.

UK SECRET

JR

10 DOWNING STREET

From the Principal Private Secretary 28 January 1985

Thank you for your letter of 28 January, enclosing the material prepared by the Lord Chancellor for the Prime Minister's speech to Congress.

The Prime Minister will be very grateful for the Lord Chancellor's magnificent words and also for his generous invitation to her to draw on them and remould them to meet her own needs.

TERB

Richard Stoate, Esq.,
Lord Chancellor's Office.

010

FROM THE PRIVATE SECRETARY

cc FERB

For CDP.

HOUSE OF LORDS,
SW1A 0PW

28th January, 1985

Robin Butler Esq.,
Principal Private Secretary to
The Right Honourable
The Prime Minister,
10 Downing Street,
London, SW1.

Lord Chancellor
thanked.
CDP 29/1

Dear Robin,

I now attach the speech material prepared by the Lord Chancellor at the Prime Minister's request for her forthcoming speech to Congress.

As the Lord Chancellor explained to Robert Armstrong, to whom I am copying this, he is entirely content for the Prime Minister to rework this material in whatever form she wishes or, should she so wish, to use it as a framework within which she could deliver a more specific message. The Lord Chancellor stands ready, of course, to provide any further material that may be required.

Yours sincerely,

Richard.

Richard Stoate

file ECL

14/1

① 21/1

10 DOWNING STREET

7 January 1985

1) Charles. Yes CDP.

2) CF - to link up with briefing.

FCO rang to say that this has been overtaken as it is in the programme.

Kay 25/1

From the Private Secretary

Christian A. Herter Memorial Award

I last wrote to you about this on 23 December. We have subsequently had a further telex from the Boston World Affairs Council of which I enclose a copy.

It would be helpful to have urgent advice from the Embassy in Washington on whether the Council would be ready to present the Award during the Prime Minister's visit to Washington in February, and whether this could readily be fitted into her programme.

(C.D. Powell)

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

VC

05 JAN 1985/1924

ZCZC DLM4345 NKX086 IOB091 4-016095S005

UBNX CO UBNX 109

IDBN BOSTON MA 109/104 05 1415

RIGHT HONORABLE MARGARET THATCHER

PRIME MINISTER UNITED KINGDOM

10 DOWNING STREET

LONDONENGLAND

DEAR MRS THATCHER,

WE UNDERSTAND FROM VICE-PRESIDENT GEORGE BUSH THAT YOU PLAN TO VISIT THE UNITED STATES IN FEBRUARY. THE WORLD AFFAIRS COUNCIL OF BOSTON ORIGINALLY EXPRESSED OUR DESIRE TO PRESENT YOU WITH THE CHRISTIAN HERTER AWARD IN MARCH HOWEVER WE WOULD BE MOST PLEASED AND HONORED TO

PRESENT THE AWARD AT ANY TIME SUITABLE TO YOU IN FEBRUARY.

PLEASE WIRE ACCEPTANCE TO: WORLD AFFAIRS COUNCIL 22 BATTERYMARCH STREET BOSTON MASSACHUSETTS 02109. PHONE 617-482-1740. A COPY TO SIR OLIVER WRIGHT BRITISH AMBASSADOR TO THE UNITED STATES.

GEORGE RABSTEJNEK, PRESIDENT, WORLD AFFAIRS COUNCIL

COL 10 22 02109. 617-482-1740.

British TELECOM Telegram for enquiries dial the number shown in your dialling instructions

CSPC

Foreign and Commonwealth Office

London SW1A 2AH

16 January 1985

Dear Charles,

Prime Minister's Visit to the United States: Speech in Washington

As requested in your letter of 3 January, I enclose a draft speech for the Prime Minister to deliver in Washington on 20 February, probably to a Joint Session of both Houses of Congress.

It makes use of the material provided by the Embassy at Washington, but has also been considered carefully by the Foreign Secretary, who is in no doubt about the importance of the occasion. Alongside the emphasis on our many common interests with the US, he sees the passages on our approach to dialogue with the East and on Britain's place in Europe as particularly important for the overall balance.

Sir Geoffrey also believes that the Prime Minister should use the opportunity offered by this major speech in Washington to put across our message on the IRA; to stress the developed world's responsibility to promote prosperity and stability (and thus security) in the developing world, with all proper respect for local circumstances; and perhaps to refer to the problems caused by extraterritorial jurisdiction (though not with exclusive reference to the United States).

You will note that the passages on defence and arms control in Sir Oliver Wright's draft (of which you saw a copy informally) have been extensively updated and reworked by our experts here. They have been cleared at official level with the Ministry of Defence.

I am sending copies of this letter and enclosure to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

USA: PM's visit Feb 85 A4

CCPC

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~XXX XXXX~~ 218 2111/3

MO 25/3/4

14th January 1985

CF

pa. 15/1.

PPS pse.

Dear Charles,

Dub 15/1

BRIEFING ON ARMS CONTROL FOR THE PRIME MINISTER'S VISIT TO WASHINGTON

We had a word last week about your letter of 8th January to Peter Ricketts, giving details of those individuals the Prime Minister wished to be invited to take part in her briefing meeting on Saturday 2nd February. I explained that, in the light of the new organisation in this Department, it would be appropriate for Sir Clive Whitmore to attend the briefing rather than Mr David Nicholls. You said the Prime Minister would be entirely happy with this. I am therefore writing to confirm that Sir Clive Whitmore will attend the briefing meeting together with my Secretary of State, Mr Stanley and Professor Norman.

I am sending a copy of this letter to Peter Ricketts (Foreign and Commonwealth Office) and to Richard Hatfield (Cabinet Office)

Yours ever,

Denis Brennan

(D BRENNAN)

C D Powell Esq
10 Downing Street

USA: PM's trip to Washington: Pt 4.

(1)

See overleaf
MS

10 DOWNING STREET

From the Private Secretary

Prime Minister

Announcement of your visit to Washington.

I don't think that you had time to finish this. Agree that I should speak to Charlie Price about including Kansas City in the programme?

2. As a matter of protocol, we shall have to clear the announcement of your visit to Texas with the Governor: and it would be difficult not to refer to his invitation. The Washington Embassy say that the White House would perfectly understand and not take offence.

Agree to "The Prime Minister will

also go to Texas, at the invitation of the Governor, and visit ....." ?

In view of our present problems, I am reluctant voluntarily to extend the visit outside Washington.

MT

PRIME MINISTER

ANNOUNCEMENT OF YOUR VISIT TO WASHINGTON

The White House are keen to announce your February visit to Washington next Tuesday or Wednesday. This is probably wise, as news of it is beginning to leak out. The wording they propose is:

> "The President has invited the British Prime Minister, Margaret Thatcher, to Washington for an official working visit. The Prime Minister has accepted the invitation, and will meet with the President at the House White on 20 February 1985."

We should need to add to any such announcement reference to your visit to Texas. All we need to say at this stage is:

> "~~At the invitation of the Governor,~~ the Prime Minister will also ~~visit~~ go to Texas." to visit Austin etc.

No - this will cause problems. The Governor is a Democrat.

(I am assured that such an invitation has been extended)

I have consulted Bernard who agrees with the text and timing but points out that we shall need a clear brief on why you are going to Texas: otherwise the press will try to make out that it is a family reunion with Mark. That still leaves open the question of visiting Kansas City. At present your proposed programme in Texas would finish after lunch on Friday. It would be feasible for you to fly from Austin to Kansas (about 75 minutes), spend 2 or 3 hours there, and fly on to London arriving Saturday morning. There is not a great deal to do in Kansas and the only real point of going is to give pleasure to Charlie Price. You could visit the Truman Library at Independence which is about 20 minutes from Kansas City. No doubt Charlie Price would also organise a reception. I see no need to make any announcement about this part of the visit at this stage. But you might like me to tell Charlie

Price that you would be ready to pay a very brief visit to Kansas City on the way back to London and to seek some suggestions from him on what you might do.

Agree to announcement proposed above?

Agree that I should speak to Charlie Price as suggested?

C.D.P.

10 January, 1985

GPS 125

CONFIDENTIAL

CONFIDENTIAL
FROM WASHINGTON 100335Z JAN 85.
TO PRIORITY F C O
TELEGRAM NUMBER 75 OF 9 JANUARY
INFO ROUTINE BIS NEW YORK.
INFO SAVING HOUSTON.

M.I.P.T. (NOT TO ALL: PRIME MINISTER'S FEBRUARY US VISIT: ANNOUNCEMENT.

1. THE WHITE HOUSE, NSC, AND STATE DEPARTMENT ENVISAGE THAT THE PRIME MINISTER'S FEBRUARY VISIT TO WASHINGTON MIGHT BE ANNOUNCED AT NOON (WASHINGTON TIME) ON 15 OR 16 JANUARY. THE EMBASSY IN LONDON ARE BEING INSTRUCTED TO CLEAR WITH NO 10 THE TIMING, AND THE FOLLOWING WORDING:-

"THE PRESIDENT HAS INVITED THE BRITISH PRIME MINISTER, MARGARET THATCHER, TO WASHINGTON FOR AN OFFICIAL WORKING VISIT. THE PRIME MINISTER HAS ACCEPTED THE INVITATION, AND WILL MEET WITH THE PRESIDENT AT THE WHITE HOUSE ON 20 FEBRUARY 1985."
(THIS FOLLOWS THE STANDARD FORMULA FOR SUCH ANNOUNCEMENTS.)

2. IF THE TIMING IS ACCEPTABLE TO YOU, WE ASSUME THAT A PARALLEL NO 10 ANNOUNCEMENT WOULD COVER BOTH WASHINGTON AND TEXAS. IT WOULD THEREFORE BE USEFUL IF YOU COULD LET US, AND HOUSTON, HAVE YOUR FORM OF WORDS, FOR CLEARANCE WITH THE GOVERNOR OF TEXAS.

3. FCO ADVANCE COPIES TO MARSHALL (NAD), POWELL AND INGHAM (NO 10).
(ADVANCED AS REQUESTED)

WRIGHT
LIMITED
NAD
ACDD
DEF D
PLANNING STAFF
PROTOCOL D
SOV D
PS
PS/LADY YOUNG
PS/MR RENTON
PS/PUS
MR DEREK THOMAS

MR GOODALL
SIR W. HARDING
MR DAVID THOMAS
MR WESTON

COPIES TO
MR CARTLEDGE CAB OFF
MR POWELL } NO 10 DOWNING ST
MR INGHAM

CONFIDENTIAL

ELBACL file.

bc PC

10 DOWNING STREET

From the Private Secretary

8 January 1985

BRIEFING ON ARMS CONTROL FOR THE PRIME MINISTER'S VISIT TO WASHINGTON

The Prime Minister wishes to hold a briefing meeting at Chequers at 1000 on Saturday, 2 February on the arms control issues which will come up during her "Seminar" with President Reagan in Washington. She wishes to keep the occasion as small as possible and has instructed me to invite the following to take part:-

Foreign and Commonwealth Secretary

Secretary of State for Defence

Mr Luce

Mr Stanley

Sir Percy Cradock

Sir Michael Quinlan

Mr Cartledge

Professor Norman

Mr David Nicholls

Mr Weston

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

TNS.

(C.D. Powell)

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER

Briefing on Arms Control for your Washington Visit

You agreed this morning to have this briefing meeting on Saturday 2 February at Chequers. In the light of what you have recently said about briefing meetings, you will doubtless want to keep this one small. I suggest:

(a) Foreign Secretary
Defence Secretary
(but exclude Mr Luce and Mr Stanley)

(b) Mr Cartledge

(c) Mr Weston (FCO)
He is the main FCO official dealing with these matters and knows more than either Mr Goodall or Mr Pakenham. He was at the same meeting at the Pentagon on 17 July.

(d) Mr Nicholls - Deputy Secretary, MOD

(e) Professor Norman - Chief Scientist, MOD

(f) Sir Michael Quinlan

(g) Sir Percy Cradock

This would mean excluding quite a lot of people who will want to be invited. But if we are to keep these meetings small, that is essential.

Agree?

Yes - but John Stanley knows more in MOD than most others. Could he also come?

CDP.

7 January 1985

Questions.

(1) Techn. advances on jamming on satellite systems. Sets, no defend sets. Continuous – how do you counter Sov. deployment ASATS.

(2) Risks that advances control system. Homes in small attack

(3) SLBM.

(4) No mention of terminal defence.

(5) Areas for techn. help as. Weapons effect systems

(6) Cruise

AVIATION WEEK

? Kate

(1) Chequers
(2) Quintin
Nicholls (MoD)

~~FCS~~
DS
Mr. Cartledge
Sir P Cradock
Chief Scientist MoD
~~Sir~~ A. Acland
CDS
? John Weston (FCO) + CDP

CF

PRIME MINISTER

BRIEFING MEETING FOR THE WASHINGTON SEMINAR ON ARMS CONTROL

You agreed this afternoon that we should aim to hold a briefing meeting well in advance of your visit to Washington to allow plenty of time for any necessary revision of the papers which are prepared. I think that we shall need to set a substantial amount of time for this, some 2-3 hours.

We probably can find time on a weekday for this but it occurs to me that you might prefer to have the meeting at Chequers, for instance on the morning or afternoon of Saturday 2 February.

Agree to pursue Chequers option? Or prefer a mid-week office meeting?

Yes. MT

CDP.

CF

Arranged for 2 Feb at Chequers.
Miss Thomas informed.
CDP considering further invitations.

DMB
7/1

3 January 1985

file VSC
cc Sir C Cabourne

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

3 January 1985

Dear Len,

PRIME MINISTER'S VISIT TO WASHINGTON IN FEBRUARY: ARMS CONTROL

The Prime Minister had some discussion this afternoon with the Foreign Secretary about the work which will be required to prepare for her discussion ("seminar") with President Reagan in February on arms control matters. This is likely to be held on Wednesday 20 February.

The Prime Minister would like papers prepared on the main arms control issues with the intention of passing them to the Americans well in advance of the meeting. I understand that Mr. Cartledge already has the preparation of such papers in hand in consultation with the FCO and MOD. The Prime Minister's intention would be to discuss these at a briefing meeting some weeks before her Washington visit. We are trying to find a convenient date for this and shall be in touch with you shortly. But it could be as early as 30 January and you will want to plan on the basis of the papers being available a few days in advance of that.

The question of participation on the UK side will depend in good part on how the Americans themselves visualise the 20 February meeting. It would be helpful to have guidance from the Embassy in Washington on this. My impression from talking to HM Ambassador, Washington during the Prime Minister's visit in December was that it was unlikely that the "seminar" would last more than 2/2½ hours. Are we right to assume that the President would be accompanied by Secretary of State Shultz and Secretary Weinberger? If that is the case, the Prime Minister would no doubt wish the Foreign Secretary and the Defence Secretary to accompany her, though she would like to be sure of American intentions before finally making up her mind on this. The Prime Minister has made it clear, however, that she would wish to restrict participation beyond this as narrowly as possible, in the belief that this will make for a more useful discussion. It would also be helpful to know from the Embassy in Washington whether the Americans propose to prepare any papers for the "seminar".

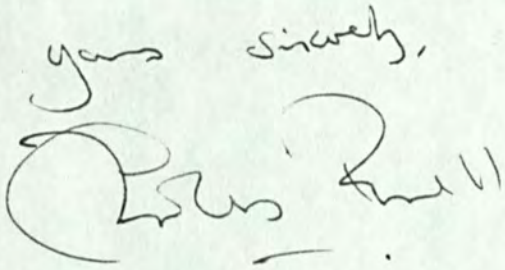
Rb

As you are aware - though the Prime Minister does not wish the fact to be widely known - President Reagan is sending Mr. Macfarlane to brief her on the Strategic Defence Initiative. We do not yet have a date for this. The briefing will be limited to the Prime Minister herself, though it may be that Mr. Macfarlane will be ready to give separate briefings to other Ministers. I have already asked Mr. Cartledge to collate existing material on our knowledge of Soviet capabilities and research in the area of ABM and Ballistic Missile Defence as well as our information on the American research effort. This will serve as a basic brief for the Prime Minister's meeting with Mr. Macfarlane.

Finally, I should note for the record that the Prime Minister has asked for texts of the 1967 Outer Space Treaty, the 1972 ABM Treaty and the SALT 2 Agreements so that she can study them in preparation for the February "seminar". Mr. Cartledge has kindly agreed to provide these.

I am sending copies of this letter to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

Yours sincerely,



C.D. POWELL

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

file VSC
cc Sir P Cradock

10 DOWNING STREET

From the Private Secretary

3 January 1985

Dear Len,

PRIME MINISTER'S VISIT TO THE UNITED STATES IN FEBRUARY: SPEECHES

We still await formal proposals from the Embassy in Washington for the programme for the Prime Minister's visit to the United States in February. But during her visit to Washington shortly before Christmas it was virtually agreed that she would leave the UK on the evening of 19 February, have a full day's programme including the arms control "seminar" in Washington on 20 February and travel on to Texas on 21/22 February, probably returning to London on the evening of 22 February.

I understand that HM Ambassador, Washington is looking into the possibility of an address by the Prime Minister to a joint session of Congress. It would be helpful to know the results of his enquiries as soon as possible. While the Prime Minister would be very ready to undertake this, she would not wish the Ambassador to press it too hard if it seems likely to encounter any difficulties and has pointed out that a television interview would reach a much wider audience. We should, however, work on the assumption that she will make one major speech in Washington on the lines suggested in my letter of 10 December and it would be helpful to have raw material for this as soon as possible.

The Prime Minister has noted the suggestions in David Peretz's letter of 27 December to you about the theme for the speech in Texas. She wishes to reflect further on this before reaching a decision but I think her mind is moving more towards the second of the two options put forward by David Peretz ie a speech looking at specific micro-economic issues and it would be prudent to set some preliminary work in hand on this. Indeed, I suspect that a well presented outline setting out the points which might be covered in such a speech would help precipitate a decision.

Yours sincerely

C.D. POWELL

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

CR GN 1984

cc VC
CPC

10 DOWNING STREET

From the Private Secretary

23 December 1984

Christian A. Herter Award

Thank you for your letter of 27 December recommending that the Prime Minister accept this award.

She is delighted to do so, but has asked whether it could not be presented to her in Washington during her visit to the United States in February.

(C.D. POWELL)

C.R. Budd, Esq.,
Foreign and Commonwealth Office,

GR

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

Agree attached reply?

17 December 1984

Dear Charles,

CDP

Could I receive it with Foreign Office letter to be Washington not

Christian A Herter Memorial Award

Your letter of 10 December asked for advice on the invitation from the Boston World Affairs Council for the Prime Minister to accept the Christian A Herter Memorial Award for significant contribution to better international understanding.

We understand from the Embassy in Washington that this award is presented each year by the Boston Council to leaders who have made significant contributions in international affairs. It is named after the former Governor of Massachusetts who served as Secretary of State under President Eisenhower. Past recipients of the Award have included Elliot Richardson, Henry Kissinger, Robert MacNamara, President Carter, Averill Harriman and President Sadat. Lord Carrington was offered the Award but had to decline it following his resignation in 1982.

Our recommendation, with which the Embassy concurs, is that the Prime Minister should accept the Award. We assume there is no prospect of her being able to accept the Award in person in Boston in March; this could however be done either through presentation to the Prime Minister in London by representatives of the Council or through Sir Oliver Wright at an occasion in Boston. I attach a draft telegram asking the Consul General in Boston, through Washington, to reply on these lines.

Yours ever,

Colin Budd

C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

OUT TELEGRAM

Classification and Caveats	Precedence/Deskby
RESTRICTED	IMMEDIATE

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	RESTRICTED
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO
PRE/ADD	7	TO IMMEDIATE WASHINGTON
TEL NO	8	TELEGRAM NUMBER
	9	YOUR TELNO 3716: PROPOSED AWARD TO PRIME MINISTER BY BOSTON
	10	WORLD AFFAIRS COUNCIL
	11	1. If you see no objection, please ask Consul General Boston
	12	to pass the following reply from the Prime Minister to
	13	Lt General Nichols' telegram of 7 December:
	14	BEGINS: I am honoured to have been nominated to receive the
	15	Christian A Herter Memorial Award for significant contribution
	16	to better international understanding and have pleasure in
	17	accepting the Award. I regret that prior engagements make it
	18	impossible for me to be in Boston to receive the Award next
	19	March. I should be most happy if representatives of the
	20	Council were able to present it to me in London; alternatively
	21	I could ask the British Ambassador in Washington to represent me
///	22	at a presentation in Boston. ENDS.
//	23	
/	24	HOWE
	25	NNNN

NNNN ends telegram	BLANK	Catchword
File number	Dept P/Office	Distribution
Drafted by (Block capitals) C R Budd		
Telephone number 233 4831		
Authorised for despatch		
Comcen reference	Time of despatch	

XY 48

Pl. bring forward again on 10 January
C.D.P. 3/1

PRIME MINISTER

YOUR VISIT TO THE UNITED STATES IN FEBRUARY

I am not sure whether Oliver Wright mentioned to you when you were in Washington that he is taking soundings to see whether you might address a joint session of both Houses of Congress during your visit in February. It is far from certain that this can be arranged though apparently George Bush's first reaction was encouraging. It would need a very good speech with not a lot of time to prepare it. I am sure it would make enormous impact if it can be arranged. Agree that Oliver Wright should continue to pursue this idea?

Point Press hard. One T.V. address will reach a much wider audience

We shall also need to consider the subject for your speech in Texas. Oliver Wright's idea was that it should deal with the international economic situation. The attached letter from the Treasury suggests that this may not be a good idea and puts two alternative options:

(a) to deal only passingly with international economic questions in the course of a general review of world developments;

(b) to make a speech looking specifically at micro-economic issues, and in particular deal with the relative ability of the UK and US economies to create jobs, the role of the public sector, the climate for investment and the free market ethos.

The second option seems to me to be a much better one. Agree to commission work on it? We shall need to think this through a little further

Another question which is already active is who should accompany you to Washington, and in particular for the "seminar" on arms control. Both the Foreign Secretary and the Defence Secretary have already said that they would like to. You will wish to consider this. In some ways it is preferable to have a single spokesman for our side if only because it

puts more pressure on the Americans to come up with an agreed view, even if the President delegates quite a lot of the talking to Shultz or Weinberger. This worked well at your meeting in December. On the other hand you may prefer in a longer session to have some support - though we shall have to be careful to limit numbers as strictly as possible if the discussion is to be useful. Agree that participants on our side should be the Foreign Secretary, Defence Secretary, the Ambassador and a Private Secretary?

CDP.

Will consider MT

2 January 1985

VC3AAE

Mr Powell: to see

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

28 December 1984

L V Appleyard Esq
Private Secretary to the
Secretary of State for Foreign
and Commonwealth Affairs

Dear Len,

POSSIBLE VISIT BY THE PRIME MINISTER TO THE UNITED STATES IN FEBRUARY 1985

Charles Powell wrote to you on 10 December about preparations for a possible visit by the Prime Minister to Washington in February. Sir Oliver Wright suggested that one speech for the prospective visit might cover the international economic situation and the future of democracy.

2. We have been giving some thought to what topics the Prime Minister might like to address on the international economic scene. I fear that February does not look like being a particularly good month to speak on this subject. As far as the United States economy is concerned, any references to fiscal policy will have to be made with delicacy. The President will have just announced his Budget proposals for fiscal year 1986. Recent reports suggest that these will still be weak on measures to reduce the deficit. And Congress will not by then have started serious work on fiscal legislation. It looks as if only through very careful management will an adequate package eventually be passed through both Houses.

3. On the wider international scene, on the other hand, comment will obviously have to take into account the forthcoming Spring meetings in Washington of the IMF/IBRD Interim and Development Committees. Given the sensitivity of the developing countries to the industrialised world's attitude to these meetings, there are, however, arguments against giving these topics too much exposure in a speech delivered in North America.

4. Two other options, not necessarily mutually exclusive, occur to us. One is simply to step very lightly over both these areas in the context of a general review of world developments. Such a speech would concentrate more on the improved performance of OECD economies (whatever the problems stored up by US policies), the somewhat better climate for LDCs (with only general references to methods of handling the debt problems), the need further to roll back protectionist measures and the sort of deep-seated concerns there are now about structural issues in Europe (labour market inflexibility, large public sectors, low and inappropriate investment). References to the UK domestic situation would generally be set within this context.

5. A different approach would be to look specifically at micro-economic issues. It would talk about the steps which have been taken in the UK over the last five years to liberalise the economy, drawing parallels with historical and current US experience. The relative ability of each economy to create jobs would be the underlying theme. It would contrast the behaviour of labour markets in the US and Europe and also look at the roles of the public sector, the climate for investment and the free market ethos. Such an approach, dwelling in part with economic freedoms, would clearly fit in well with the wider remarks the Prime Minister might make on the future of democracy. There could no doubt also be some references to the impact of excessive public sector indebtedness.

6. I see that you are asking the Washington Embassy for material early in the New Year. Perhaps when this is available we could think again.

7. Copies of this letter go to Charles Powell (No 10), Richard Mottram (MOD) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Margaret O'Mara

for D L C PERETZ

PM Tours : USA : Aug 84.

31 DEC 1984

Christian A. HERTER Award
ROBERT NICHOLS

file

13/12 EC

Reminded 14/12 14/12

1) 17/12

10 DOWNING STREET

From the Private Secretary

10 December 1984

CHRISTIAN A. HERTER MEMORIAL AWARD

I enclose a copy of a telegram to the Prime Minister inviting her to accept the Christian A. Herter Award. I shall be grateful for urgent advice and a draft reply.

(C.D. Powell)

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

07 DEC 1984/1539

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28/12

CDP

MRS MARGARET H THATCHER PRIME MINISTER

10 DOWNING ST

LONDONSW1ENGLAND

DEAR PRIME MINISTER THATCHER

I AM PLEASED TO INFORM YOU THAT THE WORLD AFFAIRS COUNCIL OF BOSTON HAS NOMINATED YOU TO RECEIVE THE CHRISTIAN A. HERTER MEMORIAL AWARD FOR SIGNIFICANT CONTRIBUTION TO BETTER INTERNATIONAL UNDERSTANDING.

I CORDIALLY INVITE YOU TO RECEIVE THE AWARD AT A LUNCHEON OR DINNER TO BE HELD IN BOSTON MASSACHUSETTS IN MARCH ON THE DATE CONVENIENT TO

YOUR SCHEDULE.

THE CHRISTIAN A HERTER MEMORIAL AWARD, ESTABLISHED IN 1974, IS PRESENTED ANNUALLY. RECIPIENTS HAVE INCLUDED DAVID ROCKEFELLER, AVERELL HARRIMAN, JIMMY CARTER, ROBERT MCNAMARA, HENRY KISSINGER, SOL

LINOWITZ AND GEORGE SHULTZ.

THE WORLD AFFAIRS COUNCIL OF BOSTON IS A NON-PROFIT, NON-PARTISAN ORGANIZATION DEDICATED TO CREATING AN INFORMED, ARTICULATE PUBLIC OPINION ON FOREIGN POLICY ISSUES.

PLEASE NOTIFY ME OF YOUR ACCEPTANCE OF THE AWARD, AND WHETHER ANY DATE DURING MARCH 1985 WOULD BE CONVENIENT FOR YOUR APPEARANCE IN BOSTON TO RECEIVE THE AWARD. PLEASE WIRE RESPONSE SINCERELY

ROBERT L NICHOLS LT. GENERAL, USMC (RET.) EXECUTIVE DIRECTOR

COL 10 LONDONSW1 1974, 1985

Subject

Hd VC.
DCPC.

CC MASTER

10 DOWNING STREET

From the Private Secretary

10 December 1984

Dear Len,

POSSIBLE VISIT BY THE PRIME MINISTER
TO THE UNITED STATES IN FEBRUARY 1985

The Prime Minister had a discussion this afternoon with Sir Oliver Wright about her projected visit to Washington in February 1985.

The Prime Minister said that she had two worries about her visit in February. The first was that she would have seen President Reagan and discussed the most important issues with him in December. She would see him again at the Economic Summit in Bonn in May. A visit in February might seem a bit of an imposition. The second was that she had hoped, on this occasion, to get outside Washington and see something of the South and West. This would inevitably mean making speeches, for which new ideas would be needed. She had made a large number of speeches this autumn and was not convinced she had the time or the material to produce further worthwhile speeches as early as February.

Sir Oliver Wright said that the White House had made it quite clear to him that the Prime Minister would be very welcome in February despite the fact that she would also pay a brief visit in December. February would be ideal timing for the proposed seminar with President Reagan on arms control matters and the Prime Minister's participation was essential for the success of that. It was also most important for her to have an early opportunity to meet the new leadership in Congress whose influence over the main issues of interest to the United Kingdom such as the budget deficit and the US position on arms control would be very great. It would not be necessary for the Prime Minister to go through with the full programme which he had proposed in his telegram. For instance a slightly shorter visit taking in just Washington and Texas would be perfectly feasible. He would be happy to help with ideas and material for speeches. For a short visit, he envisaged only two: one in Washington which might deal with politico/security matters including East/West relations, arms control, the state of the Alliance and the European contribution to it; the other an economic speech dealing with the international economic situation and also perhaps bringing in the Prime Minister's views on the future of democracy.

The Prime Minister said that she would reflect further but would want to be quite certain that what was proposed was convenient and acceptable to President Reagan before making a decision. She would thus mention it to him on 22 December.

It would be prudent to start planning now on the basis of a visit in February taking in Washington and Texas but leaving California for a later occasion. In particular, work should be set in hand straightaway on material for speeches. At least until further guidance is forthcoming, these should be on the two broad themes proposed by Sir Oliver Wright; and we should take up his offer to provide material, asking the Embassy to submit this as soon as posible for the New Year. But you and David Peretz, to whom I am copying this letter, will undoubtedly want to commission work here (leaving the future of democracy to be dealt with by us) with the aim of submitting reasonably full draft outlines by 10 January.

I am copying this letter to David Peretz (HM Treasury), Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

Yours sincerely,

C.D. POWELL

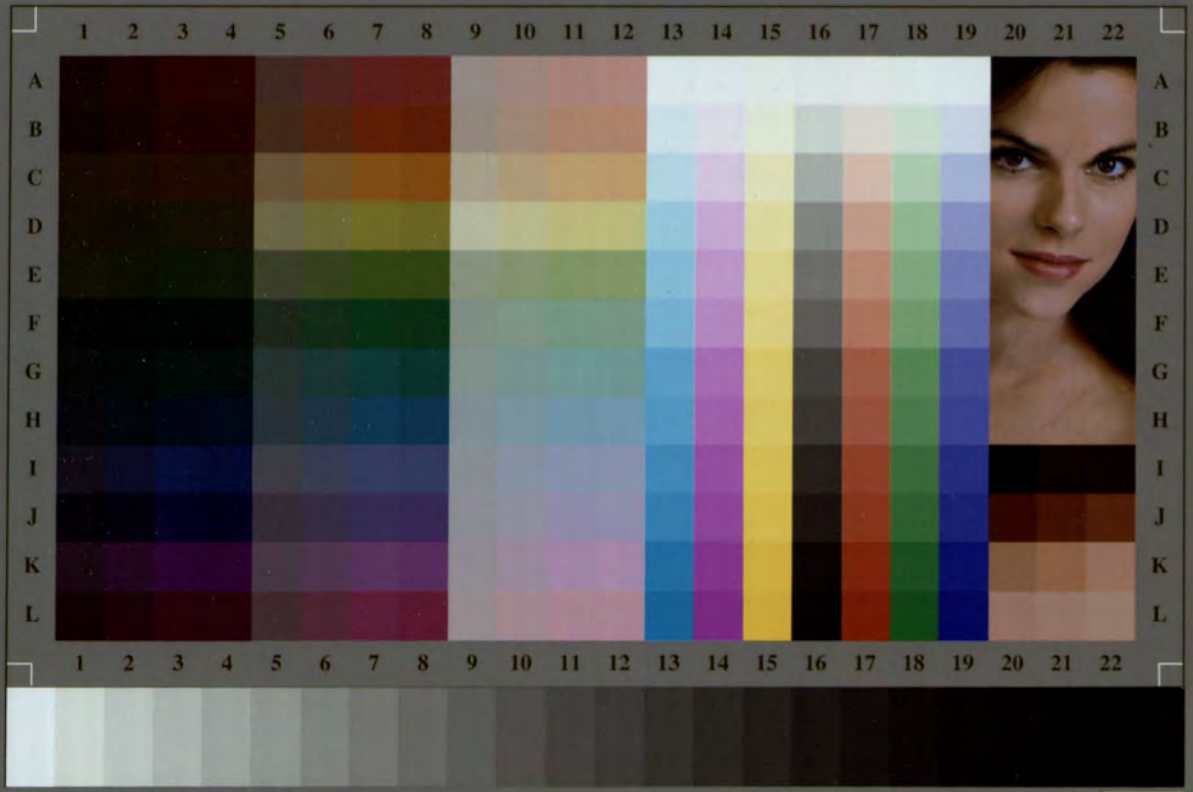
L.V. Appleyard, Esq.,
Foreign and Commonwealth Office.

PART 3 ends:-

R. Lothian to FERB 14/10/83.

PART 4 begins:-

UOP to FCO 3.1.85.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