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PART 4B

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Prime Minister's visit to Washington,
February 1985.

U.S.A.

Pt 1: Jan 1981

Pt 4: Jan 1985.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
2-1-85							
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2-2-85							
6-2-85							
8-2-85							
12-2-85							
16-2-85							
26-2-85							
27-2-85							
6-3-85							
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Prime Minister
Arms Control briefs
for Washington.

CABINET OFFICE

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B.06954

15 February 1985

Dear Charles,

Prime Minister's Visit to Washington, 20/21 February:
Arms Control

As requested in your letter of 2 February to me, further work has been done by FCO and MoD officials, under Cabinet Office aegis, on the briefs on arms control issues for the Prime Minister's forthcoming visit to Washington. I enclose the product. This comprises:-

- A. A revised Speaking Note on "The Approach to Renewed US/Soviet Arms Control Negotiations", in line with the prescription in paragraph 2(i) of your letter;

The existing Speaking Note on Chemical Weapons (CW) (as the Prime Minister directed, the UK paper on CW has been handed over to the Americans in Washington); and, as requested in paragraph 2(ii) of your letter,

Suggested elements on arms control for incorporation in the Prime Minister's public statement when she leaves the White House on 20 February.

- B. Background Notes on START, INF and ASATs;

A note on Soviet non-compliance with arms control agreements, which we have included in view of the high public profile which this issue currently has in Washington and in order to identify differences, where these exist, between US and UK perceptions;

A note on "Possible UK participation in SDI research", which sets out background to the brief reference, at the end of the revised Speaking Note on US/Soviet Arms Control Negotiations, to "US restrictions";

A copy, for reference purposes, of the UK paper on CW which the Americans now have; and

A supplementary note on CW, concerning the Presidential Review Commission.

C D Powell Esq
10 Downing Street
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- C. Briefs on subjects which it is not suggested that the Prime Minister should herself raise but which may come up during her discussions with President Reagan and his team. These cover:

UK Trident, the CDE and MBFR; and we have also included copies of the earlier Speaking Note and paper on Non-Proliferation and Nuclear Testing which, as you know, the Prime Minister does not wish to raise herself but which may be used by the Foreign Secretary or Defence Secretary in their own discussions.

I am sending copies of this letter to John Weston (FCO) and John Howe (MoD) enclosing, for each, one briefing folder for the use of their respective Secretaries of State together with five spare sets of the briefs; and to Sir Percy Cradock and Richard Hatfield, each with one set of briefs.

Yours ever,

B G Cartledge

B G Cartledge



SPEAKING NOTES

A. The Approach to Renewed United States/Soviet
Arms Control Negotiations

B. Chemical Weapons

C. Elements for Public Statement by the
Prime Minister following White House Meeting,
20 February 1985



A

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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?

Objective



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

"Impaled" arguments

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?



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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].



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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



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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



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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].



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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 ...



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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.



C

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.

DEFENSIVE BRIEFS

- A UK Trident, CDE and MBFR
- B Non-Proliferation and Nuclear Testing

BACKGROUND NOTES AND PAPERS

- A START
- B INF
- C ASATS
- D Alleged Soviet Non-compliance with Arms Control Agreements
- E Background to possible UK participation in SDI Research
- F Chemical Weapons Paper (already handed over to the Americans)
- G Chemical Weapons: Presidential Review Commission

A

BACKGROUND NOTESTART

1. When the START negotiations were discontinued by the Russians in Autumn 1983, negotiations had reached the following point.

The Soviet Position

2. A draft Treaty, amounting essentially to an extrapolation of the SALT II Treaty, proposes reductions in strategic nuclear delivery vehicles to:-

1800 ICBMs, SLBMs and heavy bombers

of which 1200 could be MIRVed ballistic missiles and heavy bombers with ALCMs

of which 1080 could be MIRVed ballistic missiles (ICBMs, SLBMs)

of which 680 could be MIRVed ICBMs.

In the course of negotiations the Russians relaxed their previous position which would have sought to limit Ohio/Typhoo class SSBNs to only four to six submarines on each side. They have therefore acknowledged that the US Trident submarine programme would go ahead, together with deployment of the D5 missile. The Russians also came to relax their position by allowing that there should be some deployments of ALCMs on the US side, though they remain interested in seeking to ban SLCMs of over 600 kilometers range. Although, as is clear from the above, their primary counting unit continues to be launchers, the Russians have also proposed that there should be a single combined aggregate of ballistic missile warheads and bomber weapons on the basis of these launcher ceilings. They have not yet provided a specific figure, but claim that it will be less than the current US total of START-accountable US warheads (around 10,000).

The United States Position

3. Originally the Americans were proposing in their draft Treaty that each side should reduce from the present approximately 7,500 ballistic missile warheads to 5000 warheads on no more than a limited (850) number of ICBM and SLBM launchers, together with strict sub-limits on heavy and medium ICBM launchers. This would if possible be achieved in such a way as to narrow significantly the existing Soviet advantage in aggregate ballistic missile throw-weight (5.6 versus 1.8 million kilograms). In addition the Americans have proposed a separate sub-limit on heavy bombers (including Backfire and FB111) at 400 on each side with a maximum limit of 20 ALCMs per heavy bomber. During the course of negotiations it became clear that this US position would have required of the Soviet side a radical re-structuring of their own strategic force posture of a kind thought unlikely to be unattainable. Accordingly the US negotiation position has evolved over time and on resumption (provided that continuing disagreements between the agencies are resolved and, in particular, if the Pentagon is prepared to accept it) is most likely to be in brief:

- (a) a total of 8,000 to 8,500 ballistic missile warheads and heavy bomber weapons
- (b) a sub-limit of around 6,500 ballistic missile warheads
- (c) these warheads to be deployed on no more than about 1,250 launchers, with a sub-limit of 200 to 250 heavy ICBMs
- (d) a ceiling of 400 heavy bombers, including heavy bombers with ALCMs.

In the past the Americans have refused to aggregate ballistic missile Warheads and bomber weapons in a combined total on the ground that a gravity bomb or slow-flying ALCM cannot be compared with a ballistic missile warhead in terms of the threat it poses. More recently however they seem to have relaxed on

the question of combined total, though they may still wish to argue that bomber weapons should not count against ballistic missile warheads on a one for one basis. More generally the Americans have indicated that they might be prepared to consider trade-offs that would take into account Soviet advantages in missiles and US advantages in bombers (including bombers with ALCMs) in ways providing each side maximum flexibility, so long as they would result in a more stable balance of forces. By stating that all strategic systems are in principle on the table, the Americans have also indicated that they do not exclude limitations on strategic nuclear sea-launched Cruise missiles (SLCMs).

Prospects

4. Viewed purely in terms of the nuclear accountancy the distance between the US and Soviet positions should theoretically put an agreement in principle within reach, other things being equal. The essential points to be dealt with are:-

- (i) how to match Soviet launcher numbers with US warhead numbers, in such a way as to ensure that when these figures are combined undesirable anomalies in the force structure of either side are avoided;
- (ii) how to strike the balance between limits on the destructive capabilities of Soviet missiles and limits on current US advantages in heavy bombers (including heavy bombers with ALCMs);
- (iii) how to deal with the Soviet Backfire bomber;
- (iv) how to deal with nuclear long-range SLCMs.

The position is set out below in tabular form.

US/SOVIET START
APPROACHES

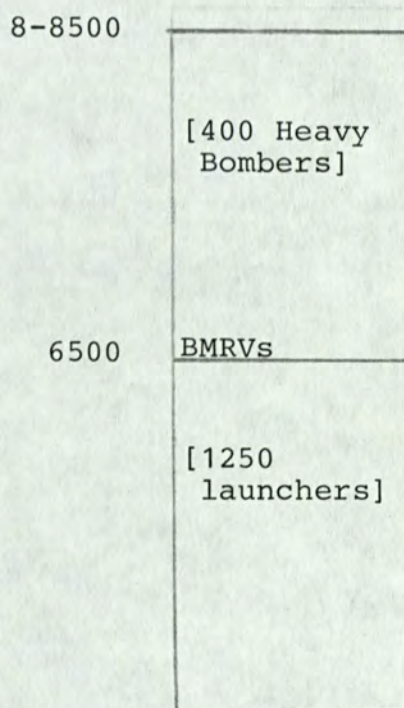
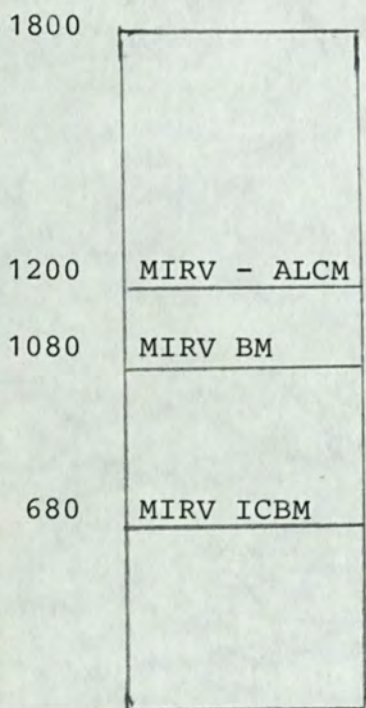
Current Force Levels

<u>Sovs:</u>	2700 SNDVs ¹ up to 10000 BM warheads ³ and bomber weapons up to 9000 BM warheads ³	<u>US:</u>	1980 ² 10000 7670
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Negotiating Approaches

Sovs: Launchers and Heavy Bombers

US: Missile Warheads and Bomber Weapons



Footnotes:

Current force level figures are approximate

- ¹ includes Soviet Backfires (@ 240 aircraft)
- ² excludes mothballed US heavy bombers counted in SALT 2
- ³ it is not possible to tell if Soviet systems are MIRVed to their full capability

BACKGROUND NOTEINF

1. The negotiations were discontinued on 23 November 1983 when the Soviet delegation walked out. Initial NATO deployment led the Russians to announce the following counter-measures:

- (a) Abrogation of the moratorium on deployment of medium range nuclear weapons in the European part of the USSR;
- (b) Acceleration of preparatory work to deploy in Czechoslovakia and the GDR "operational - tactical missiles of increased range" (Systems were not specified but assumed to be SS12/22 of which about 50 have now for the first time been deployed in GDR and Czechoslovakia);
- (c) Soviet systems to be deployed "in ocean areas and in seas" having in mind the territory of the USA, which would be no less effective than the American systems deployed in Europe.
[The subsequent deployment of Delta submarines off the coast of the US is almost certainly a result of this.]

The statement also says that other (unidentified) measures would be taken.

2. At the time that the negotiations were discontinued, the respective negotiation positions were as follows.

The US Position

3. Readiness to consider any interim solution on the way to zero, provided it would respect key principles of balance, exclusion of third party systems, limits on a global basis, no shifting of the problem eastwards, verification and no degradation of NATO's conventional capability. This position was refined in September by making it clear to the Russians that

in any interim solution an appropriate proportion of Pershing 2s would be reduced, some limitations on longer range INF aircraft could be considered, and that within an agreement providing equal global limits the US would not offset the total Soviet deployment by US deployments in Europe. In November 1983 the Americans suggested an interim global LRINF missile warhead ceiling on each side of 420, equating to 140 SS20 launchers, with the expectation that the proportions deployed by the Russians in the West and in the East respectively would be of the order of two-thirds to one-third.

The Soviet Position

4. Towards the end of the last round in autumn 1983 the Russians had modified their version of the balance of so-called medium range systems in Europe. In negotiations (though not publicly) they dropped their claim to include on the Western side the FB1-11 bombers based in the US, the US F4 Phantom aircraft in Europe and also reduced their count for A6 and A7 carrier-based aircraft within range of the Soviet Union. They had earlier accepted that the UK Vulcan aircraft were no longer relevant even by their own criteria. The result of the Soviet adjustment is to leave NATO, by the Russians' own admission, with only half as many medium range systems as the Soviet Union even if all the British and French missiles and aircraft are included. This was a notable acknowledgement that their earlier statement of the so-called balance had been spurious.

5. The substantive Soviet negotiating position remained to the end an attempt to secure agreement for a continuing high number of SS20s facing Europe with no reduction in their own Eastern deployments and no new US deployments permitted in Europe. But during the last round the Russians

twice reduced the precise number. First from 162 missiles (their calculation of the number of British and French missile launchers) to 140 (allowing 420 SS20 warheads, based on the Soviet calculation of British and French warhead numbers). Then in an ambiguous series of informal contacts with Ambassador Nitze on 12/13 November 1983 the Russians appeared to offer to reduce SS20s in Europe to 122 provided the whole of NATO's deployment programme was cancelled. This they described as each side reducing by a figure of 572 warheads. In so doing they appear to have conceded the principle for the first time of trading actual SS20 deployments against planned new NATO deployments. The earlier version of this (subsequently disavowed publicly) also appeared to "concede" that no reference to British or French systems need be made in an INF agreement and that the 122 SS20s in Europe could be offset against any future Soviet claim in another negotiating context to seek compensation for British and French systems. But since the Russians still wished to preserve a monopoly of SS20s on the ground, the "concession" was little more than a play on words. The Russians did not sustain this line and subsequently tried widely to give the impression that the idea came from the Americans in the first place.

Prospects

6. It may well prove very difficult to secure any real progress in the INF part of the resumed US/Soviet negotiations in Geneva. Despite the fact that the Russians are now faced with an on-going NATO deployment programme and for all practical purposes have dropped their pre-condition that NATO should return to the status quo ante before negotiations can take place, the Soviet negotiating position is likely to be unacceptable. The Russians are expected to argue that the halting and removing of NATO Pershing and

Cruise missile deployments should be bargained against Soviet counter-measures while SS20s could only be limited or reduced in exchange for formal inclusion of British and French systems. For its part NATO will have to insist on continuing where the earlier INF negotiations left off, putting the emphasis on the elements deployed in September 1983, ie that

- (a) within a global ceiling the US would deploy in Europe a number which matched but which did not exceed SS20s facing NATO Europe;
- (b) in any reductions from the maximum NATO deployment programme an appropriate proportion of Pershing 2s would be reduced; and
- (c) there should be some limitations on longer-range INF aircraft.

This general approach, particularly the room for manoeuvre implied by (a) above, might yield some interesting possibilities taken in conjunction with current SS20 deployments. It is known that a good deal of detailed work on the negotiating options is under way in Washington, but as yet the process of consultation with close Allies has not been carried very far on the specifics and no Administration decisions as such have, as far as we know, been taken.

- 7. An illustration of how this approach might be applied (not for use) is set out at Annex.

Deterrence

- 8. An important element in the original 1979 decision to deploy cruise missiles and Pershing IIs in Europe was the need to modernise NATO's existing LRINF systems in order to main the security of the Alliance. (Apart from the Cruise missiles and Pershing IIs, NATO's LRINF now consists only of the 144 US F 1-11s based in the United Kingdom, which are considerably less

effective than the new missiles). The role of NATO's LRINF is to ensure a credible continuance of deterrence by providing the Alliance with the capability to strike Soviet territory with land-based systems in Europe. The requirement for this capability does not vary directly with Soviet LRINF force levels. A key consideration in any INF arms control agreement will therefore be whether NATO's LRINF numbers remain adequate to support its strategy. Opinions on the numbers required for this will differ, but parity at very low levels would present significant implications for NATO's deterrent capability which would need to be addressed in advance.

9. Notwithstanding this, it would be politically difficult for the Alliance to withdraw President Reagan's offer of 1982 to set the INF balance at zero. There is, however, no evidence that the Russians are interested in establishing a genuine balance either at zero or at very low levels.

ILLUSTRATIVE APPLICATION
OF US SEPT 83 NEGOTIATING
PRINCIPLES TO INF

Current SS20s

- (a) 387 launchers (1161 warheads) of which
- (b) 225 launchers (675 warheads) facing West
- (c) 162 launchers (486 warheads) facing East.

Reduce (b) by 50%

- (b/b) 113 launchers (339 warheads) facing West

Reduce NATO programme (572 warheads) by 50% =

- (d) 286 warheads (including 50% of scheduled Pershing 2s)

Round out numbers at (b/b) and (d), to

- (e) 300 warheads on each side in Europe
- (f) US has right to hold up to 486 warheads elsewhere, but need not exercise that right, and will not exceed Soviet deployments in Europe.
- (g) 130 - 200 global limit on LRINF aircraft (F1-11, Badger, Blinder)

Result would be

50% reduction in SS20 facing Europe

30% reduction in SS20 globally

50% reduction in NATO LRINF programme

Exclusion of British/French systems

Limits on SS12/22 and SS23 as per US draft Treaty

But could be problem with Japan over (c)

BACKGROUND NOTEASATS

1. Paragraphs 11-13 of the draft Speaking Note on the approach to renewed United States/Soviet arms control negotiations pose questions about the desirability of some constraints on anti-satellite (ASAT) development, and makes some suggestions for possible approaches. These proposals and the arguments outlined in the Speaking Note were discussed by Ministers last July. Since then, the focus of debate and elsewhere on space systems has largely shifted to ballistic missile defence.

2. It is noteworthy that the Russians, having earlier emphasised the need for constraints on ASATs, have recently gone relatively silent on the subject; Gromyko did not raise it at Geneva. US speculation suggests that they have either decided to resume their own testing, or wish to concentrate their attention entirely on the US SDI research programme. Another possibility, which has apparently not yet surfaced in Washington, is that the Russians may have concluded that achieving a near-term agreement on ASAT constraints could provide a useful way of inhibiting SDI research; but that they should not make too much of this for the moment, lest an immediate and negative US response before negotiations proper began blocked the chances of an eventual deal in this area.

D

BACKGROUND NOTE

ALLEGED SOVIET NON-COMPLIANCE WITH ARMS CONTROL AGREEMENTS

1. The US Administration submitted a report to Congress on 1 February 1985 about Soviet non-compliance with arms control agreements. The attached chart sets out US and UK judgements on each item dealt with in the report.

2. In general, the Soviet Union is accused by the US of being in breach of its legal obligations in relation to the TTBT and SALT II. However neither treaty has been ratified. Nor are the US and Soviet Union party to the 1969 Vienna Convention on the Law of Treaties which requires a state to refrain from acts which would defeat the object and purpose of a Treaty awaiting ratification. Further information is required, but at present it is by no means clear that the Soviet Union is in breach of its legal undertakings with regard to TTBT or SALT II. However the Americans also lay considerable emphasis on the Russians' breach of political commitments, ie that even if they cannot be proved as having operated beyond the letter of the law, they are guilty of bad faith by acting against the spirit of agreements. This accusation is harder to prove or disprove since it rests on an interpretation of intent rather than the precise wording of an agreement. Ultimately the judgement is a political as much as a legal one.

3. The Russians for their part have responded by issuing their own set of alleged American breaches of arms control agreements. These are thin gruel.

SOVIET COMPLIANCE WITH ARMS CONTROL AGREEMENTS

Treaty/Issue

US View

UK View

Geneva Protocol of
1925 and Biological and
Toxin Weapons Convention
of.1972

Development, production,
transfer, possession and
use of biological and
toxin weapons

Soviet BW programme and
capability, and use of
biological weapons
in violation of 1972 BW
Convention. Involved in
production, transfer and use
of Mycotoxins for hostile
purposes in Kampuchea, Laos
and Afghanistan (although no
evidence of any attacks in
1984). Violation of both BWC
and 1925 protocol.

BW offensive capability:
possible but not definitely
established.
Afghanistan: use of lethal CW
not proven.
Laos and Kampuchea: possible
but not definitively proven.

Limited Testing Ban
Treaty

Underground Nuclear
Test Venting

Soviet tests have resulted in
venting of radioactive material
and caused its spread
outside Soviet territory.
Failed to take corrective
action despite US requests.
Violation of legal obligations.

Some venting has taken place,
probably inadvertently.
Technical violation.

Treaty Issue

US View

UK View

Threshold Test Ban
(not ratified)Nuclear testing and 150
kilotonIn spite of ambiguities
in pattern of Soviet
testing, likely
violation of 150
kiloton yield limit.US and UK analysis of yields
differ. Do not accept
evidence is as strong as US
claim.Helsinki Final ActNotification of military
exercises.Violation of political
commitment to prior
notification provisions
for Warsaw Pact exercises
in 1981. USSR provided
only bare minimum of
information on manoeuvres
in 1984.No clear evidence that
Warsaw Pact states have not
notified major (25,000 plus)
military manoeuvres. But
information often deficient.
Limited invitations to
Western observers. Possible
technical violation.SALT I(a) Use of dismantled
ICBM sites.Soviet activity apparently
related to SSX25 ICBM
deployments at two former
ICBM sites does not at
present violate SALT I
procedures. Concern about
compliance in future.Agree: no evidence of
violation.

Treaty/Issue

US View

UK View

(b) Reconfiguration of ballistic missile submarines.

Conversion of a dismantled Yankee class SSBN into a larger modern SLCM platform not a violation, although a threat to US and Alliance security.

Agree: no evidence of violation.

SALT II (not ratified)

(a) Encryption of ballistic missile telemetry.

Encryption of telemetry impedes verification of compliance. Violates legal obligations (pre 1981) and political obligations (since 1982) and SALT II.

Some encryption, not all related to missile capabilities restrained by Treaty. US/Soviet discussion of issue restricted by US unwillingness to reveal NTM capability. Treaty wording ambiguous. Not proven.

(b) SSX25 ICBM

(i) Second new type: Soviet Union has violated a political commitment by developing a second "new type" of ICBM in addition to the permitted SSX24.

Russians claim that SSX25 is modification of SS13. In UK view, not certain that differences between the two systems exceed permitted limits. If so, not a violation.

(ii) RV to Throwweight Ratio: If SSX25 were not a prohibited new type, it would violate provisions not to test existing ICBM with single RV whose weight is less than 50% of throwweight of the ICBM.

Possible technical violation but in other respects new missile complies with Treaty provisions.

Treaty/Issue

US View

UK View

(c) SS16 deployment.

Ambiguous evidence and no definitive conclusion. Probable violation of Soviet agreement under SALT II not to deploy SS16 type ICBM and in particular not to produce SS16 third stage or RV.

Do not believe SS16 has been deployed: not proven

ABM Treaty 1972

(a) Krasnoyarsk
(Abalakovo) radar

Violation of ABM Treaty provisions on siting orientation and capability.

Do not believe it is intended to have significant ABM role, though may have BMEWS capability. Difficult to demonstrate whether prime purpose is BMEWS (which would breach) or space evading (which would not). Not clear whether this constitutes breach.

(b) Mobility of new
ABM systems

Ambiguous but potential violation of legal obligation. USSR may be preparing an ABM defence of its national territory.

Probably refers to "Flat Twin" range radar; moveable but not a mobile deployment system. Not a violation.

Treaty/Issue

US View

UK View

(c) Concurrent testing of ABM and SAM components

Insufficient evidence on concurrent operations to assess compliance. Concurrent operation of SAM/ABM components indicates probable violation of prohibition on testing SAM components in ABM mode.

SAM radar has probably been used to track RVs inadvertently. Too old to be part of national ABM systems. Possible technical violation.

(d) ABM Territorial Defence

USSR may be preparing an ABM defence of its national territory.

No evidence that we are aware of, eg, procurement decision on longer lead items.

E

BACKGROUND NOTEBACKGROUND TO POSSIBLE UK
PARTICIPATION IN SDI RESEARCH

1. Under the Reagan Administration the US has taken a tough line on "technology transfer". Primarily directed against leakages of sensitive military technology to the Soviet Bloc (an objective which the UK has fully and consistently supported) there has also been a shift towards directing US officials to subject exchanges with Allies to more rigorous tests of advantage to the US than were previously applied. This has coincided with the resurgence of more "protectionist", "America first" attitudes on the part of the US Congress.

2. Amongst the problems encountered in the early days of the Administration were:

(i) Restrictions placed on UK companies and even UK-owned US companies attending "sensitive" US procurement conferences which had previously been open to them.

(ii) A greater resort generally to the "US Eyes Only", "No Foreign" classifications.

(iii) Congressional attempts to reimpose protectionist controls such as the Berry Amendment (prohibiting purchase of equipment using foreign "Specialty Metals"), initial prohibition on purchase of Martin Baker ejection seats selected by the USN.

Initially there were fears that there would be major detriment to our collaboration.

3. Vigorous protests by UK (and European) Ministers and constant watchfulness on the part of our (and other European) Embassies in Washington have succeeded in allaying the worst of our fears. With the aid of the US Administration, the Congressional actions at (iii) above have been reversed; an "appeals" procedure has been set up whereby unreasonable actions under (i) and (ii) above can be challenged. Where we have been able to convince the US Authorities that we have something to give as well as to receive, scientific exchanges have continued without serious inhibition and there has been no interruption to our nuclear exchange.

4. Difficulties remain:

(i) from over restrictive and "play safe" interpretation of regulations by junior officials which causes delay and difficulty over release of information, approval of visits to establishments etc. Senior US officials are usually helpful but it takes time to sort things out;

(ii) arbitrary Congressional actions still make co-operation difficult. The abrupt manner in which Congress, by withholding funds, forced the cancellation of collaboration on the JP 233 runway cratering weapon in 1980 has left scars; more recently its reduction of funding for the Harrier AV8B programme has led to increases in UK programme costs;

(iii) although we do better than most in Europe (our balance of military trade at rather less than 2:1 in the US favour compares with a ratio of about 6:1 for Europe generally) British firms still have an uphill struggle in penetrating the US market. "Not invented here" attitudes are still strong, particularly in the US Services.

5. Thus we cannot afford to relax our efforts and need to be constantly on our guard against this protectionism which lies close below if not on, the surface of the US. A helpful statement from the President on the lines called for in the speaking note will be useful ammunition.

Note

This paper was handed to
the Americans on
12 February 1985.

UK SECRET

CHEMICAL WEAPONS

Introduction

1. The United States and United Kingdom agree on the growing Chemical Weapons (CW) threat, and on the importance of removing it by negotiating an adequately verifiable ban on such weapons. Given the existing imbalance between Western and Soviet capabilities, continued efforts by the United States Administration to secure Congressional approval to modernise the United States capability by binary production would seem to us a useful step in the context of improving the Western negotiating hand at Geneva and promoting the success of the talks. However, given the present political sensitivity of CW production in the West, such a move would not be devoid of domestic difficulty in the United States or elsewhere. In order to secure support for it, the present Western negotiating hand would have to be shown to be serious and reasonable.

2. Equally, failure to reach an acceptable result in the negotiations would underline any need to modernise current United States capabilities. This would be expensive and politically hazardous; the prospect of United States binary weapons intended for use in Europe would be highly controversial. However, the political problems surrounding CW rearmament should be eased if the West had already been shown to have made exhaustive efforts to achieve a negotiated ban; and if the blame for failure could clearly be placed at the door of the Soviet Union.

Geneva Negotiations

3. Significant progress has been made at Geneva since 1982, including Soviet acceptance (February 1984) of continuous international inspection of stockpile destruction. This conceded for the first time the important principle of intrusive on-site inspection on Soviet soil.

UK SECRET

United States Draft Treaty

4. The tabling of the United States Draft Treaty (April 1984) was a major step since it emphasised the Western requirements for adequate verification of compliance. There is already outline agreement in Geneva on eleven out of eighteen of its provisions. But a crucial struggle lies ahead over the hardest issues of verification and especially challenge inspection, the ultimate deterrent to non-compliance.

Challenge Inspection

5. Article X of the United States draft is a bold and imaginative approach. However, it has not gained the support of the neutrals. Moreover, while there has so far been solid Allied support in public for the United States overall approach, there is private consensus among close United States Allies, including the United Kingdom, that it would pose an unacceptable threat to the security of sensitive Allied facilities. The Russians have thus had little difficulty in rejecting and then exploiting the proposal to justify their own failure to negotiate seriously in good faith on verification.

6. United Kingdom difficulties on Article X are not dictated purely by our own security concerns. We also believe, more importantly, that it would prove an inadequate deterrent. The United States have consistently admitted that even if the Russians sign a Treaty with a "no refusal" clause, they would in fact refuse to accept any challenge inspection launched against them which could prove their non-compliance. Thus Article X would never in practice produce any "smoking gun". While it would provide a formal escape-hatch for United States withdrawal from the Treaty, the public justification for such a

radical step would not be strong, and the United States has admitted that it would not necessarily withdraw after Soviet refusal of a challenge inspection. The deterrent effect would therefore be very limited.

United Kingdom Proposal

7. On the other hand, the United Kingdom approach (outlined in diagram form at Annex A) envisages a graduated response with only a temporary initial right of refusal (as implied in earlier United Kingdom proposals approved by the Western Group at the CD); but thereafter steeply increasing costs for non-co-operation such as refusing or failing to co-operate with the alternative challenge methods set out below. It would not only ease the security problems for Western installations, but also strengthen the deterrent effect of the challenge inspection threat by providing for a cumulative build-up of domestic and international support for effective counter-measures (such as CW rearmament) against non-compliance. In the last resort, this is likely to be the only prospect to have a serious impact on Soviet decision making. The United Kingdom proposal also avoids the needlessly controversial distinction between public and private facilities in the United States draft Treaty which the Russians have used for propaganda effect.

Iterative Managed Access

8. If an immediate and unrestricted tour of the plant is refused because of the need to protect national security, then it would be a requirement of the challenged State to offer or allow an appropriate form of iterative managed access to enable the inspectors to make a reasoned

judgement on whether or not a case of non-compliance had occurred. Iterative managed access would therefore mean placing upon the challenged State the onus of disproving the challenge by permitting a controlled inspection. Within the constraints of national security (eg by screening off highly sensitive and unrelated features), the controlled inspection, to clarify progressively areas of uncertainty, would be conducted over a limited period of time which may be graduated according to the size of the site. Equipment for bona fide CW detection purposes would be proposed, to be approved by both sides. Unjustified refusal of useful and agreed instrumentation (eg magnetic anomaly detectors to detect underground storage tanks and piping) would be an indication of non-compliance. Once the challenge had been issued and until the procedure had completed its full course, the challenged State would not be permitted to engage in any activity which could cloak concealment, removal, destruction or reprocessing of its stocks. The inspection team even if not admitted would remain around the site to monitor exit traffic until the treaty non-compliance procedure had been completed.

Consequences of Non-Compliance: Graduated Response

9. Refusal of a challenge inspection or of iterative managed access would result in a graduated series of costs as shown in Annex A. These would culminate in a suspension of a State's rights and privileges of membership of the international organisation. This in turn could be treated by other states as a material breach of the Treaty, entitling them to suspend, in whole or in part, the operation of the Treaty in relation to the defaulting State. If a country other than the Soviet Union was suspected of non-compliance, this drastic but politically credible threat of withdrawal (and possible collapse of the Treaty) could encourage the Russians to bring their pressure to bear on the country concerned to comply.

10. The United Kingdom proposal envisages completion of the entire process within a very limited period (seven days). During this period international pressure could be separately mobilized by all possible means (including action in the UN Security Council). The United States Article X specifies two days as the time scale for challenge inspection. We do not believe that any real military advantage would be lost by waiting an additional five days to enable domestic and international opinion to be brought more effectively into play.

Discouragement of Frivolous Challenges

11. The United Kingdom approach would contain a mechanism to deter frivolous challenges. This would prevent a State which made a challenge and which proved to be unfounded from launching further challenges within a year. Further unfounded challenges could incur progressively increased penalties. We believe this deterrent would be preferable to the United States fact-finding panel approach which would not in our view act as an effective filter against challenges made by countries such as Libya wishing to make mischief or acting as Soviet proxies. There would always be a Soviet and Third World representative on the fact-finding panel, either of whom could sponsor such challenges.

Conclusion

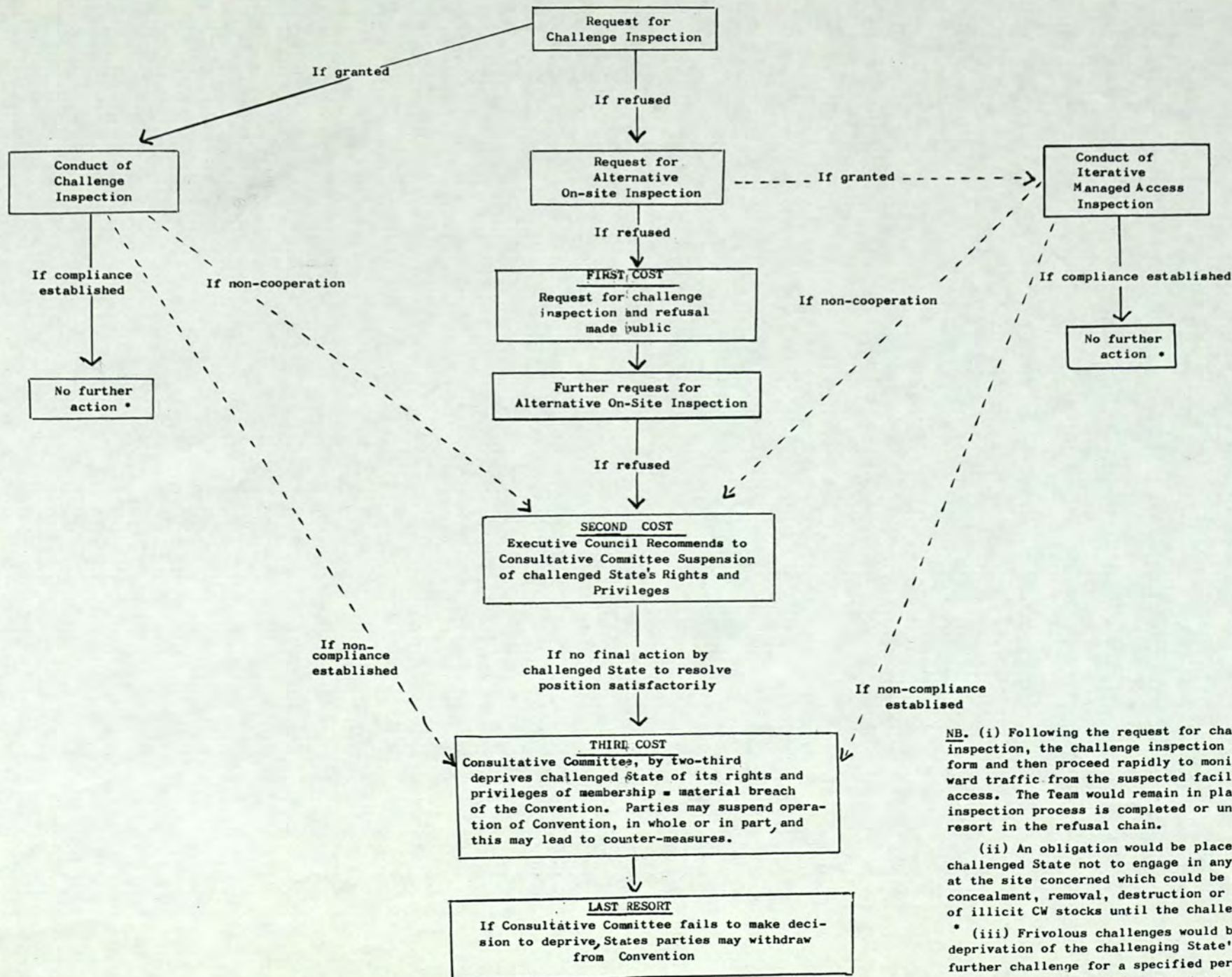
12. The United Kingdom and United States agree that 100 per cent perfect verification is unattainable. Compliance must therefore finally depend upon a credible deterrent such as the ultimate threat of intrusive challenge inspection. The United Kingdom refinement provides for a prompt, effective and publicly justifiable response if the Soviet Union

UK SECRET

refused, **under** challenge, to prove its compliance, together with a more secure procedure to manage and then penalise unfounded Soviet or proxy challenges against the West.

13. We therefore hope that the United State will reconsider its position. Even if our proposals prove unnegotiable at Geneva, their adoption as the Western position in this key area would better preserve Western unity; it would enable us to reduce Soviet opportunities to blame deadlock on unreasonable Western proposals or to wage a later propaganda campaign against modernisation of the United States CW capability, should this be required by failure of the current negotiations.

UK SECRET



NB. (i) Following the request for challenge inspection, the challenge inspection team would form and then proceed rapidly to monitor outward traffic from the suspected facility pending access. The Team would remain in place until the inspection process is completed or until last resort in the refusal chain.

(ii) An obligation would be placed on the challenged State not to engage in any activity at the site concerned which could be a cloak for concealment, removal, destruction or reprocessing of illicit CW stocks until the challenge was resolved.

* (iii) Frivolous challenges would be penalised by deprivation of the challenging State's right of further challenge for a specified period. This might be progressively increased for further infractions.

G

BACKGROUND NOTECHEMICAL WEAPONS: PRESIDENTIAL REVIEW COMMISSION

1. Presidential Review Commission (PRC) established (28 January) to "review the overall adequacy of the CW posture of the US with particular emphasis on the question of whether the US should produce binary chemical munitions". PRC's work to be completed by 30 September 1985, at latest. Draft work programme envisages European tour (possibly in March); to include visits to any allied capital expressing interest in giving a view.
2. Following report on US/UK exchange of views (19 October 1984) on US CW policy, the Prime Minister agreed that UK should respond with UK view, if approached by PRC. The Prime Minister's arms control seminar offers good opportunity to indicate HMG's willingness to respond in confidence, if President Reagan considered this helpful, and if PRC seeks UK views.
3. Given important leverage offered by US CW modernisation at Geneva, desirable to strengthen President Reagan's hand in seeking Congressional funds; might induce more flexible US position on Article X. Not to raise PRC with President offers reduced opportunity to influence course of US CW policy.

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SECRET

ADDITIONAL BRIEFING MATERIAL COVERING
UK TRIDENT, CDE and MBFR

DEFENSIVE BRIEF

A. UK TRIDENT AND ARMS CONTROL (for use only if raised)

1. It is recommended that the place of the UK deterrent in arms control should only be touched on in passing to confirm its exclusion from the current negotiations. If, however, the President wishes to have a more substantial discussion on the issue, the Prime Minister may wish to draw on the material below. The subject was not raised at Camp David.

Speaking Note for defensive use

2. We discussed in September 1983 the British nuclear force in the context of arms control. Likely to be pressure from Russians to include Polaris/Trident (and French systems) in new talks. You are aware of British position. No reason to change this now. Time may come to consider question of third country forces if and when deep bilateral cuts agreed, and no significant change to Soviet defences. We would be prepared to work with the United States, once deep bilateral cuts agreed, on ways of handling the question of the United Kingdom force in future arms control. We shall in any event wish to look at ways to show that the actual size of UK Trident will be well below its theoretical maximum.

Background

3. Our position on the place of the UK strategic deterrent in arms control was set out by Sir Geoffrey Howe at the United Nations on 28 September 1983 when he said:

"As far as the British deterrent is concerned, we must naturally take into account that our force is a strategic

one, and that it represents less than 3 per cent of the strategic nuclear forces available to the United States or to the Soviet Union. It would be absurd as things stand for us to seek to trade reductions with a superpower. But we have never said 'never'. On the contrary, we have made it clear that, if Soviet and United States strategic arsenals were to be very substantially reduced, and if no significant changes had occurred in Soviet defensive capabilities, Britain would want to review her position and to consider how best she could contribute to arms control in the light of the reduced threat. That remains our position."

4. The Prime Minister had a long discussion with President Reagan on the position of the UK deterrent in arms control during a tete-a-tete at the White House on 29 September 1983. The President said that the United States would continue to seek sizeable bilateral reductions with the Soviets, but if these were agreed it would be necessary to make allowances for the strategic weapons of other countries. The Prime Minister indicated that if the negotiations resulted in sizeable reductions and there were comparatively few weapons of this kind left, then, in this totally different world, we would have to consider the position of the United Kingdom and French deterrent. But this did not arise now. The hope was expressed that the Americans would be very cautious on this issue. Mr Reagan confirmed that they would be. Senator Tower (the new US negotiator on strategic systems) told Mr Luce on 11 February that he did not exclude "multilateralising" the negotiation at some stage, though it was not clear if he was expressing more than a personal view. There is evidence that some US officials have in mind the possibility of implicit counting of British and French systems in the context of medium range systems if agreement could be reached on a global US/Soviet ceiling under which the US did not in fact exercise their right to match Soviet SS 20's in Asia.

5. MISC 7 reviewed the position of the UK deterrent in relation to arms control in July 1984 when it took decisions on the Trident programme. A paper prepared by officials considered the background, and possible theoretical options for considering the UK deterrent in arms control, including "counting-in", a reduction formula and "no increase" commitment. It concluded that none of the options that might provide presentational improvements to our arms control position fully met our security criteria, and that the furthest we could go would be to make a conditional commitment on our plans for Trident in relation to Soviet defences and to re-emphasise our commitment to review our position in the event of substantial reductions in the arsenals of the superpowers and appropriate restraints in Soviet defensive capabilities. The time to make such a statement should be kept under review. MISC 7 endorsed the paper but concluded that it was not necessary or desirable to go beyond the public statement already made on the limits placed on the size of the Trident force.

6. Mr Gromyko raised the question of the position of the UK deterrent with Sir Geoffrey Howe twice last year, most recently in a discussion at the United Nations on 27 September, when Mr Gromyko entered into a diatribe pressing for the counting-in of United Kingdom and French systems, claiming that their exclusion was a tactical device to kill time, and claiming (as he has before) that President Carter had accepted that the Soviets have a point on this issue. Gorbachev also mentioned the subject during his visit in December 1984. He told the Foreign Secretary that he was not clear why the UK could not accept that account should be taken of British forces, as also of French forces. British nuclear forces were capable of inflicting such extensive damage on the Soviet Union that Soviet leaders had to take account of them. It was unrealistic for the US to insist that French and British nuclear weapons should not be considered. Gorbachev added that he understood

completely British security concerns and the Soviet Union was not insisting the UK get rid of its nuclear weapons regardless of any negotiations. But it was not possible to leave British nuclear potential out of any global solution.

7. There are likely to be pressures from the USSR (and perhaps some Allies) as the new negotiations get under way to accept the principle that United Kingdom (and French) forces should be taken account of in some way. If the President raises this issue, the Prime Minister will wish to confirm that the United Kingdom position has not changed, but she may also wish to add that once deep cuts have been agreed bilaterally, we would wish to consider with the United States how best to handle the question of the United Kingdom force in future arms control.

Trident Capabilities

8. The Prime Minister will be aware that the theoretical maximum capability of the United Kingdom Trident force will be to deploy 768 warheads. This assumes that the Trident D5 missile will be developed and tested to be able to carry a full outload of 12 Mk 4 warheads. Should the United States decide (possibly in the context of arms control negotiations) to give up the option of deploying 12 warheads in Trident and instead develop only a variant to carry eight of the larger Mk 12 re-entry bodies, the number of warheads which the United Kingdom would in fact be able to deploy could be reduced to a theoretical maximum of 512. In this case the United Kingdom might wish to deploy a full complement of warheads on each missile.

B. CDE (for use only if raised)

Points to make (if needed) are:-

- i. West should continue to work for an outcome containing agreement on concrete measures and some language reaffirming the commitment to non-use of force.
- ii. Agree that we need to keep an eye on balance in the CSCE process but human rights issues best kept out of Stockholm in other than exceptional circumstances.

Background

1. The Conference on Confidence- and Security-Building Measures and Disarmament in Europe (CDE) began in Stockholm in 4 January 1984. It is part of the CSCE Process. The mandate for the first stage, confined to Confidence and Security Building Measures (CSBMs), was negotiated at the Madrid follow-up meeting, 1980-83. Progress will be reviewed at the next follow-up meeting (Vienna 1986). CSBMs must be militarily significant, politically binding, verifiable and cover the whole of Europe.
2. There is no internationally accepted definition of a CSBM. To the West they are "concrete non-reduction measures which set rules for military behaviour and interchange". They reduce secrecy, impede attack options, improve warning time. The Western proposals at Stockholm comprise: annual exchange of information on the structure and normal location of ground and air forces in Europe of all participants; annual exchange of forecasts of military activities; notification of specified activities at division level or above 45 days in advance; mandatory invitation of observers to these activities;

undertaking not to interfere with national technical means of observation and the opportunity to check on suspected breaches of agreed measures; improved communications.

3. Proposals have also been tabled by Romania, the Neutral and Non-aligned (NNA), Soviet Union and Malta in that order. The Soviet Union's proposals are on traditional declaratory lines and take little account of the mandate. They are a treaty on non use of force (NUF), a declaration on no first use of nuclear weapons (NOFUN), a ban on chemical weapons (CW) in Europe, nuclear weapon free zones (NWFZ), freeze and reduction in military budgets (ROMB) and some elaboration of the Helsinki Final Act notification provisions, including a limitation on military exercises. This kind of constraint measure also figures in the NNA's proposals which are otherwise on Western lines. Constraints tend to be more difficult for NATO than the Warsaw Pact because of geographical and structural factors. Romania has tabled an idiosyncratic mix of declaratory proposals, notifications and constraints. The Maltese proposals concern the Mediterranean and are largely irrelevant in view of the agreed zone.

4. The first three sessions of the Conference were held entirely in plenary. The West sought to demonstrate the irrelevance of most Soviet proposals to the CDE. President Reagan's Dublin speech of 4 June, offering to discuss reaffirmation of NUF in return for negotiation of concrete measures, opened the way for agreement on 3 December on a timetable and agenda for two working groups. Although not an ideal structure, it gives the West a negotiable proposal in every working group meeting and more opportunities for discussion of Western than Eastern proposals. In the current session (29 Jan - 22 Mar) both East and West have tabled working papers and discussion is quite lively.

5. The Soviet Union seeks strict parallelism in negotiation of

Eastern and Western proposals, although its prime objective is a NUF treaty. The West has maintained the integrity of its package while arguing that NUF (but not a treaty) is the only negotiable element in the Soviet position. Compromise will be necessary if a substantial outcome is to be reached by November 1986. This may entail difficult decisions but these need not be addressed now. The overall state of East/West relations and progress in other CSCE meetings and arms control fora will have to be taken into account.

C. MBFR (for use only if raised)

Points to make (if needed) are:-

i. Little recent evidence of Eastern interest in making progress. Better East/West relations might change this. After eleven years there is a case for reviewing basic Alliance objectives. Believe NATO should consider the future of conventional arms control (MBFR and CDE) before Vienna CSCE meeting in November 1986. We will be prepared to play a full part in this in due course.

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

BACKGROUND

1. The Mutual and Balanced Force Reduction talks began in Vienna in 1973. The Warsaw Pact and NATO negotiate as Alliances. The agreed aim is 900,000 ground and air forces on each side within the area comprising FRG, Benelux, GDR, Poland and Czechoslovakia.

2. The negotiations are deadlocked over the issues of data and verification. The East has consistently claimed its current force levels are roughly equal to the West's. In fact they have about 1.2 million, compared with the West's 1 million, and would thus have to take correspondingly greater reductions to reach parity at 900,000. Western proposals for verification include mandatory on site inspection and permanent exit/entry points. The East made some tentative moves towards the West's position in 1983 but their proposals are faulty and inadequate (eg inspections could be refused, permanent exit/entry points would only be established after reductions).

3. The East's present negotiating position is summarised in its Draft Agreement tabled in 1983. This proposed initial small scale US/Soviet reductions outside a treaty framework, followed by a one year freeze while the Agreement was negotiated, and then partially monitored reductions over 3 years to 900,000 with each side deciding the scale of its own reductions. The East has now indicated that it will table a document this round (31 Jan - 28 Mar) linking the initial reductions and freeze more closely with the Agreement.

4. In July 1982 the West tabled a Draft Treaty, based on prior agreement on force levels, which provided a comprehensive framework for closely monitored, quantified reductions staged over 7 years. In April last year the West varied the Treaty with a new initiative (of US origin), the main feature of which was some flexibility on prior data agreement in return for Eastern acceptance of a more rigorous verification regime. The East's response has been consistently negative and no progress has been made.

5. Meanwhile the West has been unable to agree the details of enhanced verification needed to complete the Western initiative. The FRG has to bear the brunt of inspection on the Western side and is reluctant to accept the reciprocal

implications of the kind of enhancement which the UK believes necessary both in negotiating terms (to demonstrate data is a real issue) and for security. The UK has reluctantly decided that no agreement is possible until FRG ideas on dispensing entirely with the need for prior agreement on force levels in favour of ascertaining force levels by means of "co-operative" verification measures is thoroughly explored. The US have argued the need to complete the initiative, if necessary by papering over substantive differences. Discussion continues within the Alliance.

6. There is a growing feeling among Allies (including the UK) that NATO should review its position on conventional arms control (MBFR and CDE) before Vienna CSCE review meeting in 1986. But it is premature to embark on this yet.

Note

For possible use by the
Foreign and Commonwealth
Secretary or the Defence
Secretary.

DEFENSIVE BRIEFNON-PROLIFERATION AND NUCLEAR TESTING

1. Non-Proliferation Treaty (NPT) valuable instrument to contain spread of nuclear weapons to those who do not have them already; especially in Middle East. Also provides mechanism for continuing nuclear trade on sound basis. Review Conference of Treaty in September important milestone for Western non-proliferation aims.

2. Western strategy, to ensure Treaty survives Review Conference intact and in good health, already under discussion by Allies.

UK Technical Co-operation Fund proposal important element in strategy.

3. Inevitably focus by non-nuclear weapon states at Review Conference on Article VI (commitment to pursue nuclear disarmament). Do not accept majority view that inherent link between Article VI implementation and progress towards test ban. But recognise strength of others' feelings.

4. In addition to President Reagan's proposal for observer exchanges, suggest package of three elements (described in paragraph 8 of attached paper). It is designed to avoid damage to Western security interests while improving US/UK position at Review Conference and thereafter, whether or not Russians accept it.

UK SECRET

NON-PROLIFERATION AND NUCLEAR TESTING

1. Preventing the spread of nuclear weapons is in the security interests of every country. As Secretary Shultz said on 8 January after the United States/Soviet Arms Control talks: "If you have the aspiration of eliminating nuclear weapons, the subject of non-proliferation has got to be right up on the front-burner".

WESTERN NON-PROLIFERATION AIMS

2. The prime aim for Western countries is to frustrate any attempts by Non-Proliferation Treaty Parties (eg Libya, Iran, Iraq) or by non-Parties to acquire nuclear weapons. We also seek to maintain the confidence necessary between nuclear suppliers and their customers, to permit nuclear trade to continue. The NPT, with over 120 Parties, is a major barrier to the further spread of nuclear weapons. It makes a key contribution to Western and international security. It bans the acquisition or manufacture of nuclear weapons by Non-Nuclear Weapon States (NNWS); and provides for verification by providing the legal framework within which NNWS accept IAEA safeguards on all their nuclear facilities.

3. It is desirable that the third NPT Review Conference in September should reaffirm the support of all Parties for the Treaty. Its outcome could have an important effect upon the Treaty's future; some Parties are already expressing doubt about its long-term prospects and the Parties will have to decide in 1995 whether or not to extend it. Criticism may be expected at this year's Review, as in 1980, of the alleged

UK SECRET

failure of the NWS to honour their obligations under Article VI, which requires the Parties to pursue in good faith negotiations on nuclear disarmament. A negative outcome from the debate over Article VI could lead countries to question their commitment to the Treaty. A Western strategy to prevent this is therefore under discussion between the Allies; it could incorporate continued collaboration where possible with the Russians, who share with us comparable objectives for the Review Conference. An important part of this strategy could be the United Kingdom proposal for a Technical Co-operation Fund to benefit NPT Parties from the developing world. This would be most helpful in the context of debate about Article IV (peaceful nuclear energy).

NUCLEAR TESTING CONSTRAINTS

4. One element of the debate on Article VI at the Review Conference will be the inevitable focus by NNWS on constraints on nuclear testing. The resumed negotiations on nuclear weapons between the United States and the Soviet Union should help to deflect attacks. But it is predictable that many Parties will press for progress in the field of testing constraints.

5. A test ban is the only specific disarmament measure mentioned in the NPT; the preamble recalls the determination expressed in the 1963 Partial Test Ban Treaty by the United States, United Kingdom and the Soviet Union, to continue negotiation on such a ban. Many NNWS interpret this as being particularly relevant in the Article VI context, and see a ban as a key step towards nuclear disarmament. Many also allege

UK SECRET

that the early conclusion of a Treaty banning nuclear tests will be the touchstone of NWS commitment to the NPT. The United States and the United Kingdom do not accept either view.

6. Non-aligned Parties, who mistakenly believe that problems in verifying a total ban have been largely resolved, can be expected to press hard at the Review Conference for new NWS commitments to resume test ban negotiations, and to threaten damage to the NPT if these are not forthcoming. Our technical arguments about the continuing problems of verification, summarised in United Kingdom working papers submitted to the Conference on Disarmament in 1983, remain solid. Our opponents refuse to address these in substance, arguing that the objections are marginal. They remain apparently convinced that a test ban is both desirable and possible.⁴ Some of our Allies are also attracted to this view.

7. To counter such arguments, the United States have placed increasing emphasis on the need to see any ban on nuclear testing in its proper security context; to set it in its correct place in the sequence of other disarmament measures; and to ensure that, as with all arms control agreements, basic Western security interests are not put at risk. President Reagan has also made an important proposal for a United States/Soviet exchange of observers at test sites to which the Russians have not so far responded.

UK SECRET

8. In addition, we believe that there would be merit in considering a package of minor nuclear testing measures, which by indicating a degree of flexibility on our part could help our position. It is, however, important that such a package should not impede our respective testing programmes or damage Western security. Such a package, which we believe meets these criteria, could comprise -

i. A political understanding with the Soviet Union over data calibration on underground test sites, building on President Reagan's proposal;

ii. The ratification of the 1974 Threshold Test Ban Treaty and 1976 Peaceful Nuclear Explosions Treaty whose provisions the United States continues to observe despite non-ratification until now. In the light of previous United States Soviet positions, this would have to be integrally linked to a firm political agreement that;

iii. New negotiations would be immediately initiated with two objectives -

a. the possibility of agreeing a somewhat lower threshold (but no lower than would be tolerable in the light of continued United States, and United Kingdom, testing requirements) and

b. the simultaneous improvement of current verification provisions, to provide confidence in compliance both with the earlier Treaties and with any new agreements.

9. We consider that such a package -

- a. would not affect Western security adversely;
- b. would help foster the continued health of the NPT;
- c. could represent a useful extension of constraints on Soviet activities, and
- d. could create an opportunity to enhance our knowledge and verification of their testing programme.

The Russians might jib at some elements of this package, in which case the Western position would not then suffer. Equally, given the apparent importance they attach to maintaining the NPT they might be prepared to make the necessary concessions which until now they denied the United States.



Foreign and Commonwealth Office

London SW1A 2AH

13 February 1985

Dear Charles,

Prime Minister's Visit to Washington: 19-21 February

I enclose:

- a copy of Washington telegram no 487 setting out the Prime Minister's programme in its latest form. You will see that the breakfast round-table on 21 February has been brought forward to 0800-0900. Mr Baker, the Treasury Secretary, is committed to testifying on Capital Hill throughout the morning. The meeting with him has therefore had to be reduced to 20 minutes, which will follow the round-table.
- Briefs in the new format for the Prime Minister's meetings with:
 - (i) President Reagan. Non-Arms Control subjects only. (The Cabinet Office are submitting directly on Arms Control and East-West Relations.) We assume that these subjects will be taken over lunch when a number of other US Cabinet Members will be present, and in the Prime Minister's tete-a-tete meeting with the President;
 - (ii) Members of the Administration (economic and trade policy round-table);
 - (iii) Members of Senate and Members of the House of Representatives;
 - (iv) Mr Volcker;
 - (v) Mr Baker;
 - (vi) Mrs Dole. (After this brief was prepared we received the enclosed telegraph number 482 from Washington, indicating that as we had suspected Mrs Dole does not intend to raise transportation issues.)

/Where



Where subjects are included additional to those mentioned in your letter of 6 February, this reflects strong recommendations from the Departments concerned in London and/or the British Embassy in Washington. Where appropriate, the briefing has been prepared in consultation with, and reflects the views of, the other Whitehall Departments concerned.

The only omission from your list concerns Central America, on which briefing is provided as part of the briefing for the Prime Minister's meeting with Members of Congress. But neither the FCO nor the Embassy in Washington wish to recommend that the Prime Minister should take the initiative in raising the subject with the President; the Embassy do not expect that the President will raise it.

We understand that the issues of main concern to President Reagan will be Middle East and Terrorism, although he will be happy to discuss other matters of interest to the Prime Minister. The Americans are being informed in general terms of the subjects on which the Prime Minister will be briefed, subject to confirmation of her wishes after tomorrow's briefing meeting.

I am sending copies of this letter and enclosures to Private Secretaries at HM Treasury, Department of Trade and Industry, Ministry of Defence, Department of Transport, Ministry of Agriculture, Fisheries and Food, Department of Energy, Northern Ireland Office and Cabinet Office.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

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DESKBY 130900Z

FM WASHINGTON 130356Z FEB 85

TO IMMEDIATE F C O

TELEGRAM NUMBER 487 OF 12 FEBRUARY

INFO ROUTINE BIS NEW YORK.

PRIME MINISTER'S VISIT.

1. FOLLOWING IS PRESENT PROGRAMME FOR THE PRIME MINISTER'S VISIT.
ALL APPOINTMENTS ARE CONFIRMED.

TUESDAY 19 FEBRUARY

1930 ARRIVE ANDREWS AIRFORCE BASE. AMBASSADOR ROOSEVELT AND I
WILL BOARD THE AIRCRAFT AND ESCORT THE PRIME MINISTER TO
THE WELCOMING COMMITTEE WHICH INCLUDES BURT AND AMBASSADOR
PRICE.

1935 DEPART BY HELICOPTER FOR WASHINGTON MONUMENT GROUNDS,
REFLECTING POOL

1945 ARRIVE MONUMENT GROUNDS. GREETED BY SECRETARY SHULTZ WHO
ESCORTS THE PRIME MINISTER THROUGH THE HONOUR CORDON TO
THE LIMOUSINE.

1950 DEPART WASHINGTON MONUMENT ACCOMPANIED BY SHULTZ.

2000 ARRIVE RESIDENCE SHULTZ TAKES LEAVE.

2030 BRIEFING SUPPER.

WEDNESDAY 20 FEBRUARY

0645- TELEVISION INTERVIEWS WITH CBS, NBC, ABC
0800 AND CNN AT THE RESIDENCE

1030 DEPART FOR CAPITOL HILL

1045 ARRIVE HOUSE OF REPRESENTATIVES SOUTH DOOR. MET BY
ARCHITECT OF THE CAPITOL AND HOUSE SERGEANT AT ARMS.
SHORT MEETING WITH CONGRESSIONAL LEADERSHIP/ESCORTING
COMMITTEE.

1100 ADDRESS TO JOINT MEETING OF CONGRESS

1135 SHORT MEETING WITH SPEAKER AND ESCORTING COMMITTEE

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/1145.

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1145 DEPART U S CAPITOL

1155 ARRIVE WEST LOBBY OF WHITE HOUSE. AMBASSADOR ROOSEVELT ESCORTS PRIME MINISTER TO THE ROOSEVELT ROOM TO SIGN THE GUEST BOOK AND THEN TO THE OVAL OFFICE.

1200 TETE-A-TETE MEETING WITH THE PRESIDENT

1215 WORKING LUNCH

1315 SEMINAR IN THE CABINET ROOM

1430 DEPARTURE STATEMENTS

1445 DEPART WHITE HOUSE

1455 ARRIVE RESIDENCE

1530 DEPART RESIDENCE

1545 ARRIVE SENATE CARRIAGE ENTRANCE. MET BY SENATE SERGEANT AT ARMS AND SECRETARY OF SENATE. ESCORTED TO MAJORITY LEADER'S OFFICE. MEETING WITH SENATOR DOLE AND BIPARTISAN GROUP OF SENIOR SENATORS.

1650 DEPART MAJORITY LEADER'S OFFICE, ESCORTED BY SENATE SERGEANT AT ARMS. WALK THROUGH CAPITOL BUILDING TO HOUSE OF REPRESENTATIVES. MET IN ROTUNDA BY HOUSE SERGEANT AT ARMS. ESCORTED TO SPEAKER'S OFFICE.

1700 MEETING WITH SPEAKER O'NEILL, HOUSE MAJORITY AND MINORITY LEADERS AND OTHER SENIOR MEMBERS OF THE HOUSE.

1730 DEPART HOUSE OF REPRESENTATIVES.

1745 ARRIVE RESIDENCE

1800 PRESENTATION OF CHRISTIAN A HERTER AWARD.

1815 PRIVATE MEETING WITH SIR A WALTERS.

1930 DINNER (BLACK TIE).

THURSDAY 21 FEBRUARY

0700- FOUR BRITISH RADIO/TV INTERVIEWS PLUS NATIONAL
0745 PUBLIC RADIO INTERVIEW.

0800- BREAKFAST ROUND-TABLE MEETING AT THE RESIDENCE WITH
0930 ECONOMIC/TRADE POLICY CABINET MEMBERS ATTENDED BY SECRETARIES SHULTZ, BAKER, BALDRIGE AND BLOCK; BROCK (USTR); WALLIS (STATE DEPARTMENT) AND NILES (STATE DEPARTMENT, NOTETAKER).

RESTRICTED

/-0930

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0930- MEETING WITH TREASURY SECRETARY BAKER
0950 (AT THE RESIDENCE).

1000- PRESS CONFERENCE
1030 (EMBASSY)

1035 DEPART EMBASSY

1045 MEETING WITH TRANSPORTATION SECRETARY DOLE

1120 DEPART TRANSPORTATION DEPARTMENT

1130 ARRIVE FEDERAL RESERVE BOARD. MEETING WITH CHAIRMAN VOLCKER.

1210 DEPART FEDERAL RESERVE BOARD.

1215 ARRIVE MONUMENT GROUNDS, REFLECTING POOL. GREETED BY DAM
(DEPUTY SECRETARY OF STATE).

1220 DEPART BY HELICOPTER FOR ANDREWS AIRFORCE BASE.

1230 ARRIVE ANDREWS AIRFORCE BASE. GREETED BY BRIGADIER GENERAL
HARVEY (DIVISION COMMANDER).

1240 DEPART FOR LONDON, ETA HEATHROW 220055Z.

WRIGHT

LIMITED

NAD

PROTOCOL.D.

PS

PS/LADY YOUNG.

PS/MR. RENTON.

SIR.W.HARDING.

MR.DAVID THOMAS.

- 3 -

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GRS
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FROM WASHINGTON 130009Z FEB 85
TO IMMEDIATE FCO
TELEGRAM NO 482 OF 12 FEB

PRIME MINISTER'S VISIT TO WASHINGTON: MEETING WITH MRS DOLE

1. THE DEPARTMENT OF TRANSPORTATION HAVE TOLD US TODAY THAT MRS DOLE'S PREFERENCE WOULD BE FOR A SMALL TETE-A-TETE MEETING AT WHICH THE PRIME MINISTER MIGHT BE ACCOMPANIED BY MYSELF AND MRS DOLE BY NO MORE THAN ONE ADVISER. SHE IS NOT BEING BRIEFED TO RAISE ANY SPECIFIC TRANSPORTATION ISSUES BUT ENVISAGES A BROAD RANGING DISCUSSION ON MATTERS OF MUTUAL POLITICAL AND PERSONAL INTEREST. MRS DOLE IS HOWEVER ENTIRELY CONTENT TO STRUCTURE THE MEETING IN WHATEVER MANNER THE PRIME MINISTER WOULD PREFER.

2. I SHALL TELEGRAPH SEPARATELY WITH COMMENTS ON THE DRAFT BRIEF ON LAKER (YOUR TELNOS 249 AND 250) AND WILL MAKE RECOMMENDATIONS THEN.

WRIGHT

MINIMAL

NAD
PROTOCOL. D.

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PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN : 20 FEBRUARY
STEERING BRIEF

4:30 in 2:1 claim
1-12 No sheets of notes
Robert V. ...
Introductory MSSB
Dear Jones
Committed with
MSSB standards
Sydney
Technique

I MAJOR UK OBJECTIVES (OTHER THAN ARMS CONTROL AND EAST/WEST)

Bilateral

- (a) To persuade the President that the US army should buy Plessey's Mobile Subscriber Equipment (MSE) system (Ptarmigan).
- (b) To engage the President in the search for a solution to unitary tax this year.
- (c) On Laker, to secure Administration influence on Eximbank to reduce their claim; to register that anti-trust/aviation problem will not go away and [if the point is raised by the US side] that liberalisation cannot be arranged until a joint approach to competition issues has been agreed.
- (d) To thank the President for the Administration's co-operation over extradition, and to obtain his weight behind a Protocol amending the UK/US Extradition Treaty; to explain Government policy on Northern Ireland and developments in Anglo-Irish relations.

Economic

- (e) To bring home to President international concern at impact of US policies on world economy; to encourage President not to let up on budget deficit reduction this year and in future.

/ (f) To



- (f) To convince President Reagan that UK and US have same objectives on most trade issues and that continued US commitment to GATT is vital to genuinely open trading system; to get across that UK is seeking reform of CAP excesses; to persuade US not to strike aggressive attitudes.

International

- (g) To convince President Reagan that early US action necessary on Arab/Israel to support moderate Arab initiatives.
- (h) To persuade President Reagan that sustained efforts to improve relations with India will be worthwhile.
- (i) To ensure that President Reagan and the US Administration share our approach to events marking the 40th Anniversary of the end of World War Two.
- (j) To express support for continuation of Dr Crocker's policy of constructive engagement in Southern Africa; to reaffirm UK opposition to economic sanctions against South Africa.
- (k) To register UK concern about problems regarding New Zealand ship visits.

II OUR ARGUMENTS

(a) MSE

(i) Plessey in consortium with Rockwell and ITT. Fully understand need for high US content; two way street;

/ (ii) Ptarmigan



(ii) Ptarmigan developed to full NATO standards and demonstrated successfully to US experts; gives vital interoperability between operational allies; in service March 1985;

(iii) (If necessary) Technically and operationally superior to the French system (RITA); unlike RITA, able to handle heavy data transmission required by modern weapons; present French bid includes high US content, but Rockwell/Plessey have offered new package with larger US content.

(b) Unitary Taxation

(i) There has been some progress; recognise Administration's efforts; urge them to keep up pressure on individual States especially California; welcome Don Regan's commitment to recommend Federal legislation if there has not been sufficient progress at States level by end-July 1985;

(ii) Recognise Administration's preference for a voluntary solution at States level rather than Federal legislation; but so far only 3 States (Florida, Oregon, Massachusetts) out of 12 have abolished UT on foreign investment; California the major problem.

(c) Laker/Civil Aviation [to follow later in the week].

(d) Northern Ireland/Extradition

(i) An amendment to the UK/US Extradition Treaty could help to assure that fugitive IRA terrorists are brought to justice;

(ii) Misunderstandings following Anglo-Irish Summit cleared up; Prime Minister hopes to meet Dr FitzGerald again soon;

/ (iii) Government



- (iii) Government continuing to encourage Northern Ireland politicians to work for solution acceptable to both sides;
- (iv) Grateful for support of President and other US politicians in dissuading Americans from giving money to terrorist front organisations - 2,400 (civilians and security forces) killed since 1969;
- (v) We admire John Hume's steadfast rejection of violence but regret his expressed intention to meet the PIRA.

(e) Economic

- (i) Welcome determination in Inaugural Address to tackle deficit; 1986 budget proposals a step in right direction but - even if implemented - not enough; still projecting large deficits throughout the decade even allowing for high economic growth and surpluses in state and local sector; legacy of growing interest and debt burden; should be prepared to find extra tax revenue as last resort;
- (ii) Worried by continuing net inflow of capital to US, drawing in savings from rest of world; hits debtors especially hard;
- (iii) Dollar scaling new heights; markets need to be convinced that all partners fully committed to G5 and Williamsburg agreement.

(f) Trade Policy

- (i) Vital that protectionist pressures resisted; direct connection between trade deficit, budget deficit and level of dollar;

/ (ii) Continue



- (ii) Continue to develop broad strategy at Bonn Summit;
 - (iii) US endorsement of new GATT round in State of Union message welcome; but if US sights set too high we shall not carry others with us; dangers of EC/US and development/developing country friction;
 - (iv) Sympathy with US impatience on new GATT round, but LDCs need incentives to play ball, not bludgeoning; we need to focus on what those incentives should be;
 - (v) Real achievements on CAP reform; only a start; less chance of further restraint if US continues to make unrealistic demands or threatens to undercut EC export markets;
 - (vi) Strong dollar, not CAP, main reason for US farmers problems;
 - (vii) Alarmed by US call for consultations on EC exports of Non-carbon Steel Arrangement products; US must not underestimate damage restraints would do to EC/US relations.
- (g) Arab/Israel
- (i) Arab/Israel now ripe for real progress; depends on US; all concerned await US action;
 - (ii) Substantial consensus already achieved by King Hussein (Jordan/Egypt relations, some PLO moderation); Hussein needs to sustain momentum and hopes of progress; his failure must give initiative to Soviets/radicals, resurgence of terrorism, renewed war;

/ (iii) As



(iii) As President himself stated in September 1982 - special US responsibility: so urgent need to relaunch 1982 initiative with new substance, notably on Palestinian right to self-determination;

(iv) Peres proclaims desire to improve conditions in Occupied Territories, but little action; fragility of coalition should not be allowed to give Likud veto on action; recent incidents alarming;

(v) Israeli economic problems and need for Lebanese withdrawal should not distract from fundamental peace issue; all problems interact; all must be pursued together;

(vi) Worried about protection of civilians in Lebanon; co-ordination between Israel and Lebanon needed to ensure this.

(h) India

(i) Rajiv Gandhi's succession presents major opportunity for West; more Western oriented than his mother; more aware of need for Western technology and modernisation of Indian economy;

(ii) Efforts to improve Indo/US relations will need to be sustained; Indo/US Technology Transfer Agreement excellent start, but patience, light touch necessary; Indians will not abandon valued relations with Soviet Union; their relations with Pakistan a complicating factor; unrealistic to expect an immediate short term improvement;

(iii) (See also paras IV(c) and V(c) below on Indo/Pakistan nuclear issues.)

/ (i) 40th

(i) 40th Anniversary

(i) Maximum co-ordination of Alliance approach necessary to counter Soviet wedge-driving and anti-German propaganda.

Reassure Germans by explaining our interpretation of Anniversary in terms of peace, reconciliation, reconstruction and hopes for future (including East/West relations). Language at Bonn Economic Summit will set tone for VE Day and subsequent events.

(ii) In principle, expect UK to be represented at Soviet celebrations. Hope for co-ordinated UK/US and French responses; need to balance German sensitivities against concern for East/West relations in general; Soviet propaganda on "revanchism" in coming months important;

(iii) Form and theme of UK commemoration. Understand no US official commemoration. Will President's visit to Germany be explicitly linked to Anniversary?

(j) Southern Africa

We continue to support Dr Crocker's policy of constructive engagement; remain opposed to economic sanctions against South Africa.

New Zealand Ship Visits

(k) Suggest detailed discussion between Secretaries of State; Prime Minister to see Mr Lange on 4 March.

/ III TACTICAL

III TACTICAL ARGUMENTSGeneral

Momentum of President's election victory gives special opportunity for constructive initiatives (eg relations with India, Arab/Israel, budget deficit); domestic problems could become more pressing later in the term.

(a) Defence Sales

Purchase of Trident easier to commend to British electorate if US buy major items from us.

(b) Unitary Taxation

Parliamentary pressure for retaliatory action building up; just managed to resist last year, but pressure will become overwhelming by May unless there is progress in California.

(c) Civil Aviation

Threat of US anti-trust suits could deter fare cutting on busy North Atlantic routes (in 1983/4 6.5 million one way trips between US and UK, more than between US and France, FRG, Italy and Holland combined).

(e) World Economy

Market sentiment can easily precipitate crisis; growth of Government debt storing up trouble, increasing vulnerability to shocks, inflation; deficit would rise again if growth were to slow.

/ (f) Trade



(f) Trade Policy

US should do more to practise what it preaches on rollback of protectionism (eg steel pipes and tubes).

IV PRESIDENT REAGAN'S OBJECTIVES

(a) Terrorism

(i) To promote joint US/European co-operation in face of recent wave of attacks on NATO targets;

(ii) (Probably) to urge greater European effort to counter Islamic Jihad and other Middle East terrorist groups;

(iii) (Possibly) to press for more support for US efforts to secure release of US hostages held in Lebanon by Islamic extremists.

(b) To prove to US Irish Community and Congressional lobby his concern about Northern Ireland, especially human rights.

(c) [In context of discussion on India; see paras I(h) and II(h) above]. To seek British help in raising nuclear issues with India, with a view to promoting Indo-Pakistan dialogue.

V OUR RESPONSE

(a) Terrorism

(i) Terrorist attacks in Western Europe carried out by a number of small groups; links between them but no evidence of co-ordinated campaign. Should not get out of proportion;

/ (ii) No



(ii) No lack of determination to see Islamic Jihad defeated but the intangible nature of the organisation has made effective action difficult;

(iii) UK has made bilateral demarche in Tehran to secure hostages' release; and joined in EC approach. Would consider any further US suggestions which might help secure hostages' release.

(b) Northern Ireland

(i) Despite terrorism, Northern Ireland citizens retain full democratic rights and protection of law, including laws against discrimination;

(ii) Vast majority of both communities reject terrorism as means of settling political difficulties.

(c) India/Pakistan

(i) India will not respond well to specific Western proposals on nuclear matters or to Western endorsement of Pakistani ideas; efforts on nuclear front should concentrate on encouraging Indo/Pakistan dialogue while building on President Zia's assurances to US;

(ii) Rajiv Gandhi feeling his way; patience necessary; difficulties in Indo/British relations make it awkward for us to lead.

VI OTHER ISSUES

(a) The Prime Minister may wish to raise the following points:

/ (i) UK



(i) UK played prominent role in European Space Agency Council which decided to accept US offer and will take leading role in ESA on free flying platforms; UK expenditure on civil space activities to increase; formation of a National Space Centre;

(ii) After US tip-off, UK has taken swift action through amendment to UK law to prevent completion of a shipment of Carbon Carbon manufacturing equipment to the Soviet Union which had serious security implications.

(b) President Reagan might raise:

(i) HMG's decision not to authorise British Gas Corporation's proposed purchase of gas from Norway's Sleipner gas field.

UK Response - no adverse effect on Western energy security; UKCS reserves bigger than previously thought and will be developed sooner than envisaged; Sleipner gas now available for other Western European markets;

(ii) US request that UK give financial and moral support to the International Youth Conference and Festival in Kingston, Jamaica 1-9 April 1985.

UK Response - Mr Seaga told of UK reservation in June last year, and in November that no British Government funds were available; we reconsidered after Mr McFarlane's letter but position still that no Government money forthcoming; doing what we can to encourage funding from private sources; regret that US did not approach us earlier;

(iii) Prime Minister Charles' concern about her prospects in the

/ Dominica



Dominica General Election due by October.

UK Response - leftist opposition parties are coming together but we remain generally optimistic;

(iv) Ship visits to New Zealand. Argument and background in brief for Foreign Secretary's meeting with Mr Shultz, attached as Brief No 4.

VII BACKGROUND

Defence Sales

1. US army urgently needs secure digital communications system; wants equipment already in service; Ptarmigan meets specification; in service with British army next month.
2. Contract value: \$4.3 billion; value to UK: \$1.5 billion; 5,000 jobs until 1984; also implications of US selection for sales elsewhere.
3. Principal competitor: French RITA - Thompson CSF with American partner: GTE (powerful influence in Congress). RITA in service with French army for two years; French seeking to link selection of RITA to possible purchase of Boeing AWACS (See para III (a) above).
4. Both systems will be demonstrated in Germany to Members of Congress, US Ministers and senior military officers in April.
5. Contract award: by end of May - Congress must first be notified of equipment selected.

/ Unitary



Unitary Taxation

6. See Brief No 1.

Northern Ireland

7. Since Brighton bombing the US Administration is anxious to help in every way against the IRA.

8. Within constraints of current UK/US Extradition Treaty. Administration has given every assistance to facilitate the extradition of Irish terrorists. But the present Treaty contains "political exception" clause which terrorists have always invoked successfully, including in the Doherty case in December 1984 (Doherty was convicted in Belfast in 1981 for the murder of an Army Officer).

9. Mr Hume's decision to meet IRA Army Council may impede progress.

10. NORaid has raised \$3m in US "for welfare of prisoners' families" - even if used for welfare, has released other money for terrorism. NORaid believed to have used undisclosed money to buy arms.

US Economy

11. 1986 budget proposals are for \$50 billion of expenditure reductions. Prospects for achieving this and larger reductions in later years are poor. Even under optimistic assumptions, Federal deficit will still be 2.8 per cent of GNP in 1988.

12. Exceptional dollar strength led to G5's 17 January reaffirmation of Williamsburg commitment to co-ordinate

/ intervention



intervention as necessary.

India/Pakistan

13. Signs of improvement in Indo/US relations; far-reaching Indo/US Computer Technology Transfer Agreement concluded in draft November 1984. Rajiv Gandhi to visit Washington in June (having visited Moscow in May).

14. Nuclear: India believes - rightly - that Pakistan programme to acquire nuclear weapons capability is continuing. President Zia has given US assurances on uranium enrichment, but these are not cast iron.

15. UK/US senior officials agreed 28 January that way forward was to encourage Indo/Pakistan dialogue on nuclear issues, rather than promoting specific Western proposals.

40th Anniversary

16. See Brief No 2.

Southern Africa

17. See Brief No 3.

Ship visits to New Zealand

18. See Brief No 4.

Terrorism

19. See Brief No 5 (Secret - not attached).

Foreign & Commonwealth Office

13 February 1985

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Mr Powell

MSE

Sir James Blyth, the Head of Defence Sales, is in the US at present (and will be at tomorrow night's dinner). He has seen the MSE section in the (FCO) steering brief for the Prime Minister's talks with the President; and has suggested the attached redraft of the "Points to Make".

J O Kerr

J O Kerr

19 February 1985

CONFIDENTIAL

OUR ARGUMENTS(a) MSE

(i) We are faced with a practical and political problem over the rising cost of Trident particularly as a result of the increase in the value of the dollar. We have no specific offset programme for Trident, we therefore need to be able to point to a number of US purchases of military equipment which will help to meet the dollar cost.

(ii) In this context the next significant prospect is the Mobile Subscriber Equipment for the US Army (worth some \$4.3 billion of which about \$1.5 billion would come to UK). The UK company Plessey are in a consortium with ITT and led by Rockwell, competing against a consortium led by GTE and including Thomson CSF. The French RITA system is the platform for this bid.

(iii) The Plessey consortiums bid, which has a high US content (70%), is based on the British Army's Ptarmigan system which has been fully tested and developed to full NATO standards and demonstrated successfully to US experts. It gives vital interoperability between operational allies and would meet fully the US Army's urgent requirement.

(iv) (If necessary) Technically and operationally superior to the French system (RITA); unlike RITA, able to handle heavy data transmission required by modern weapons.

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AVIATION AND ANTI TRUST

(i) Our objectives

(a) To convince the Administration that they share an interest in influencing Eximbank to reduce their claim to a level permitting settlement without conveying the impression that this will resolve the whole complex of problems.

(b) To register that anti trust/aviation problems will not go away and that new arrangements for the future will have to be negotiated in longer term.

(c) (If the point is raised by the US side). To make clear that liberalisation can only be arranged in the context of a joint approach to competition issues.

(ii) Arguments to use

(a) Following your welcome decision to drop indictments we have decided to support efforts to settle the current anti trust cases. This will be costly to us in cash and is a compromise on our principles, since we regard litigation under US law on matters governed by the Air Services Agreement as improper. But we regard it as important and in the interest of our two countries to take steps to avoid the continuing litigation over-shadowing and damaging aviation and wider relations. It is also important that the airlines and equipment manufacturers on both sides of the Atlantic be freed of the contingent liability hanging over them.

(b) Eximbank have emerged as the key to a settlement of the liquidator's action. All of the other creditors have been prepared to discuss compromising their claims in the interests of a settlement if they are treated equitably with other creditors in the

/same

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same position. If Eximbank are paid more, others will demand more, and the costs may far outstrip what other airlines will contribute and what we are prepared to see BA pay. Eximbank's stand is also preventing payment to the numerous small creditors, whose claims are to be met in full.

(c) It is BA's intention - which HMG supports - to settle the class action as well in order to end all the current law suits.

(d) If the cases are not settled, the civil litigation, the uncertainty accompanying it, and the probability, if it went in the end against the defendants, of conflict between HMG and the US judiciary following action taken by HMG under the Protection of Trading Interests Act, would cast a shadow over bilateral relations possibly for years to come since any award of damages is unlikely to be enforced anywhere outside the USA.

(e) Can the President advise on how to get round the Eximbank problem?

(f) Settlement of current cases would clear the way for the essential jointly agreed approach to competition and liberalisation in aviation.

(iii) Tactical arguments

See (v) below.

(iv) Their objectives

To avoid involvement in or fall-out from this whole set of problems, and thus perhaps to parry a request for intervention in Exim's decisions. But also to prevent damage to our bilateral relations. Perhaps to persuade us to agree to negotiations on liberalisation of Bermuda 2 and to drop our objective of a change to US anti trust law for aviation and to accept full application of that law.

/(v)

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(v) Our response

Settlement

(a) The settlement approach is acceptable to others and fair to Eximbank, who have already recovered very large sums through their security.

(b) If both the liquidator's action and the class action are not settled quickly the whole problem will get worse and the conflict of laws will affect not only our aviation but our wider relationship.

(c) {if needed} Not settling because we think airlines "brought down" Laker. As we told Department of Justice, Bank of England considered Laker's collapse essentially the result of financial over-stretching and mismanagement. The contemplated DOJ indictments were not for "bringing down" Laker, but in respect of tariff discussions with Laker. We don't accept that such discussions are harmful in a Government regulated industry.

Future

(d) Prepared to negotiate liberalisation along with agreed competition rules. We cannot accept unfettered application of US domestic law (see Annex). {If needed} Safeguards for fair trading will be needed because of the size of the US airline industry and its monopoly of the protected US market gives it disproportionate scope for unfair swamping of UK airlines on the North Atlantic.

(vi) Press line

{Only if asked} Yes, we had a further talk about the civil aviation relationship.

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BACKGROUND

1. Prospects for settlement of Laker liquidator's action on lines approved by Ministers - \$55 million, BA share about \$22 million - threatened by Eximbank's unwillingness to reduce their claim (\$65 million): other creditors would demand proportionate increases and BA's contribution would become very large, perhaps politically unacceptable. Exim remaining obdurate but BA mobilising interested US firms (Pan Am, TWA, General Electric and McDonnell Douglas) to persuade Exim that reasonable settlement in everyone's interest.

2. Sir O Wright has asked White House staff contact (Fielding, Legal Counsellor) discreetly to probe Exim's position. He will advise the Prime Minister on her representation to President Reagan in the light of Fielding's report.

3. Settlement of class actions could be costly and slow: even after settlement of Laker liquidator's action emergence of new evidence could escalate class actions or lead to new Grand Jury enquiry.

4. On future arrangements, US Administration still unwilling to contemplate changes in US antitrust law. We are not ready to drop our objectives and accept unilateral application of US law (see Annex). State Department seems to contemplate resumption of talks in due course after settlement of Laker actions. We are prepared to move faster if President will give the right political impetus, but first we need to know what help we may want on settlement.

MARITIME, AVIATION AND
ENVIRONMENT DEPARTMENT

February 1985

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ANNEXE

"The implications of failure to agree with the US on the competition rules for international aviation"

The US have said that our airlines could 'live with US antitrust law'. One can live with many things; but what are the implications?

2. Our aims on future arrangements are

- (a) removal of the US treble damage private suit
- (b) establishment of jointly agreed basic rules, to regulate behaviour which is being questioned as being anti-competitive, within a framework under which these could be further developed as necessary.

3. Abandoning these aims and accepting unilateral application of US anti-trust law (and its future changes) to the shared international aviation market, would entail:

/(a)

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(a) For the Government

(i) Surrender of the Government's ability to negotiate for agreed competition arrangements for the US/UK aviation market (15 per cent of UK aviation traffic) both now and for the future as the market and Government policies on what is in the best interest of our consumers and industry may change: future changes in law and policy would be unilaterally dictated by US Department of Justice (whom we could influence little once we conceded the principle) and US court decisions (which we cannot influence).

(ii) possible inhibition on the UK's ability to determine even its own domestic aviation policy (the BA/BCal discussions encouraged by the Government in last autumn's recent White Paper review arguably breached US anti-trust law).

(iii) if exposure to civil anti trust suits is to be minimised, the pursuit of legitimate policy objectives of the UK regulator (eg. fair trading conditions for UK airlines) might well call for more direct

/inter-governmental

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inter-governmental involvement in the tariff, capacity and scheduling and other areas of aviation activity, contrary to our policy of reducing regulation.

(iv) a continuing possibility, even after the Laker and associated litigation is dealt with, of new private suits which might affect BA privatisation.

(b) For the airlines

British companies doing business in the United States are subject to US laws and must aim to observe them. British airlines are in no different position, except where through treaty arrangements we can arrange otherwise. Observance of anti-trust laws means following rigorous compliance programmes and seeking and obtaining Department of Transportation permission before engaging in conduct which would or might otherwise be prohibited (eg. fare discussions with other airlines). BA and BCal have sought such permissions in the past and are now (without prejudice to our position of principle) putting full compliance programmes into effect. With hindsight all the conduct now presenting the greatest danger in the civil litigation (though not necessarily the litigation

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itself) might have been avoided by strict observance of compliance programmes by BA and BCal. But there are consequences in the application of anti-trust as it stands to airlines:

(i) Co-operation between airlines has for long been considered, in some respects at least, essential for the conduct of their business (eg. interlining agreements). Issues as to the legality of action must therefore regularly arise. The geographical reach of US law is uncertain because the test is the effect on US commerce. The airline must either play safe with constant reference to the US authorities or risk unintentional liability.

(ii) The international industry is regulated by Governments. Non US Governments encourage and sometimes require inter-airline discussion in pursuit of their policy objectives. Since US law does not allow for full protection for airlines by reason of the intervention of other Governments, an airline may be unable to follow its own Government's policy and avoid the risk of liability in the US.

/(iii)

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(iii) the consequences of exposure to US civil suits are severe: actions can be readily threatened, and all the procedural cards are with plaintiffs, hence virtually all are settled.

Maritime, Aviation and
Environment Department

February 1985

- 5 -

CONFIDENTIAL



CONFIDENTIAL

PRIME MINISTER'S VISIT TO WASHINGTON : 21 FEBRUARY 1985
MEETING WITH PRESIDENT REAGAN
AVIATION AND ANTITRUST

(i) Our Objectives

(a) To secure Administration influence on Eximbank to
reduce their claim.

(b) To register that anti trust/aviation problem will
not go away and (if point raised by US side) that
liberalisation cannot be arranged until a joint approach
to competition issues has been agreed.

(ii) Arguments to use

(a) Following your welcome decision to drop indictments,
we decided, as a constructive step to improve our
relations, to support efforts to settle the current anti
trust cases, even though this will be costly to us in
principle and in cash.

(b) But Exim have emerged as the key to a settlement: an
acceptable settlement is threatened by Eximbank's
reluctance to reduce their claims, as other major

/creditors

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creditors are prepared to do. If Exim are paid more, others will demand more and the cost may far outstrip what the other airlines will contribute and what we are prepared to see BA pay.

(c) Settlement of current cases would clear the way for the essential jointly agreed approach to competition and liberalisation in aviation.

(iii) Tactical arguments

See (v) below

(iv) Their Objectives

To be rid of this whole set of problems. Perhaps, to parry a request for intervention in Exim's decisions, arguing airlines must pay for past sins. Perhaps, to persuade us to agree to negotiations on liberalisation of Bermuda 2 and to accept application of US anti-trust law.

(v) Our response

(a) Approach is acceptable to others and fair to Exim, who have already recovered very large sums through their security.

- 2 -

/(b)

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(b) If not settled quickly, the whole problem will get worse.

(c) (If needed) Not settling because we think airlines 'brought down' Laker. As we told Department of Justice, Bank of England considered Laker's collapse essentially result of financial overstretching and mismanagement. DOJ indictments were not for 'bringing down', only price fixing with Laker.

(d) Future: Prepared to negotiate liberalisation on basis of agreed competition rules. (If needed) Safeguards for fair trading will be needed: you are not offering access to US domestic market.

(vi) Press Line

(Only if asked) Yes, we had a further talk about the civil aviation relationship.

/Background

- 3 -

CONFIDENTIAL



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BACKGROUND

1. Last discussion in December made no progress on restarting negotiations.

2. Prospects for settlement of Laker liquidator's action on lines approved by Ministers - \$55 million, BA share about \$22 million - threatened by Eximbank's unwillingness to reduce their claim (\$65 million), as other major secured creditors in principle will. If Eximbank hold out other secured creditors would demand proportionate increases; BA's share of larger settlement would become very large, perhaps politically unacceptable, since the other contributors have already been squeezed. Eximbank seems obdurately unprepared to negotiate. BA mobilising US interests (Pan Am, TWA, General Electric and McDonnell Douglas) to persuade Eximbank that a reasonable settlement is in everyone's interest.

/3.

- 4 -

CONFIDENTIAL



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3. Sir O Wright has asked White House staff contact discreetly to probe Draper's position. Dependent on response (before weekend) we may advise that issue be raised with President.

4. Initial signs are that settlement of class actions may be costly and slow; and even after a settlement of Laker liquidator's action, further discovery, or response of US Judge Greene to our blocking of UK based evidence, could escalate class actions and lead to pressure to open fresh Grand Jury enquiry.

5. On future arrangements there has been no shift in unwillingness of US officials to contemplate change in US anti-trust law. State Department official seems to contemplate resumption of talks a few months after

/settlement



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settlement of Laker actions. We should like to move quicker if President can give the right political impetus. But premature to make a hard push until we know what help we may want on settlement.

Maritime, Aviation and
Environment Department

February 1985

- 6 -

CONFIDENTIAL



CONFIDENTIAL

ANNEXE

"The implications of failure to agree with the US on the competition rules for international aviation"

The US have said that our airlines could 'live with US antitrust law'. One can live with many things; but what are the implications?

2. Our aims on future arrangements are

- (a) removal of the US treble damage private suit
- (b) establishment of jointly agreed basic competition rules, within a framework under which these could be developed.

3. Abandoning these aims and accepting unilateral application of US anti-trust law (and its future changes) to the shared international aviation market, would entail:

/(a)

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(a) For the Government

(i) Surrender of the Government's ability to negotiate for agreed competition arrangements for the US/UK aviation market (15 per cent of UK aviation traffic) both now and for the future as the market and Government policies may change: future changes in law and policy would be unilaterally dictated by US Department of Justice (whom we could influence little once we conceded the principle) and US court decisions (which we cannot influence).

(ii) possible inhibition on the UK's ability to determine even its own domestic aviation policy (the BA/BCal discussions encouraged by the Government in last autumn's recent White Paper review arguably breached US anti-trust law).

(iii) either acceptance of the unfettered power of the US courts and the US Department of Justice within the UK as regards disclosure of documents, production of witnesses, draconian criminal and civil enforcement etc; or regular future disputes over this of the kind we have had over extraterritorial application of US anti-trust law.

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(iv) if exposure to civil anti-trust suits is to be minimised, a probable need for more direct inter-governmental involvement in the tariff, capacity and scheduling and other areas of aviation activity, contrary to our policy of reducing regulation.

(v) a continuing possibility, even after the Laker and associated litigation is dealt with, of new private suits which might affect BA privatisation.

(b) For the airlines

(i) at best, reduced risk of anti-trust proceedings: they cannot protect themselves completely against such proceedings - criminal or civil - since international scheduled service aviation involves cooperation in many activities; the law is not completely clear in advance; and only the US courts can definitively interpret it.

(ii) protective measures can be expensive and can inhibit enterprise

/(iii)



CONFIDENTIAL

(iii) the residual exposure even with careful management to civil suits is to a form of action which has become a commercial weapon involving: huge claims; extensive and oppressive discovery processes (fishing expeditions); high defence costs (not recoverable); contingency fee lawyers; unpredictable and possibly hostile juries; all leading to the inevitable need to pay a price for settlement.

(iv) exposure in "grey" areas where the attitude of the US courts and the DOJ is not known (interlining agreements, airport scheduling committees etc)

(v) uncertainty as to the reach of US law - eg. as regards discussions with non-US airlines (perhaps compelled by other Governments) predominantly about non US markets, but which could be held indirectly to impact upon US commerce.

Maritime, Aviation and
Environment Department

February 1985

- 4 -

CONFIDENTIAL



PRIME MINISTER'S VISIT TO WASHINGTON: 20 FEBRUARY

PRESIDENT CHERNENKO'S HEALTH: LEADERSHIP PROSPECTS

POINTS TO MAKE

1. Chernenko's state of health unclear. Little doubt that he has suffered relapse recently. Not known how serious.
2. We assess Gorbachev as Chernenko's most likely successor as Party's General Secretary and probably in due course as President too, though this may not happen immediately.
3. Gorbachev's main rivals, Romanov and possibly Grishin. Latter could be compromise candidate to delay generational change.
4. Do not think that uncertainty over leadership has a major impact on Soviet arms control policy. Throughout long period of illness of successive Soviet leaders Politburo has continued as collective decision-making body.
5. Would not expect any substantial changes in policy in short term under a new leader. Would be beholden to rest of Politburo who had selected him and would have to move cautiously. Gorbachev (and other potential leaders) closely involved in formulation of current policies.

BACKGROUND (IN CASE RAISED BY US SIDE)

6. Chernenko (73) has not been seen in public since 27 December. Soviet officials have admitted to westerners that he is ill. A Warsaw Pact Summit in mid-January was postponed sine die on this account. More recently Chernenko failed to meet Mr Papandreou on 12 February. Chernenko's chronic pulmonary emphysema makes it unlikely that he will ever be fully active again. His next public appearance should be on 22 February to meet his electors at the close of the election campaign for the Supreme Soviet.
7. US specialists, while acknowledging that Gorbachev is the front-runner for the succession, have also speculated

.../strongly



- 2 -

strongly about Grishin (70), Moscow Party Leader and long-serving member of the Politburo, as a possible compromise candidate to either Gorbachev (53) or Romanov (61). But they have no evidence for this.

8. Mr Shcherbitsky, a member of the Politburo will lead a delegation of the Supreme Soviet on a visit to Washington from 4 to 7 March. State Department officials have said that he will be received by President Reagan and Mr Shultz.



BRIEF NO 1

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN: 20 FEBRUARY

UNITARY TAXATION (UT)

BACKGROUND

1. Mr Don Regan told the Chancellor on 18 January that he would continue to press UT from his new position in the White House, and in the expectation that the Prime Minister would raise UT with the President, would press Governor Deukmejian for action in California. He would tell Deukmejian that the Prime Minister would be emphasising the need for early action in California when she saw the President. After the meeting he would urge Deukmejian to get the California legislation through before the Economic Summit.

2. Retaliation

The Government's public position is that if they came to the conclusion that legislation was the only way of getting a satisfactory conclusion then the Government would not hesitate to take the necessary action. (Chancellor's 'open' letter to Michael Gryllis, 6 July 1984). It is in fact unlikely that during this year's Finance Bill we will have reached the point where passing retaliatory legislation will be the only way of getting a solution - or indeed be tactically desirable.

3. State of Play in California

The Governor backed legislation in the California legislature in August 1984 to limit UT to the water's edge. This failed, as a result of opposition from US business, who were opposed to the full taxation of foreign source dividends. The Governor's Bill has been re-introduced this year. There is now a good chance of it passing because a compromise on the dividends issue can probably be achieved.

/ But



But success is not certain. And on present plans the decision may not be taken until August. It is clearly in UK interests to get the timetable in California brought forward. This will increase the chances of a successful result, as well as easing the task of dealing with Parliamentary pressures.

4. Attitude of Administration Members

The President has adopted a low profile, and is rumoured to be opposed to Federal legislation. Don Regan has been the driving force so far, and should be a useful ally in the White House. But it is probable that he will try very hard to avoid Federal legislation. Mr Baker's views are unknown. The State Department have consistently pressed for a solution to meet the needs of foreign multinationals.

Foreign & Commonwealth Office
13 February 1985



BRIEF NO 2

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN: 20 FEBRUARY
40TH ANNIVERSARY OF WORLD WAR II

BACKGROUND

1. Soviet attacks on alleged German militarism/revanchism linked to propaganda on the anniversary. Kohl nervous that anti-German anniversary commemorations will imply incomplete rehabilitation of Germany in post-War world. We aim to reassure Germans by deploying our interpretation of the anniversary at appropriate events (eg Bonn Economic Summit (2-4 May), Austrian State Treaty 30th Anniversary 15 May, NATO Spring Meeting 6-7 June, CSCE 10th Anniversary 30 July-1 August). American thinking still tentative, but sympathetic to above approach.
2. Russians planning celebrations in Moscow and other cities in Soviet Union on 8-9 May. Precise nature of events and intended foreign participation still unclear. No formal invitation yet issued.
3. Intend to indicate to Russians that their anti-German propaganda will make attendance of high level British representatives more difficult.
4. US has no present plans for official commemoration. President will be in Germany on 8 May after Economic Summit, but unclear how explicitly this visit will be tied in to Anniversary commemoration.

Foreign & Commonwealth Office
13 February 1985



BRIEF NO 3

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN: 20 FEBRUARY
SOUTHERN AFRICA
BACKGROUND

1. Increased public concern in US in recent months about apparent absence of progress in South Africa towards more equitable system of government, with full political and civil rights for Blacks. Daily protests outside the South African Embassy involving arrest of many prominent personalities; 35 Republican Senators sent strong letter of protest at current US policy to President Regan.
2. Protests have included increasingly demand that US should take clearer action to demonstrate disapproval of South Africa's racial policies; eg disinvestment by major American companies, ban on new investment, prohibition on purchase of Kruger rands; end to loans to South African Government, US opposition to IMF assistance to South Africa. Possible that legislation proposing one or more of these policies will be introduced in Congress in coming year.
3. President Regan has reviewed with Dr Crocker, US Assistant Secretary of State for African policy, the policy of Constructive Engagement. Administration has made clear that President fully supports Dr Crocker's approach. But the Americans are more conscious of need to produce tangible results if they are to continue to resist pressures which have built up for a more critical approach.



- 2 -

4. British policy is very similar to that of US, being based on the use of our relations with the South African Government to encourage changes on internal and some external policies. We have worked closely with Dr Crocker on Namibia/Angola (though without endorsing linkage). (We are also collaborating over follow-up to the Nkomati Accord). Dr Crocker's approach offers the best hope of rolling back Soviet influence in the region and of promoting Western interests.

5. The adoption by the US of, eg, a measure of disinvestment, would have serious implications for the UK and would increase the pressures on us to follow suit.

Foreign & Commonwealth Office

13 February 1985



CONFIDENTIAL

BRIEF NO. 16

SECRETARY OF STATE'S VISIT TO WASHINGTON, 19-21 FEBRUARY 1985
MEETING WITH MR SHULTZ
NEW ZEALAND: SHIP VISITS

POINTS TO MAKE

1. Prime Minister mentioned our concern to the President:
 - she will be seeing Lange on 4 March;
 - first Western leader to see him since issue came to a head;
 - will continue to emphasise wider issues.

2. Agree with US response to NZ b.n. Must sustain 'neither confirm nor deny' policy.

3. Share US concern to pre-empt similar action by other waverers. New Zealand must not be seen to have 'got away with it'. But,
 - punitive action by itself could be counter-productive;
 - must avoid isolating New Zealand;
 - should try to identify ways of inducing New Zealand to adopt more helpful policies.

4. Threat to ANZUS:
 - New Zealand (and Australia) play constructive role in:
 - South East Asia and South Pacific;
 - see advantage in Australia/US cooperation within ANZUS even if New Zealand temporarily on the sidelines;
 - must support Hawke (Australia).

5. Essential US keep us closely in touch as their thinking develops.

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SECRETARY OF STATE'S VISIT TO WASHINGTON, 19-21 FEBRUARY 1985
MEETING WITH MR SHULTZ
NEW ZEALAND: SHIP VISITS

BACKGROUND

1. New Zealand policy to ban visits by nuclear powered and nuclear capable ships affects both US and UK: RN ship visits effectively ruled out. No RN visits planned at present.
2. Prime Minister raised the issue with Mr Lange at Chequers last September and with departing NZ High Commissioner on 11 February. Secretary of State saw Lange in September (at UN) and, more recently, High Commissioner.
3. ANZUS Treaty (1951) commits Governments to consulting in the event of a threat against any one of them. Though not specified in Treaty, free port access re-affirmed at ANZUS Council meeting July 1984 (before Lange took office).
4. US concerned to avoid 'ripple' effect on shaky allies.
 - alliances entail reciprocal obligations
 - opportunities for Soviet wedge-driving limitless.
5. US Administration have distanced themselves from threat of economic/trade sanctions. We have expressed concern over possible US action in intelligence field.

Defence Department
Foreign and Commonwealth Office
February 1985



Brief No 5

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN: 20 FEBRUARY
TERRORISM
BACKGROUND

1. The Prime Minister last discussed terrorism with President Reagan at their meeting on 22 December.
2. Since then the Americans have become increasingly concerned at the effect on public opinion of the terrorist attacks on NATO facilities in Europe, particularly US targets.
3. Revised JIC assessment imminent. Will share with US.
4. Sympathise with US frustration at lack of suitable forum for US/European co-operation. Officials discussing this.
5. 5 US hostages held by Islamic extremists in Lebanon. All US efforts to secure their release so far failed. We and Ten have made representations to Iran seeking help, so far without success. Continue to urge caution on subject of retaliatory action, though accept it could be justified in certain circumstances.

Foreign & Commonwealth Office

13 February 1985



POLISH CHURCH AGRICULTURE SCHEME

President Reagan's Objective

To persuade Britain to contribute to the Scheme.

Our Response

Fully support the Church and private agriculture in Poland but unwilling to contribute because:

- a) doubt Scheme's economic viability and management skills of the Church;
- b) funds could be diverted to benefit Polish State rather than private farmers;
- c) Church still uncertain whether State will approve Scheme;
- d) contribution to pilot projects alone of little value; will inevitably lead to demands for full Scheme, which at \$1.8b is totally unrealistic;
- e) cannot justify contribution when so many other calls on our limited aid funds (eg famine relief in Africa).



Essential Background

The Polish Church have drawn up a scheme to support private agriculture and are seeking Western contributions. The initial scheme is for 10 pilot projects costing £28 million over 2 years. If successful this will be followed by a 5-year project costing \$1.8b. President Reagan has undertaken to ask Congress for \$10m for the pilot projects. The Germans are pressing for an EC contribution which we are currently alone in the Community in resisting. The Polish authorities have not yet given agreement to the Scheme.

During his forthcoming visit to Britain the Polish Primate, Cardinal Glemp, will call on the Secretary of State on 4 April. This could provide an opportunity for us to explore the present state of relations between the Polish Church and state over the Scheme.

PRIME MINISTER'S VISIT TO WASHINGTON, 19-21 FEBRUARY

ROUND TABLE DISCUSSIONS

I OUR OBJECTIVES

- a) Persuade the US -
 - i) that we have common aims on most trade policy issues;
 - ii) that striking aggressive attitudes, vis-a-vis Europe as well as the LDCs inhibits progress;
 - iii) that we are doing our best to reform excesses of CAP, but unrealistic demands make job harder.
- b) Secure clearest possible Administration commitments to oppose an import surcharge.
- c) Convince Administration of external impact of US economic policies:
 - i) press for adequate reduction of budget deficit;
 - ii) assess prospects for effective action in Congress.
- d) Remind Administration of acute difficulties caused by extraterritoriality.
- e) Get strong push from Administration for solution to unitary tax.
- f)
 - i) dissuade Americans from talking prices down in weak oil market.
 - ii) express concern at possible US oil levy.
- g) Secure Administration influence on Eximbank to reduce their claim for settlement in Laker liquidators suit;
- h) Register that anti-trust/aviation problem will not go away and [if the point is raised by the US side] that

liberalisation cannot be achieved until a joint approach to competition issues has been agreed.

- i) Emphasise political importance of a favourable US response to Hong Kong representations on US Textiles "Country of Origin" Rules.

II ARGUMENTS TO USE

- a)
 - i) Acknowledge US Administration's partially successful efforts to resist protectionism in 1984, and pressures they are now under to do more (strong dollar, trade deficit);
 - ii) Welcome President's endorsement of new GATT round in State of Union message;
 - iii) Importance of exploiting favourable opening for movement towards new GATT round, where we too want progress on liberalisation of trade in services, agriculture, fuller integration of NICs in open trading system;
 - iv) US (and UK) making the running; if sights are set too high shall not carry enough others with us to get what we want. Risk of friction, both EC/US and developed/developing;
 - v) Politically bad moment for trade friction;
 - vi) Real achievements on reform of CAP (milk production down 4% on 1983/84, guarantee thresholds).
- b) Import Surcharge
 - i) Particularly disturbed by reports of pressure for US import surcharge: inconsistent with commitments to resist protectionism. Bound to provoke calls for strong Community response.
 - ii) Alarmed by call for consultations on EC exports of non-Carbon Steel Arrangement products. US should not underestimate damage to EC/US relations if US attempts to introduce new restraints so soon after pipes and

tubes and only shortly before consideration of post-Arrangement regime.

c) US Economic Policies

- i) Rising dollar means increased inflationary pressures in other developed countries;
- ii) Large net capital inflows reflect Budgetary stance rather than prospective rates of return on capital investment;
- iii) Present policy not sustainable in longer term. Proposals would still leave federal deficit at $4\frac{1}{4}\%$ of GNP in 1986, $2\frac{3}{4}\%$ in 1988 despite low unemployment; burden of interest will become intolerable;
- iv) Budget deficit means upward pressure on interest and exchange rates; maybe ultimately inflation;
- v) US domestic savings insufficient; deficit sucks in savings from abroad, adversely affecting investment elsewhere;
- vi) High interest rates real problem for debtors;
- vii) Window of opportunity now for action following President's re-election, and before Congressional elections. Must not rule anything out, even taxes.

d) Extraterritoriality: must talk to each other; and find practical solutions; much progress already made (export controls arrangement, Cayman Narcotics Agreement); renewal of Export Administration Act should not make trade more difficult.

e) Unitary Taxation

- i) Some progress; welcome commitment to recommend Federal legislation if insufficient progress at States level by end 1985;
- ii) Parliamentary pressure for retaliatory action is building up again. But pressure will become almost irresistible by May unless there is progress on California.

f) Oil Prices*See addendum, suggested.*

- i) Abrupt movements in oil prices in either direction harm Western interests. Sharp fall would add to risks for World Banking system, threaten position of important debtor countries and damage further energy industry investment and energy conservation. Would lead to increased dependence on OPEC, and probably lead to sharp, damaging upswing in prices later.
- ii) Market sentiment affected by what is said as much as what is done. Statements should promote stability.
- iii) Oil import levy would increase instability in oil market: could further depress weak oil market by dampening demand and diverting oil now imported to US onto glutted world oil market.

g) + h) Laker aviation: see brief for meeting with President Reagan.

- i) Great economic importance to Hong Kong: psychologically important to show western countries are working to support Hong Kong in the context of the agreement.

III TACTICAL ARGUMENTS

- a) US should do more to practise what it preaches on rollback of protectionism (unilateral imposition of curbs on steel pipe and tube exports from EC, now resolved; failure to agree rollback tariff cuts in Congress).
- b) Extraterritoriality; Attempts to extend your laws to activities in UK may force us to protect our sovereignty (PTI Act).

IV US OBJECTIVES

- a) To emphasise urgency of progress towards new GATT round (particularly getting LDCs and NICs on board) before mid-term election protectionist pressures intensify in 1986;

- b) To stress need for EC to make radical reforms in CAP;
- c)
 - i) Adequate action now being taken on deficit; economy can grow out of it;
 - ii) US engine for growth and has benefitted Europe;
 - iii) Trade deficit has provided increased export opportunities;
- d) Show that sterling problem not just a reflection of an over-valued dollar: dollar movements 'orderly';
- e) Question strength of UK economy; effects of coal strike; flexibility of industrial, labour markets.
- f) To justify continued increases in level of defence spending.
- g)
 - i) to urge benefits of civil aviation deregulation, including liberalisation of Bermuda 2;
 - ii) to defend US anti-trust legislation.
- h) May express concern at apparent moves by UK to hold oil prices up.

V OUR RESPONSE

- a) GATT
 - i) Sympathise with US impatience on new GATT round;
 - ii) Progress depends on developed countries sticking together and giving LDCs incentives, not bludgeoning them into submission;
 - iii) Need to focus soon on what those incentives should be;
 - iv) Hope US will continue to reaffirm commitment to multilateral open trading system: US, like other major trading nations, bound to suffer from any weakening of GATT.

- b)
 - i) EC CAP reforms only a start: UK pressing for further discipline and restraint;
 - ii) US should not exaggerate responsibility of CAP for woes of their farmers: strength of dollar main problem.
 - iii) But no chance of this unless US also seen to be working to avoiding collision: US demands (in context of Farm Bill) for abolition of EC export subsidies wholly unrealistic;
 - iv) Threats to undercut EC export markets will only strengthen EC Member States arguing for retaliation.

- c)
 - i) US forecast of federal deficit already based on obviously optimistic assumptions - even so, deficit not low enough;
 - ii) Admit benefits of US growth so far, but not without costs. May not be sustainable;
 - iii) Not for us to say where budget cuts should be made, but can anything be completely ruled out?;
 - iv) We have had to take strong measures ourselves; sometimes necessary to postpone aim on cutting tax burden.

- d) Dollar rising sharply against all currencies; surely over-valued, prospects are for high current account deficits to continue.

- e) UK economy: coal strike petering out; little effect on rest of economy; growth otherwise steady at about 3% p.a. over last 3½ years; inflation at 5% p.a.

- f) Defence Spending
Stability in rest of world assured by confidence in sustainability of US economic performance; as well as by US defence capability.

- g) Civil Aviation liberalisation: committed to it provided competition is fair. Threat of US anti-trust could deter fare-cutting on North Atlantic routes.

- h)
 - i) Our oil policy based on principles of free market. We do not restrict production. BNOc cannot sell oil at prices its customers are unwilling to pay.
 - ii) BNOc's term price has symbolic value in oil market. Important that to limited extent possible BNOc avoid risking initiating downward price spiral.

VI PRESS LINE

- a) Welcome US Administration's resistance of protectionist pressures so far: Important that this is sustained and EC/US trade relations managed so as to avoid friction.
- b) Reaffirmed EC/US shared commitment to maintain and strengthen multilateral trade liberalisation in the GATT, and the need to pursue vigorously preparatory work for a new GATT round.
- c) Welcome Administration's expressed determination to cut Budget deficit; look forward to satisfactory outcome.
- d) Shared with Administration our concerns about external impact of high US interest rates and the strength of the dollar.

BRIEF FOR THE PRIME MINISTER'S VISIT TO WASHINGTON

OIL PRICES

Our objectives

1. To impress upon the Americans the importance of avoiding sharp changes in oil prices and hence the inadvisability of appearing to talk the price down in periods of market weakness.
2. To express concern at possible US oil levy.

Arguments to use

Abrupt "shock" movements in oil prices, up or down, are damaging to the free world economy. They create enormous problems of adjustment, as in 1974 and 1979/80, which the world economy certainly does not need in present circumstances. And the damaging part of the adjustment usually comes first, with any benefits coming only gradually and later. The UK opposed sharp upward movements in 1974 and 1979; and again in connection with the risk of closure of the Straits of Hormuz. Equally, we would rather not see a sharp downward movement now.

A sharp fall would add to the risks for the world banking system, threaten the position of important debtor countries, and damage investment in alternative forms of energy and energy conservation. In the short term it would damage the more conservative Persian Gulf countries friendly to the West relative to countries like Syria and Iran. In the longer term it would lead to increased dependence on OPEC, and probably herald a sharp, damaging upswing in prices later. In the case of gas it could increase dependence on the Soviet Union at the expense eg of higher cost developments in Norway or elsewhere.

Our worry about an oil import levy is precisely that, given the importance of the US market, it could join with other factors to cause a slide in the oil price, with Mexico as a principal victim - carrying implications for the US banking system. A combination of talking down the price and an oil levy could run a serious risk of destabilising the whole oil market.

Their objective

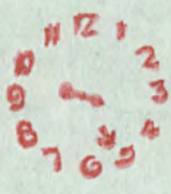
(Possibly) To express concern at UK's apparent moves to hold oil prices up.

Our response

Our oil policy is based on the principles of a free market: we do not restrict production. Nor can BNOC sell its oil at prices that customers are unwilling to pay.

The BNOC price has unfortunately acquired symbolic importance, mainly because of the aggressive reactions of Nigeria. It has little effect on the market, since it is a buying price to a limited number of suppliers, not a selling price. BNOC is selling at spot market prices. But we have no wish to attract aggressive reactions at this point from Nigeria; or to produce a price spiral because of their irrational reactions. So we have to act very carefully.

13 FEB 1985



PRIME MINISTER'S VISIT TO WASHINGTON, 19-21 FEBRUARY

ROUND TABLE DISCUSSIONS

BACKGROUND

1. Though US agreed Williamsburg Summit Declaration favouring oil market stability, US Administration statements frequently suggest fall in prices would be welcome. Apparent moves by HMG/BNOC to sustain oil prices have prompted expressions of US concern.
2. Idea of oil import levy reported gaining favour in US as means of raising additional revenue and alleviating problems caused by large US trade deficit.
3. Perceptibly more abrasive US approach to trade policy issues, against background of record deficit (\$123 billion in 1984) and strong dollar. Examples:
 - pipes and tubes restrictions
 - US withdrawal from GATT International Dairy Agreement
 - 1984 US Trade and Tariff Act, explicitly protectionist.
4. Agriculture main flashpoint in EC/US trade: tough line on subsidised exports (particularly from EC) will be price for Congressional support of 1985 Farm Bill.
5. Idea of US import surcharge as a way of reducing budget deficit gathering Congressional support, though still condemned by Administration.
6. President Reagan called for progress towards new GATT round in 1985 in State of Union message.
7. US Administration have asked Commission for consultations on EC exports of non-Carbon Steel Arrangement products other than pipe and tube.
 - Possibility of another steel dispute affecting products of much greater concern to BSC and independent producers.

Budget

8. President's budget proposals call for \$50bn of expenditure reductions in 1986. Still leaves federal deficit at $4\frac{1}{4}\%$ of GNP and $2\frac{3}{4}\%$ in 1988. London Summit participants agreed to strengthen policies to reduce inflation and interest rates, to control monetary growth and reduce budget deficits.

Extraterritoriality (ET)

9. US tendency to apply their laws extraterritorially has resulted in highly charged disputes: in export control field the Siberian pipeline; in anti-trust, the uranium, North Atlantic shipping and the Laker cases.

10. Deep philosophical differences between us, therefore objective is greater mutual understanding and practical approaches to managing ET issues. This has been achieved in:

i) law enforcement - 26 July 1984 agreement enabling the US authorities to obtain documentary evidence in the Cayman Islands for drug-related offences. In return US agreed not to enforce federal subpoenas for the production of documents in Cayman. Negotiation of a wider Law Enforcement Treaty with respect to Caymans expected to begin in May if the Narcotics Agreement working satisfactorily.

ii) export controls - in November Mr Baldrige and Mr Tebbit exchanged letters embodying an export controls arrangement. First such US agreement apart from the special case of Canada. A provisional and confidential arrangement for 1 year providing for consultations on: (a) changes in US export control regulations affecting re-exports from UK; (b) cases where applications for licenses for re-exporting from UK have been turned down, and; (c) our use of the Protection of Trading Interests Act (PTI)

11. Talks on anti-trust, overshadowed by the Laker case, made little progress. US sought severe restraint on use of PTI Act without balancing restraint on their part; and no satisfactory response to our concerns about the impact of private treble damage anti-trust suits. US offer of a limited exchange of letters on notification and consultation awaits the outcome of the Laker case.

12. Export Administration Act (EAA). Expired on 30 September 1983 but periodically extended by emergency legislation. Prolonged House/Senate conferences unable to reach agreement on a successor act, because of inter-agency rivalry, rivalries between Congressional Committees, and pressure by US industry and foreign governments. Congress expected to reconsider soon. We oppose reassertion of US ET control over re-exports, and export activities of foreign subsidiaries of US firms, and want improvement in provisions of contract sanctity.

13. Civil Aviation. 1983/84 6.5 million one way trips between US and UK, more than between US and France, FRG, Italy and Holland combined.

14. Laker. See brief for President Reagan (Department of Transport paper on "The Implications of Failure to Agree with the US on the Competition Rules for International Aviation" with Private Secretary).

Hong Kong Textiles

15. The GATT Textiles Committee found last December that US interim "Country of Origin" measures upset balance of rights and obligations under US/Hong Kong textile agreements, and recommended early US/Hong Kong consultations to restore balance. Four rounds of consultations since last August have made no progress.

GEORGE P SHULTZ
Secretary of State

Born in New York City in 1920. Shultz was educated at Princeton University (BA in Economics, 1942) then served in the Pacific as an officer in the US Marine Corps during the last two years of World War II.

He spent 1948-57 as a member of the faculty of Massachusetts Institute of Technology (PhD in Industrial Economics, taking a year out in 1955 to serve as senior staff economist to the President's Council of Economic Advisers (Eisenhower Administration). In 1957 Shultz was appointed Professor of Industrial Relations, and later Dean of the University of Chicago Business School.

In 1969 President Nixon appointed him Secretary of Labour; in 1970 Director of the Office of Management and Budget; in 1972 Secretary of the Treasury, and later Presidential Assistant and Chairman of the Council on Economic Policy. In 1974 Shultz left Government (with Nixon's resignation) to become Executive Vice-President, and later President, of the Bechtel Group.

In 1980 Shultz became Chairman of President Reagan's Economic Policy Advisory Board. He replaced Alexander Haig as Secretary of State in July 1982. Shultz shares most of the President's attitudes in foreign and domestic policies and with his measured, calm, team-playing style enjoys a much closer relationship with the White House than Haig did.

Shultz likes to describe himself as a 'University man'. A good listener. He has shown himself sensitive to the political problems of European Governments as a result of the growth of the anti-nuclear movement.

Married with five children.

February 1985

MALCOLM BALDRIGE

Secretary of Commerce

Born in 1922 in Omaha, the son of a Republican Congressman from Nebraska. Educated at Yale, where he received a BA in 1944, then he spent one year as a Captain in the US Army. In 1947 he went to work as a mill hand at the Eastern Company's iron foundry in Nangatuck, Conn. By 1960 he was President of the company. Scoville Inc hired him away from Eastern in 1962, making him President and chief executive officer the following year, and chairman in 1969. Scoville Inc is a manufacturer of housing, houseware and automotive products. Annual sales are approximately \$756 million. They have 12 manufacturing divisions around the US and some 35 foreign subsidiaries including in England Schrader Bellows Ltd, Scoville Security Products Ltd, Schrader Bellows-Cannock, and Schrader England-Automotive.

Baldrige is also a member of the Business Council, the Council on Foreign Relations Inc, the International Chamber of Commerce, and the Citizens Research Foundation. He is Director of several large corporations such as AMF, Bendix, IMB, Connecticut Mutual Life Insurance Co, Eastern Company, and Uniroyal Inc.

Baldrige ran George Bush's primary election campaign in Connecticut when the latter was seeking the Republican Presidential nomination. A long time friend of the Bush family. His aims have been to reduce Federal regulation of American business, which he believes is too harsh and impedes productivity.

Married with 2 children.

February 1985

JOHN BLOCK

Secretary of Agriculture

Born in 1935, son of an Illinois farmer. He graduated from West Point Military Academy in 1957, and completed US Army Service as an infantry officer in 1960. He returned to Springfield, Illinois to take over the family farm, expanding the enterprise to 3,000 acres. In 1977 he was appointed Director of Agriculture for the State of Illinois by Governor Thompson. He represented Illinois at the Anuga Food Show in West Germany, and in 1978-9, served as a member of agricultural export teams travelling to China and Japan. In September 1980, he led a 3 week fact-finding mission to the USSR, Poland, Hungary, Austria and Switzerland. In December 1980, Reagan appointed him Secretary of Agriculture.

Block's nomination was pressed strongly by Senators Dole and Percy who wanted someone with personal and practical farming experience. Formerly active in the local American Farm Bureau, and with various awards for distinguished contributions to the US, Block fitted the bill. Despite his lack of Washington experience, Block had an easy ride through the Senate Agricultural Committee. A right-wing Republican, and undoubtedly outspoken. Opposed the embargo on grain to the USSR, but advocates tying other countries to the US through their dependence on imports of American grain and meat. He has spoken out against the Food Stamp Programme.

Married with 2 children.

February 1985

WILLIAM EMERSON BROCK

United States Trade Representative

Mr Brock was born in Tennessee in 1930. He attended Washington and Lee University in Lexington, Virginia, where he earned a BS degree in 1953. Following his military service as an officer in the US Navy, he became associated with the Brock Candy Company.

In 1962, Brock became the first Republican to be elected to Congress in more than 40 years from Tennessee's third district. He served as a Congressman from 1963, then, after four terms in Congress, was elected to the US Senate in 1970. Between January 1971 and January 1977 Brock served on the Committees on Banking, Housing and Urban Affairs, Finance and Government Operations, and was a member of the Select Committees on Small Business and on Aging.

In 1977 the Republican Party turned to Brock to lead its efforts to restore its grass roots, expand its base, and re-earn the support of a majority of the American people, electing him as its National Chairman, a position he held until named US Trade Representative in January of 1981. He now holds both Cabinet and Ambassadorial rank as the President's chief trade adviser and negotiator and the nation's principal spokesman on international trade issues.

Married with 4 children.

February 1985

ALLEN WALLIS

Under Secretary of State for Economic Affairs,
State Department

Born in November 1912, in Philadelphia. Studied economics at the Universities of Minnesota and Chicago from 1932-35.

He began his academic career in 1935 at Columbia University. From 1938-46 was a member of the Department of Economics at Stanford University. In 1946, he moved to the University of Chicago faculty as Professor of Statistics and Economics, Graduate School of Business. In 1949 he served as Chairman of the Department of Statistics and from 1956 until 1962 was Dean of the Graduate School of Business. Since 1962 he has been affiliated with the University of Rochester, of which he became Chancellor and Trustee in 1970 and Professor Emeritus and Honorary Trustee in 1978.

Wallis has served the Federal Government in numerous capacities, including membership on the President's Commission on an All-Volunteer Armed Force; the National Commission on Productivity; and the Corporation for Public Broadcasting. He was on the Task Force on Education and the Transition Team on the International Communication Agency for President-elect Reagan. Appointed to his present job in July 1982.

He has been elected to the Board of Directors of nine major US corporations, including Bausch & Lomb, Macmillan, Eastman Kodak, Metropolitan Life Insurance and Standard Oil of Ohio. He has published ten books, numerous articles on economics and public and international policy.

Married with 2 children.

February 1985



PRIME MINISTER'S MEETINGS WITH SENATORS AND MEMBERS OF THE
HOUSE OF REPRESENTATIVES : 20 FEBRUARY 1985

Participation and Format

1. List of participants, where known, and personality notes at Annex A. Format of meetings set out in paragraphs 3 and 4 of Washington telno 476 of 12 February at Annex B.

Main Points to Make (Senate)

2. (a) UK/European commitment to NATO; scale of existing UK/European defence effort (argument and background at Annex C);
- (b) the need for more equitable two-way street on defence sale/procurement; specific British interest in Mobile Subscriber Equipment (MSE) contract (also Annex C);
- (c) British policies on Northern Ireland, discouragement of any attempt at direct political intervention; seek to end support for NORAID and the IRA (brief on controversial issues at Annex D);
- (d) international impact of US economic policies (see briefing for Round Table and ~~additional~~ brief at Annex E);
- (e) responsible approach needed to trade policies and trade liberalisation; oppose extraterritorial jurisdiction; (see briefing for Round Table);
- (f) UK/European economic performance and development (brief on UK economy and exports at Annex F; on Europe at Annex G);
- (g) abolition of unitary taxation; need for Federal legislation if States do not voluntarily limit unitary tax to US water's edge (argument and background at Annex H; see also briefing for meeting with President Reagan);

/(h)



- (h) UK resolved to fulfil commitments to the Falkland Islanders; Argentina blocking progress towards better bilateral relations (argument and background at Annex I).

Main Points to Make (House of Representatives)

3. (a) international impact of US economic policies;
(b) UK/European economic performance and development;
(c) Northern Ireland: British policies; discouragement of direct political intervention; end support for NORAIID and IRA.

Congressional Interests and Objectives

4. Main Congressional interest at present is the budget, and associated economic and trade issues. Major foreign policy pre-occupations include arms control, East/West relations, Middle East, Central America (brief at Annex J), South Africa and Chile (also at Annex J). There is a strong Northern Ireland lobby.
5. Issues on which the Prime Minister are most likely to be questioned are:
- (a) UK policy on Northern Ireland; whether HMG working seriously and urgently towards a solution;
 - (b) UK refusal to discuss sovereignty of Falklands threatens democracy in Argentina, and affects US/UK relations with South American countries;
 - (c) whether Britain and Europe remain in top league of economic performers (cf US and Japan);
 - (d) whether UK and Europeans are reliable defence partners;
 - (e) whether Europe pays a fair share of the common defence burden;
 - (f) state of labour relations and social stability in the UK

/in



in the light of the miners strike and level of unemployment;

(g) public spending on welfare, social services and agriculture.

6. Some Congressmen may seek to make domestic political capital out of exposing any differences between US Administration and British Government thinking (eg on Central America, Middle East, development of SDI and economic/budgetary matters).

Foreign and Commonwealth Office
13 February 1985



PRIME MINISTER'S MEETING WITH SENATORS AT 1545, WEDNESDAY 20 FEBRUARY

List of participants:-

Senator Robert Dole (R Kansas)
Senator Alan Simpson (R Wyoming)
Senator Barry Goldwater (R Arizona)
Senator Mark Hatfield (R Oregon)
Senator Bob Packwood (R Oregon)
Senator John Danforth (R Missouri)
Senator Malcolm Wallop (R Wyoming)
Senator Robert Byrd (D West Virginia)*
Senator Alan Cranston (D California)
Senator Sam Nunn (D Georgia)
Senator John Stennis (D Mississippi)
Senator Russel Long (D Louisiana)
Senator Ernest (Fritz) Hollings (D South Carolina)
Senator Claiborne Pell (D Rhode Island)

PRIME MINISTER'S MEETING WITH CONGRESSMEN 1700, WEDNESDAY 20 FEBRUARY

List of Participants:-

Speaker Tip O'Neill (D Massachusetts)
Congressman Jim Wright (D Texas)
Congressman Bob Michel (R Illinois)
Congressman William Broomfield (R Michigan)
Congressman Dante Fascell (D Florida)
Others to be notified in Washington

*(Unitary Taxation State)



SENATOR RICHARD LUGAR (R-Indiana)

Chairman of Senate Foreign Relations Committee. Born Indianapolis 1932. Rhodes Scholar at Oxford (MA 1956). US Navy 1957-60. Mayor of Indianapolis 1968-75. First elected to the Senate 1976. Made his mark on the Foreign Relations Committee as Chairman of the sub-committee on European Affairs. Also serves on the Agriculture Committee. He was tipped as a possible Vice-Presidential candidate in 1980. From 1982-4 he had the key job of managing the Republican Senatorial Election Campaign. He had hoped to become Majority Leader following the elections but was chosen instead for the Chairmanship of the Foreign Relations Committee (partly in order to prevent Senator Helms from taking the latter job).

Lugar is a moderate conservative with the reputation of being a Reagan loyalist. As Chairman he is already showing some signs of independence from the Administration, eg over Nicaragua. He intends to give the Committee a higher profile, and is currently holding a prestige series of hearings on the future of US foreign policy.

Lugar has been consistently helpful to European interests, and spoke and voted against the Nunn-Roth Amendment in June 1984. He called on the Prime Minister in London London in July 1984. He is a lay Methodist Minister. Married with 4 children.



THOMAS (TIP) P O'NEILL (D-Massachusetts)

HOUSE SPEAKER

Born in Cambridge, Massachusetts, in 1912, the son of an immigrant bricklayer from County Cork, Ireland. He graduated from Boston College in 1936 and took a job with a local insurance agency. Later that year, he was elected to the Massachusetts State House of Representatives where he served as Minority Leader from 1947, and as Speaker from 1948.

O'Neill ran successfully for John Kennedy's US House of Representatives seat when the latter launched his senatorial campaign in 1952. O'Neill served as House Majority Leader from 1972-76, when he was elected unopposed as Speaker of the House.

O'Neill is the archetypal Boston Irish politician. He has a consistently liberal voting record and is strongly attached to the Kennedy political tradition. He has a strong personal interest in Northern Ireland, is a regular visitor to the Republic and has visited Belfast. As a leading member and founder of the Friends of Ireland group, he has spoken out against violence and has been helpful in preventing Congressman Biaggi and others from holding hearings on Northern Ireland in Congress. But he has expressed concern about the outcome of the last Anglo-Irish Summit, and believes that greater efforts are needed to make political progress.

O'Neill's leadership of the Democrats in the House has been criticised by younger members in recent years. His old-style liberalism is out of fashion, and the Republicans successfully made him the butt of much of their advertising campaign in the recent elections. But O'Neill is still for the time being the dominant figure among the Democrats in Congress. In December 1984 he was re-elected unopposed for what he has said will be his final two-year term as Speaker. Thereafter he has made no secret of his interest in becoming US Ambassador in Dublin.

Married with five children and seven grandchildren. Catholic.

February 1985



SENATOR ROBERT DOLE (R-Kansas)
SENATE MAJORITY LEADER

Born in Kansas in 1923. Educated at local public schools and the University of Kansas until military service in World War II interrupted his studies. He was severely wounded in combat in Italy, permanently losing the use of his right arm. In 1949 he returned to university and graduated in 1952 with a law degree. He served in the Kansas State Legislature from 1951-3, and was prosecuting attorney for Russell County from 1953-60.

Dole was elected to the House of Representatives in 1960, and to the Senate in 1968. His strongly partisan support of the Nixon Administration brought him the Chairmanship of the Republican National Committee in 1971. But differences with Nixon's advisers led to his replacement in early 1973. He was President Ford's running mate in the 1976 election (when it was said that his acerbic tongue may have cost Ford crucial votes). In 1980 he himself made a brief bid for the Presidency, but dropped out after receiving less than 1% of the votes in the New Hampshire primary.

As Chairman of the Senate Finance Committee from 1980-4 he had a record of standing up to the Administration and arguing for deficit reductions. His recent election to the Majority Leadership has put a more independently minded figure than the White House would have wanted in the key liaison job between the Administration and Congress. Dole is clearly reserving the right to interpret the interests of Republic Senators in his own way (bearing in mind that 22 of them are up for re-election in 1986). The Majority Leadership also makes Dole a more serious alternative focus of support within the Republican Party, and may fuel his Presidential ambitions for 1988.

His second wife (1975), Elizabeth Hanford, is Secretary of Transportation. Both were previously divorced.



SENATOR ALAN SIMPSON (R-Wyoming)

Majority Whip (ie Deputy Leader to Senator Dole) since 1985. Born 1931. Son of a former Senator and Governor of Wyoming. Lawyer. Senator since 1978. A tall, slightly stooping figure, very popular with his colleagues. A middle-of-the-road conservative, he has made his mark mainly by his quick wits and his efforts to promote bipartisan immigration reform (the Simpson-Mazzoli Bill).

SENATOR BARRY GOLDWATER (R-Arizona)

Chairman of the Armed Services Committee since 1985 and former Chairman of the Intelligence Committee. Born 1909. The grand old man of the conservative wing of the Party (though he has mellowed considerably since he was Republican nominee for President in 1964). A Major General in the Air Force Reserve and strong partisan of the Air Force. As the new Chairman of the Armed Services Committee (succeeding Senator Tower) it remains to be seen how strongly he will support the President's defence expenditure proposals. He intends to retire from the Senate at the end of 1986.

SENATOR MARK HATFIELD (R-Oregon)

Chairman of the Senate Appropriations Committee. Born 1922. First elected to the Senate in 1966. One of the Republican "doves". An early opponent of the Vietnam War, and co-sponsor with Senator Kennedy of the nuclear freeze resolution. A deeply religious man (Baptist), he is a frequent critic of Pentagon weapons programmes and a supporter of increased social spending.



SENATOR BOB PACKWOOD (R-Oregon)

Chairman of the Finance Committee since 1985 and former Chairman of the Commerce, Science and Transportation Committee. Born 1932. Lawyer. Senator since 1968. A liberal Republican, who has sometimes been outspokenly critical of the Reagan Administration's social and economic policies. Since succeeding Senator Dole in the Finance Committee Chairmanship (ie the key revenue raising job) he has come round to accepting that tax increases may be necessary as a last resort measure to help reduce the deficit.

SENATOR JOHN DANFORTH (R-Missouri)

Chairman of the Commerce, Science and Transportation Committee. Born 1936. A lawyer and Episcopalian priest. Senator since 1968. As Chairman of the Commerce Committee, and simultaneously Chairman of the Finance Committee's International Trade Subcommittee, Danforth is a key figure on trade policy matters on the Hill. He is a proponent of reciprocity legislation, particularly in the telecommunications field.

SENATOR MALCOLM WALLOP (R-Wyoming)

Member of the Finance and Energy and National Resources Committees. Born 1933 (of British parents: nephew of the Earl of Portsmouth and brother-in-law of Lord Porchester). Rancher. Senator since 1976. Generally conservative voting record: believes in free markets and less government.



SENATOR ROBERT BYRD (D-West Virginia)

Minority Leader. Born 1917. Senator since 1958, and Democratic Leader since 1977 (Majority Leader 1977-80). Generally liberal on economic issues but more conservative on social and foreign policy. A hard-working tactician with no great charisma. Recently re-elected as Minority Leader despite a challenge from Senator Chiles.

SENATOR ALAN CRANSTON (D-California)

Minority Whip (ie Deputy Leader to Senator Byrd) and member of the Foreign Relations Committee. Born 1914. Elected to the Senate 1968. A liberal Democrat, very popular in California. A long-time campaigner for arms control and nuclear non-proliferation, which was the main plank of his unsuccessful bid for the Presidential nomination in 1984. Not helped by his "death's head" appearance.

SENATOR SAM NUNN (D-Georgia)

Ranking Minority Member of the Armed Services Committee. Born 1938. Lawyer and cattle farmer. Elected to the Senate in 1972. Has come to be regarded as one of the Senate's leading experts on defence matters. Concerned particularly about improving NATO's conventional capability. His proposal to start withdrawing US troops from Europe if the Europeans fail to meet certain defence expenditure targets was defeated on the floor of the Senate in 1984, but may reappear in 1985. Nunn has not yet made his intentions clear on this point.



SENATOR JOHN STENNIS (D-Mississippi)

Ranking Minority Member of the Appropriations Committee. Born 1901 (the oldest member of the Senate). An old-style Southern Democrat. Former Chairman of the Armed Services Committee in the 1970s. Now rather frail (he had a leg amputated recently), but still a force to be reckoned with when his health permits. He supported the Nunn-Roth amendment.

SENATOR RUSSELL LONG (D-Louisiana)

Ranking Minority Member of the Finance Committee. Born 1918. First elected to the Senate in 1948. Chairman of the Finance Committee 1966-80. A wheeler dealer with an independent power base (virtually no opposition in Louisiana and a personal fortune based on oil and gas revenues). He is unhelpful to us in trade matters and recently came out publicly in support of an import surcharge.

SENATOR ERNEST (FRITZ) HOLLINGS (D-South Carolina)

Ranking Minority Member of the Commerce, Science and Transportation Committee. Born 1922. Lawyer and former Governor of South Carolina. Senator since 1966. Was the most conservative of the Democratic contenders for the Presidential nomination in 1984. As a member of the Defence Appropriations Subcommittee, he supports strong defence. Favours tougher US trade legislation.



SENATOR CLAIBORNE PELL (D-Rhode Island)

Ranking Minority Member of the Foreign Relations Committee.
Born 1918. Senator since 1960. East Coast liberal establishment
background. Supporter of the nuclear freeze. Apart from foreign
policy, he takes a keen interest in education, the arts and
environmental issues.



CONGRESSMAN JIM WRIGHT (D-Texas)

House Majority Leader since 1976. Born 1922. First elected to Congress in 1954 after Army service in World War II and 3 years as Mayor of Weatherford, Texas. As Majority Leader he has made himself popular with both liberals and conservatives in the Democratic party. A coalition-builder in the classic centrist tradition of fellow Texans Sam Rayburn and Lyndon Johnson. He serves on the Budget Committee, where he is active in seeking bipartisan compromise on deficit reductions. An effective orator both in the House and on television, he seems virtually assured of succeeding Tip O'Neill as Speaker when the latter retires.

CONGRESSMAN BOB MICHEL (R-Illinois)

House Minority Leader since 1981. Born 1923. US Army service in World War II. Elected to Congress in 1957 after serving as Administrative Assistant to his predecessor in the seat. Michel (pronounced "Michael") is well-disposed towards the UK: he gave us strong support during the Falklands war, and sponsored a bill to repeal the President's pipeline sanctions in 1982.

CONGRESSMAN WILLIAM BROOMFIELD (R-Michigan)

Ranking Republican Member of the House Foreign Affairs Committee. Born 1922. First elected in 1956, Broomfield has loyally promoted the Reagan Administration's foreign policy proposals in the Democrat-controlled Committee. One exception is the Middle East, where his support for Israel has led him to oppose the Administration's proposals to sell arms to Arab countries.



CONGRESSMAN DANTE B FASCELL (DEMOCRAT, FLORIDA)

Born in New York in 1917. Educated in Florida (University of Miami). During the war he served in the Florida National Guard and in US Army campaigns in Africa, Sicily and Italy. Practised law until running successfully for Congress in 1955.

Fascell is a liberal Democrat, although he has in the past voted against such issues as civil rights and Medicare. He is the second ranking Democrat on the House Foreign Affairs Committee (and in line to succeed Chairman Clement Zablocki). For years he chaired the Inter-American Subcommittee - of obvious importance to Miami, now the centre of Latin American trade. He is now Chairman of the Subcommittee on International Operations, a position that gives him carte blanche to investigate foreign policy matters. His other Committee assignments are the Foreign Affairs Subcommittee on International Security and Scientific Affairs, and the House Committee on Government Operations.

A short, perky, articulate individual, Fascell is friendly and informative to the Embassy. Has visited Ditchley. He was a member of the US delegation to the UN in 1969.

Married with three children. Protestant.

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TO IMMEDIATE F C O
TELEGRAM NUMBER 476 OF 12 FEBRUARY.

PRIME MINISTER'S VISIT: CONGRESS

JOINT MEETING

1. THE PRIME MINISTER WILL BE MET AT THE HOUSE OF REPRESENTATIVES ENTRANCE BY THE ARCHITECT OF THE CAPITOL, GEORGE WHITE, AND THE HOUSE SERGEANT AT ARMS, JACK RUSS (A POLITICAL APPOINTEE CHOSEN FOR HIS KNOWLEDGE OF THE WORKINGS OF THE HOUSE).

THESE TWO WILL ESCORT THE PRIME MINISTER, ACCOMPANIED BY AMBASSADOR ROOSEVELT (CHIEF OF PROTOCOL) AND MYSELF UPSTAIRS TO A RECEPTION ROOM WITHIN THE SPEAKER'S SUITE. YOU AND OTHER MEMBERS OF THE OFFICIAL PARTY WILL BE TAKEN SEPARATELY DIRECT TO THE FLOOR OF THE CHAMBER. IN THE RECEPTION ROOM THE PRIME MINISTER WILL BE INTRODUCED TO THE MEMBERS OF THE ESCORTING COMMITTEE. THIS IS MADE UP OF THE BIPARTISAN LEADERSHIP OF BOTH THE HOUSE AND THE SENATE, PLUS A FEW MEMBERS ON EACH SIDE WHO HAVE SOME CLOSE CONNECTION WITH BRITAIN. THERE WILL BE A DOZEN OR SO MEMBERS IN ALL. THE PRIME MINISTER WILL NOT SEE THE SPEAKER (OR THE VICE-PRESIDENT, AS PRESIDENT OF THE SENATE) AT THIS STAGE. THEY WILL ALREADY HAVE TAKEN UP THEIR POSITIONS AS THE PRESIDING OFFICERS OF THE JOINT MEETING. THE PRIME MINISTER'S GIFT TO THE CONGRESS, WHICH WE SHALL DELIVER EARLIER THAT MORNING, WILL BE ON DISPLAY IN THE RECEPTION ROOM.

2. AFTER SPENDING ABOUT 10 MINUTES IN THE RECEPTION ROOM THE PRIME MINISTER WILL BE TAKEN BY THE ESCORTING COMMITTEE TO THE FLOOR OF THE HOUSE OF REPRESENTATIVES. SHE WILL BE ESCORTED TO THE PODIUM AND WELCOMED BY THE SPEAKER AND THE VICE-PRESIDENT. AFTER HER ADDRESS, THE SAME ESCORTING COMMITTEE, AGAIN ACCOMPANIED ONLY BY AMBASSADOR ROOSEVELT AND MYSELF, WILL TAKE THE PRIME MINISTER BACK TO THE SAME RECEPTION ROOM WHERE SHE WILL HAVE 5 OR 10 MINUTES WITH THE COMMITTEE AND THE SPEAKER. YOU AND THE OTHER MEMBERS OF THE PARTY WILL BE TAKEN TO THE OFFICE OF THE SERGEANT AT ARMS FOR A FEW MINUTES BEFORE PROCEEDING TO THE CARS TO AWAIT THE ARRIVAL OF THE PRIME MINISTER BEFORE LEAVING FOR THE WHITE HOUSE.

MEETING WITH SENATOR DOLE

3. THE PRIME MINISTER WILL BE MET AT THE SENATE CARRIAGE ENTRANCE BY THE SERGEANT AT ARMS OF THE SENATE, LARRY SMITH (AGAIN A POLITICAL APPOINTEE), AND THE SECRETARY OF THE SENATE, MRS JOANNE COE. MRS COE'S SON-IN-LAW IS SIMON COOMBS MP (CON-SWINDON). THE PRIME MINISTER WILL BE ESCORTED TO SENATOR DOLE'S SUITE.

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THE SENATOR WILL MEET THE PRIME MINISTER AT THE DOOR. THERE WILL BE A BRIEF PHOTO OPPORTUNITY IN THE RECEPTION ROOM. SENATOR DOLE WILL THEN ESCORT THE PRIME MINISTER THROUGH TO HIS OFFICE TO WHICH YOU AND OTHER MEMBERS OF THE PARTY WILL HAVE BEEN TAKEN DIRECTLY. TEA AND COFFEE WILL BE AVAILABLE. THE CHAIRS WILL BE ARRANGED ROUND THE FIREPLACE. SENATOR DOLE WILL WELCOME THE PRIME MINISTER, INTRODUCE HIS COLLEAGUES AND INVITE THE PRIME MINISTER TO SPEAK. IT WILL THEN BE FOR THE PRIME MINISTER TO SET OUT BRIEFLY WHICH AREAS SHE WOULD LIKE TO COVER. SENATOR DOLE WILL RESPOND, INVITING COLLEAGUES TO PARTICIPATE. THROUGHOUT THE MEETING WE SHOULD EXPECT SENATOR DOLE TO CHAIR THE US SIDE AND BRING HIS COLLEAGUES INTO THE CONVERSATION AS NECESSARY.

4. AFTER THE MEETING WITH SENATOR DOLE, THE PRIME MINISTER WILL BE ESCORTED BY THE SENATE SERGEANT AT ARMS TO THE DIVIDING LINE IN THE CAPITOL ROTUNDA WHERE THE HOUSE SERGEANT AT ARMS WILL TAKE OVER. HE WILL ESCORT THE PRIME MINISTER TO THE SPEAKER'S OFFICE. THE NORMAL PATTERN THERE IS FOR THE SPEAKER TO SIT AT HIS DESK WITH HIS GUEST BY HIS SIDE. YOU AND I WOULD SIT DIRECTLY NEXT TO THE PRIME MINISTER. THE SPEAKER HAS NOT YET DECIDED WHO, APART FROM THE MAJORITY AND MINORITY LEADERS, TO INVITE TO THE MEETING, BUT THERE ARE LIKELY TO BE AROUND 10 PRESENT ON THE HOUSE SIDE, INCLUDING THE MAJORITY WHIP (TOM FOLEY) AND MINORITY WHIP (TRENT LOTT), THE CHAIRMAN OF THE HOUSE DEMOCRATIC CAUCUS (RICHARD GEPHARDT, AN UP-AND-COMING 'NEW DEMOCRAT') AND THE CHAIRMAN OF THE HOUSE REPUBLICAN CONFERENCE (JACK KEMP, A RIGHT-WING REPUBLICAN LIKELY TO BE A CONTENDER FOR THE REPUBLICAN PRESIDENTIAL NOMINATION IN 1989). THE CHAIRMAN AND RANKING MINORITY MEMBER OF THE FOREIGN AFFAIRS COMMITTEE MAY ALSO BE PRESENT. THE FORMAT WOULD BE MUCH THE SAME AS FOR THE MEETING WITH DOLE - THE SPEAKER WELCOMING THE PRIME MINISTER, INTRODUCING HIS COLLEAGUES AND INVITING HER TO SPEAK. WE SHALL NEED TO LEAVE THE CAPITOL AT AROUND 1730, SO IT WOULD BE BEST TO CONCENTRATE ON A LIMITED NUMBER OF SUBJECTS AT THIS MEETING: THE PROSPECTS FOR THE BUDGET IN THE HOUSE, AND NORTHERN IRELAND, GIVEN SPEAKER O'NEILL'S INTEREST, ARE TWO WHICH SPRING TO MIND.

WRIGHT

LIMITED

NAD

PROTOCOL-D.

PLANNING STAFF.

PS

PS / LADY YOUNG.

PS / MR. RENTON

PS / PUS

SIR. W. HARDING

MR. DAVID THOMAS.

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ANNEX C

PRIME MINISTER'S MEETINGS WITH SENATORS AND MEMBERS OF THE
HOUSE OF REPRESENTATIVES: 20 FEBRUARY 1985

DEFENCE (BRITISH AND EUROPEAN CONTRIBUTION TO NATO AND
PROCUREMENT)

Arguments

(a) Europeans already making massive contribution. Of Alliance ready forces in Europe - ie, those meeting brunt of any Warsaw Pact attack - Europeans provide 95% of divisions, 95% of artillery, 85% of tanks, 80% of combat aircraft. There are over 3 million troops in active service; nearly 7 million with reserves (US figures about 2 and 3.5 million respectively).

(b) Significant improvements planned in equipment; infrastructure; and warstocks. Welcome results of December NATO Ministerials. Show European readiness to play full part in improving credibility of NATO's conventional defence.

(c) Major effort to improve European defence cooperation, in Independent European Programme Group (IEPG), Eurogroup and WEU; thus strengthening European pillar of NATO.

(d) UK record second to none; spend more per capita and in absolute terms than any European Ally. Higher percentage spent on equipment (46%) than any Ally.

(e) Substantial out of area role: naval presence in Indian Ocean and Caribbean; military presence in Brunei and Belize;

/service



service personnel on loan to more than 30 countries; contribution to peacekeeping in Cyprus, Sinai and logistic support in Lebanon.

(f) Of course, room for some Allies to spend more. But, need for realism about available resources. Must concentrate on getting more out of what we already have.

(g) More equitable two-way street in defence equipment will enhance European contribution to common defence. We have a lot to offer, as Harrier programme and, we hope, our tactical communications system, show. Confident latter will provide best solution for US Army requirement.

Additional Arguments

(h) Threats not way to persuade Europeans to do more. Stress the need for Allied harmony at a time when maximum cohesion is necessary over arms control. Only Russians benefit from divisions. Successive Burden Sharing Reports to Congress by Secretary Weinberger demonstrate persuasively that Europeans bear fair share of NATO/Japan defence burden.

(i) Impressive growth in US defence spending in recent years. But over period 1971-1983 European expenditure grew by 25% in real terms, while US registered zero growth.

(j) US troops in Europe defending US as well as Europe. Also symbolise fundamental transatlantic link. Withdrawal uncovenanted bonus for Russians.

/(k)



(k) Though UK makes substantial military contribution to defence of Western interests out of area, European Allies do not have same global interests and commitments as US.



PRIME MINISTER'S MEETINGS WITH SENATORS AND MEMBERS OF THE
HOUSE OF REPRESENTATIVES; 20 FEBRUARY 1985

DEFENCE (BRITISH AND EUROPEAN CONTRIBUTION TO NATO AND
PROCUREMENT)

Background

1. Nunn Amendment, threatening to withdraw 90,000 US troops from Europe, narrowly defeated in June 1984.
2. NATO Defence Ministers agreed in December to increase substantially NATO infrastructure funding and rectify deficiencies in warstocks (major concerns of Nunn) - also called for work on conventional defence improvements.
3. Decisions welcomed by Nunn, but Congressional pressure likely to continue.
4. FY86 defence budget presented to Congress envisages real increase of 5.9% (\$313.7 billion). Seems certain to be cut by Congress. UK will not meet NATO 3% target after 1985/86.
5. Two-way street between UK and US on defence equipment 2.1:1 in favour of US; between Europe and US, 7:1 in favour for US.
6. Plessey competing with French company for sale of MSE to US. Would be biggest deal ever secured in communications field.

PRIME MINISTER'S VISIT TO WASHINGTON: 19-21 FEBRUARY 1985

MEETING WITH CONGRESSMEN

NORTHERN IRELAND

Points to Make (Defensive)

Plastic baton rounds ("plastic bullets")

Plastic baton rounds are the most effective way of controlling the serious rioting which occurs in Northern Ireland. Without baton rounds it would be necessary to use guns and inevitably there would be far greater casualties. The use of baton rounds is carefully controlled; any death allegedly caused by them is the subject of a full inquiry (eg the death of John Downes at the Martin Galvin (NORAI) demonstration in August 1984).

Strip-Searching (Armagh Women's Prison)

The strip-search procedures in Armagh Women's Prison are no different from those used in Great Britain and elsewhere. Women are strip-searched on reception into, and discharge from prisons, and on other occasions on a random basis. Searches are carried out in the presence of one female prison officer only. They are carried out for reasons of security, not to humiliate. There is no physical contact and no internal body search.

Converted Terrorists ("Supergrasses")

Accomplice evidence is admissible evidence throughout the United Kingdom. As in many other countries, including the Republic of Ireland, the Courts may accept uncorroborated evidence of accomplices, but only if they are satisfied that it is reliable.

Human Rights in Northern Ireland

Like the rest of the United Kingdom, Northern Ireland is a democracy whose citizens enjoy the protection of the law. Civil liberties are protected, with only a few changes necessary because of a serious terrorist campaign. There is the right of free speech, the vote and fair trials in open court.

Discrimination

Discrimination in employment on the grounds of political or religious belief is unlawful in Northern Ireland. The Fair Employment Agency investigates allegations of unlawful discrimination, and promotes equality of opportunity. Americans can best help increase employment in both communities by greater investment in Northern Ireland, not by campaigning for disinvestment.

Ulster Defence Regiment (UDR)

The Ulster Defence Regiment, 148 of whose members have been killed in the last sixteen years, plays an important role in defending all citizens, Catholic and Protestant alike, from the terrorists. It is sad that the threat of murder of terrorists has dissuaded many Catholics from joining the Regiment. We should welcome more Catholic recruits. [If necessary; Members of the UDR are, like all members of the security forces, subject to the law. If they break it, they will be and have been prosecuted.]

Forum Report

The Government welcomes the Forum Report as a valuable contribution to discussion; and because it rejects violence as a solution, and recognises the importance of consent. The three options of the Report - unity, confederation, joint authority

would not be acceptable to a majority in Northern Ireland, and cannot, therefore, be accepted by the British Government. We have made it clear that the constitutional status would only be changed if a majority in Northern Ireland agreed.

Special Envoy

A Special Envoy would have no role to play in Northern Ireland. We already enjoy close relations with the Republic; we are making efforts to bring the two communities in Northern Ireland together. Northern Ireland's problems would not be solved by a single person from outside attempting to bring the parties together.

PRIME MINISTER'S VISIT TO WASHINGTON: 19-21 FEBRUARY 1985

MEETING WITH CONGRESSMEN

Background Note

The large Irish-American lobby makes the Congress prone to adopt Nationalist attitudes to Northern Ireland. Their views range from moderate "constitutional" Nationalism (sympathetic to the SDLP) to extreme Republicanism. The first group, which includes Speaker O'Neill, and Senators Kennedy and Moynihan, form the "Friends of Ireland"; the second would tend to support NORAIID and the Irish National Caucus, and include Congressman Biaggi.

The Irish National Caucus and some other Irish Americans are making efforts to persuade US Corporations which invest in Northern Ireland to adopt the "McBride Principles" on discrimination, with the aim of ending discrimination against Catholics. While the Government is firmly against discrimination, which is unlawful, we have opposed the "McBride Principles", which may well encourage (illegal) preferential treatment, and would establish the principle that firms should withdraw investment from Northern Ireland if they did not meet standards set by groups in the US. We would prefer that corporations work through the existing law, and believe that the McBride Principles would discourage investment.

Northern Ireland Office

13 February 1985

PRIME MINISTER'S MEETINGS WITH SENATORS AND MEMBERS OF THE HOUSE
OF REPRESENTATIVES : 20 FEBRUARY 1985

US ECONOMY

Our arguments

- Vital to take firm, continued action on Federal Deficit.
- Would be helpful to have medium-term targets to eliminate or reduce budget deficits.
- A simpler tax structure, with equal treatment of investment and interest, might mean a better balanced economy and lower interest rates.
- High interest rates in US impede recovery elsewhere in world, including LDCs.

PRIME MINISTER'S MEETINGS WITH SENATORS AND MEMBERS OF THE
HOUSE OF REPRESENTATIVES : 20 FEBRUARY 1985

US ECONOMY

BUDGET DEFICIT

	<u>Percentage of GNP</u>				
	<u>1984</u>	<u>1985</u>	<u>1986*</u>	<u>1987*</u>	<u>1988*</u>
	(projected)				
Federal Budget deficit	5½	5¾	4½	3½	2¾
General Government financial deficit	3¾	4½	3	2½	1¾

* Administration's projections of Federal deficit on basis of Budget proposals.

DOLLAR

	<u>Jan 1981</u>	<u>Jan 1985</u>	<u>Percentage rise</u>
Effective rate	96.0	146.1	52
Against DM	2.01	3.17	58
Against Yen	202	254.2	26
Against Swiss Franc	1.82	2.66	46
Against Sterling (\$ per £)	2.40	1.13	(112)

US ECONOMY

	<u>1983</u>	<u>1984</u>	<u>1985</u> (UK projections)
GNP growth (Annual %)	3¾	6¾	3½
Inflation (GDP deflator) Annual %	3¾	4	4½
Current Account of Balance of Payments (\$ billion)	-40	-105	-130

PRIME MINISTER'S MEETING WITH SENATORS AND MEMBERS OF THE
HOUSE OF REPRESENTATIVES : 20 FEBRUARY 1985

UK ECONOMY

BACKGROUND

(i) Monetary growth so far this target period within target ranges: £M3 growth at 10 per cent pa and M0 at 6 per cent pa;

(ii) Inflation less than 5 per cent a year through 1983 and 1984; averaged over 15 per cent under previous government 1974-79;

(iii) GDP rising an average 2½ per cent a year since 1981 trough. [Nearly 3 per cent, adjusting for effects of coal strike.]

(iv) Visible exports achieved a record volume in 1984: manufacturing exports up 11 per cent on 1983.

(v) GDP in 1984 still likely to show 2½ per cent growth despite loss of around 1 per cent caused by loss of coal output. Recovery from strike in 1985 likely to mean overall growth well over 3 per cent. Power supplies maintained and manufacturing production virtually unaffected (still showing growth of over 3 per cent on a year ago);

(vi) Net number of firms registered for VAT rose 112,000 [over 8 per cent] between 1979 and 1983;

(vii) Investment has been rising rapidly [7½ per cent rise expected in 1984] since 1981, twice as fast as consumption;

(viii) Big rise in corporate profitability [CBI forecast real pre-tax returns outside North Sea

at 7½ per cent for 1984, 9 for 1985] to levels last seen in 1960s; economic upswing set to be longest since 1945;

(ix) Productivity improvement has accelerated: output per head in manufacturing has risen around 6 per cent a year since end 1980;

(x) Vigorous policies in place to remove bureaucratic controls and distortions.

(Circular stamp)

UK Exports to US


1. Media criticism that UK companies have failed to take advantage of US import boom in 1984, based on :

- a) the fact that the dollar value of total US imports from the UK has increased less than that of imports from our main competitors.
- b) anecdotal evidence that some UK exporters are simply holding dollar prices and improving sterling profits, rather than going for volume growth.

2. In the first eleven months of 1984, the dollar value of total US imports from UK rose by 17%, compared with overall rise of 28% in total US imports. Japan, Germany and Italy recorded even higher figures.

3. Make-up of UK exports to USA very different from that of our competitors. Oil accounts for about 30% of our exports to the US; these exports stayed virtually unchanged in 1984. Exports of precious metals fell back to a normal level after being erratically high in 1983. It is legitimate to remove these distortions when comparing our performance with that of others.

4. If oil and precious metals are removed from each set



of figures, we find that UK manufactured exports rose 34% in dollar terms, exactly in line with total US imports. This was still somewhat lower than Japan, Germany and Italy, but better than France. In sterling, our exports to the US were 45% higher in 1984 than in 1983.

5. How exporters respond to favourable exchange rates varies according to their commercial judgment. Sometimes sense to go for profit rather than volume. Evidence that some UK exporters reacting cautiously to the present £/\$ rate, following its volatility over two or three years, and reluctant to commit additional finance and production capacity to US market. DTI and British Overseas Trade Board will continue to publicise opportunity offered by US market, and the fact that firms who enter it at current exchange rates should be able to stay if the dollar falls moderately.

Department of Trade and Industry

13 February 1985



PRIME MINISTER'S MEETINGS WITH SENATORS AND MEMBERS OF THE HOUSE
OF REPRESENTATIVES : 20 FEBRUARY 1985

Europe

Our arguments

- Europe's success in combatting inflation. (Community inflation rate 11% in 1980; only 5% in 1984).
- Forecast of GDP growth in Community in 1985 2.5%.
- Unemployment still much too high. But we are taking steps to remedy the situation. Key must be sound non-inflationary policies, supply-side improvements.
- Greater convergence of economic performance in Community despite differences of political complexion in Member States.
- Some ambivalence in US attitudes: on one hand complaints of Euro-sclerosis; on other hand that Europe is pushing US out of its traditional markets.
- UK has pressed for major Community reforms. Successes achieved over last year:
 - reform of the budget.
 - beginning of reform of agricultural policy (Commission price proposals last year and this amount to price reduction in national currency terms);
 - restrict price policy; guarantee thresholds have led to eg major cuts in milk production (down 8% in UK);
- In new technology US has had start. EC determined to catch up: emphasis on internal markets; break down of barriers to trade in goods and services; cooperation in new technologies;



ANNEX H

PRIME MINISTER'S MEETINGS WITH SENATORS AND MEMBERS OF THE
HOUSE OF REPRESENTATIVES: 20 FEBRUARY 1985

UNITARY TAXATION

Our Arguments

1. a. Objections to worldwide combined reporting.

Imposition of unitary tax on foreign business unfair, produces double taxation and imposes excessive compliance burdens. Runs counter to internationally accepted system. Continuance is damaging to free flow of international business and investment.

- b. A major international issue. Particularly important for UK, because we account for 24% of stock of direct foreign investment in USA, and 33% (over \$3 billion) of direct foreign investment in 1983. But equally strong pressure for a solution from other OECD countries. 18 countries (including UK) have made representations in support of Colorado proposals for repeal of unitary tax.

- c. Abolition of unitary tax on foreign business is important to USA. Increasing recognition that its continuance is damaging to inward investment in States that practise it. (The main reason for passage of legislation in Florida and Oregon, and for current legislative initiatives in California, Indiana, Colorado and Utah.)



- d. Signs of progress. Principle of limiting unitary tax to the water's edge was accepted in (then) Secretary Regan's Working Group. Need for implementation of this principle. We understand preference for voluntary action by States rather than federally imposed solution. But up to now progress at State's level has been limited.
- e. UK Parliamentary Pressure for Retaliatory Legislation. Understandable impatience in the UK and frustration at the lack of progress since the Senate rejected Clause 9(4) of the new UK/US Double Taxation Agreement in 1980. Great pity if solution had to be accompanied by threats of retaliation, instead of being achieved by the States' own volition.
- f. UK Activity in the Individual States. UK business and Government have sent teams to States to press the case for a change, and demonstrate the benefits it would produce for inward investment. Most recent a CBI mission led by Sir T Beckett to California 11-15 February.



BACKGROUND

1. See also briefing for Prime Minister's meeting with President Reagan.

2. a. States which have repealed worldwide unitary tax

i) Oregon - August 1984

ii) Florida - December 1984

Also: Massachusetts courts have ruled that worldwide unitary tax is ultra vires. There are no immediate plans for its restoration.

b. States considering legislation to limit unitary tax to water's edge

i) California

ii) Colorado (chances good of solution in April)

iii) Utah (very good chance of solution by end-February)

iv) Indiana (very good chance of solution - timing uncertain)

c. States which impose worldwide unitary tax where no evidence of action.

- New Hampshire, Alaska, Montana, North Dakota, Idaho.

INLAND REVENUE
8 February 1985



PRIME MINISTER'S MEETINGS WITH SENATORS AND MEMBERS OF THE
HOUSE OF REPRESENTATIVES: 20 FEBRUARY 1985

FALKLANDS/ARGENTINA

Our arguments

1. Argentine actions in 1982 have ruled out discussion of sovereignty. The people of the Falklands have the right to live in peace and security under a government of their own choosing.

2. We have made the running in seeking better bilateral relations with Argentina. The Argentines insist on agreement to discuss sovereignty as a precondition for normalisation. This attitude is the obstacle to progress.

3. Ball is in the Argentines' court. They must abandon linkage between sovereignty and normalisation.

4. They speak of "negotiations": but the only acceptable outcome for them is absorption of the Islands into Argentina, irrespective of Islanders' wishes.

5. We have noted statements by President Alfonsin and his government about their resolve to pursue their claim to the



Falklands by peaceful means. But at the same time they refuse to declare a definitive cessation of hostilities. At the end of the conflict, the Junta said that there was only a de facto cessation of hostilities which would be precarious until all British forces were removed from the Islands. President Alfonsin's government has not withdrawn this statement.

6. We have welcomed democracy in Argentina. We wish it to prosper. But it is essentially for the Argentine people themselves to decide their own political future.

7. We have adopted a constructive approach to discussions at the IMF and in the Paris Club about measures to restore the Argentine economy. Argentine spokesmen have emphasized the importance of increasing exports. They can do so at a stroke by agreeing to the reciprocal lifting of the import restrictions between Britain and Argentina.



PRIME MINISTER'S MEETINGS WITH SENATORS AND MEMBERS OF THE
HOUSE OF REPRESENTATIVES, 20 FEBRUARY 1985

FALKLANDS/ARGENTINA

Background

1. President Alfonsin is due to pay a state visit to Washington on 19 March. This is a sign of the efforts both countries have made to restore the relationship which was seriously damaged by American support for us during the Falklands conflict.
2. The press has speculated about Argentine efforts to persuade the Americans to exert pressure on us to negotiate over the Falklands. The Americans have consistently resisted becoming involved. But there is a widespread desire to see the problems between Britain and Argentina resolved, partly inspired by a belief that democracy in Argentina may suffer if President Alfonsin is seen to have failed in this area. Many Americans will see the agreement over the Beagle Channel dispute with Chile as an example of Argentina's ability, under Alfonsin, to achieve peaceful settlements of long-standing territorial problems.



3. As part of the improvement in relations between the US and Argentina, the US Navy has taken steps to develop its links with the Argentine Navy. The Chairman of the US Joint Chiefs of Staff has assured us that UK interests in the South Atlantic would not be jeopardised by this "tentative first step" and that US policy still required consultation with us on potential sales of sensitive military equipment to Argentina. Similar assurances have been conveyed by a senior State Department official.

Falkland Islands Department
Foreign and Commonwealth Office
12 February 1985

VISIT TO WASHINGTON BY THE PRIME MINISTER: 19-21 FEBRUARY
CENTRAL AMERICA AND CHILE

Nicaragua

Meetings held by the Prime Minister and the Secretary of State with Vice-President Ramirez were at Nicaraguan request and indicated no change of our policy. Purpose was to express our concern about developments in Nicaragua and counter any misleading impressions he might obtain from other contacts. (Ramirez saw all opposition party leaders and Foreign Affairs Committee and spoke at Chatham House and the Oxford Union, where an anti-American motion was carried by 259 votes in favour to 158 against). The Americans had expressed fears that meetings with Ramirez would give Nicaraguans legitimacy.

Belize

The public position is that the garrison will remain in Belize for an appropriate period and that it makes a contribution to stability in Central America.

(NOT FOR USE)

The Prime Minister told President Reagan in June in strict confidence that we would not withdraw British troops from Belize for the next two years unless circumstances changed. President Reagan had previously appealed to the Prime Minister not to withdraw. The situation has not changed.

El Salvador

The Prime Minister saw President Duarte in 1984 and offered to renew a technical assistance programme. HMG publicly supports President Duarte and US policy in El Salvador.

Guatemala

The US Government have announced the renewal of a military assistance programme to Guatemala (\$10 million per year). The Americans are aware of our concern that weapons supplied to Guatemala might pose a threat to British forces in Belize.

Chile

Increasing concern in Congress over lack of democracy in Chile; one result has been US decision to abstain in Inter-American Development Bank on a proposed Chile loan. We should resist calls for similar British action; our concern over human rights is clear but has to be set against the value of our defence and other cooperation with Chile over the Falklands; it is not our policy to politicize international development loans.

FOREIGN AND COMMONWEALTH OFFICE

12 February 1985

CONFIDENTIAL

PRIME MINISTER'S MEETING WITH CHAIRMAN OF THE US FEDERAL RESERVE MR VOLCKER: 20 FEBRUARY 1985

I OUR OBJECTIVES

- a) Support Volcker's line on need for lower federal budget deficit.
- b) Tap his views on prospect for US, world economies, dollar and interest rates.
- c) Exchange views on international debt.

ARGUMENTS TO USE

- a)
 - i) Concern that Administration will not achieve reductions projected in 1986 budget; targets not adequate for later years.
- b)
 - i) High and rising dollar causing problems of imported inflation and high interest rates in other developed economies despite those countries' fiscal virtue. Higher the dollar goes, more dangerous the potential fall;
 - ii) Important that G5 countries are seen to act together on intervention, otherwise a restraining influence on volatility will be reduced;
 - iii) Scale of US current account deficit now unsustainable, sucking in other countries' savings - Is prospect of US as net debtor likely to influence Congress/Administration?
- c)
 - i) Immediate international debt problems no longer threatening, but will be long haul until they are fully resolved; now need to ensure adjustment with growth.
 - ii) Need more sustainable capital flows to LDCs; encourage greater role of direct investment; also promote higher domestic savings?

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III TACTICAL ARGUMENTS

a) US banking system vulnerable to lower oil prices and weak agricultural position?

IV THEIR OBJECTIVES

a) Volcker may argue for a slightly looser policy stance - fiscal or monetary - in certain European countries and Japan. Will be concerned about inflexible labour markets, structural rigidities.

b) Ensure UK resolve not weakening on coal strike.

c) Determine our views on support for sterling; show his concern about dollar.

V OUR RESPONSE

a) i) Accept might be small room for manoeuvre eg on monetary policy in West Germany or fiscal policy in Japan. But UK will keep to MTFS. Need to maintain control over inflation.

ii) Agree on need to attack rigidities in European economies.

b) Coal strike petering out.

c) Doubts about sterling unjustified: economy strong, inflation under control, oil production 5 per cent of UK output.

VI BACKGROUND

1. Prime Minister last met Mr Volcker in London in December. Discussed US banking situation, monetary policy, US and world prospects, interest rates and the dollar. Also covered US budget deficit, international banking, Argentina and the coal strike.

VOLCKER, PAUL A

Chairman, American Federal Reserve Board

Born New Jersey, 1927. Attended Princeton and Harvard Universities and the LSE. From 1957-1962 and from 1965-1969 he worked for Chase Manhattan Bank. Had spells in the US Treasury Department, including as Under Secretary for Monetary Affairs from 1969-1974. He was senior fellow at the Woodrow Wilson School of Public and International Affairs at Princeton before becoming President of the New York Federal Reserve Board in 1975. He was appointed Chairman of the Federal Reserve Bank by President Carter in 1979 and confirmed in this position in 1983. Disputes over the tightness of the Fed's monetary policy at one time seemed to make his reappointment unlikely but he has strong support in the US financial community. He has earned a very high reputation in managing the debt crisis.

Married, his wife suffers from arthritis. Interested in fishing.

February 1985

PRIME MINISTER'S MEETING WITH SECRETARY OF TREASURY MR J A BAKER:
20 FEBRUARY 1984

I OBJECTIVES

- a) Stress importance of arrangements for coordinated intervention in foreign exchange markets.
- b) Encourage firm stance on US Budget deficit; tap Baker's views on likely success in Congress.
- c) Secure US government's continued support for solution of unitary tax issue.
- d) Confirm tactical line on mixed credits.
- e) Secure continued case-by-case approach on indebtedness; and encourage direct investment; to ensure adequate funding for International Financial Institutions.

II OUR ARGUMENTS

- a) Dollar scaling new heights. Markets need to be convinced that all partners are fully committed to G5 and Williamsburg agreements.
- b) Even if President's proposals accepted, Federal deficit will still be $4\frac{1}{4}$ % of GNP next year and $2\frac{3}{4}$ % in 1988 - years expected to see low unemployment. High deficit bad for long-term interest rates and US current account of balance of payments. Large net capital inflows not the result of better investment opportunities but of Federal deficits.
- c) Has been some progress in unitary taxation. Note Regan's commitment to recommend Federal legislation if insufficient progress at state level by end July. Parliamentary pressure for retaliatory pressure once again building up. If not clear signs of progress in California by May pressure will be almost irresistible.

d) Now we have French tied into EC line on mixed credits, must not let Japanese escape.

e) Easier to hold the line with debtors if they are not threatened again by higher interest rates, or increased trade barriers. World Bank lending important, with associated policy reforms.

III TACTICAL ARGUMENTS

High and volatile US dollar must be causing strain for US industry; exacerbating protectionist pressures. Irresponsible to rule out tax increases whatever happens. State and local surpluses not large enough to offset effects of Federal deficit.

IV HIS OBJECTIVE

a) To show that sterling problem not just a reflection of dollar; dollar movements 'orderly'.

b) Show he is serious about Federal Budget deficit; perhaps suggest no worse a problem than ours.

c) Check we are not intentionally propping up oil prices.

V YOUR RESPONSE

a) Dollar risen sharply against all currencies - DM, Yen, Swiss Franc - and still rising. Surely overvalued - large current account deficits projected for rest of decade.

b) Need to see a lower and firmer commitment on medium-term Federal deficit; eating up large proportion of world's savings.

c) North Sea prices follow spot market; companies producing record levels of output.

VI BACKGROUND

1. During President Reagan's first term (Jan 81 to Jan 85), dollar rose by 58% against DM, 26% against Yen and 46% against Swiss Franc.
2. Federal deficit expected to average 5½% of GNP in four years 1982-85, declining to 2¾% in 1988. Averaged only 2% even in 1970s. Even allowing for State and Local surpluses, General Government financial deficits likely to average 4% in four years 1981-85.
3. UK production of crude oil and natural gas liquids was about 125 million tonnes in 1984, 10% up on 1983 and 20% higher than 1982.
4. Officials agreed on 7 February that US would accept EC mandate on mixed credits transparency if EC would move on increased discipline.

PRIME MINISTER'S MEETING WITH MR BAKER

Background Material on Intervention

1. On 17 January 1985 G5 Ministers and Governors 'reaffirmed their commitment made at the Williamsburg Summit to undertake co-ordinated intervention in the markets as necessary'. The agreement was reached in the context of exceptional dollar strength.
2. Following the agreement and signs of co-ordinated activity markets initially took a cautious attitude which helped to restrain further surges in the dollar. The cautiousness later seemed to abate with the dollar touching new record levels - although it has since receded slightly. Some of the recent strength of the dollar may also reflect that US monetary policy is being tightened a notch.
3. Some initial US comments (including those by Volcker, Baker and McNamara) cast doubt in the market's mind about the strength of the US commitment to the G5 agreement, reinforcing market sentiment that the Fed was not changing its intervention policy, and that concerted action has little impact. More recently, Baker has taken a more positive line.
4. The US authorities have in public interpreted the G5 agreement as very much a reaffirmation of Williamsburg rather than breaking any new policy ground. They have not welcomed suggestion that the intention was to see the dollar fall rather than restrain its rise.
5. Whilst acknowledging at the meetings our gratitude for the more positive line now being taken by the US authorities, it will be worth steering the need for co-ordinated intervention to be seen to be in operation by the markets.

CONFIDENTIAL

JAMES A BAKER III
Treasury Secretary

Born 1930. 1952 graduated from Princeton. Served two years in the Marine Corps. 1957 law degree with honours from the University of Texas Law School. Practised with a Houston law firm until 1975. Appointed Under Secretary at the Department of Commerce. 1976 joined President Ford's Presidential campaign, becoming its national chairman. 1978 launched an unsuccessful bid to become the Republican nominee for the Attorney General of Texas. 1979-80 Director of George Bush's Presidential campaign. Chief of Staff, White House 1981-85.

In Mr Reagan's first term James Baker was one of the four key men at the White House. Unlike the other three (Clark, Deaver and Meese) had not been a long-term friend and supporter of Mr Reagan. In 1976, he helped President Ford defeat Mr Reagan's challenge for the Republican nomination. In 1980 he led George Bush's campaign for the Republican nomination. However, when he realised that Bush had no chance of winning, he took it on himself, against Bush's wishes, to announce that Bush was withdrawing from the race, thereby making it possible to heal the battle scars between Bush and Reagan and for Reagan to choose Bush as his running mate.

Although a late comer to the Reagan fold, Mr Baker quickly established himself as the most intellectually capable member of the White House team and as the man who helped moderate Mr Reagan's initial image as a hardline conservative, he was regarded at first by conservative Republicans as being a Trojan horse for the moderate Vice-President Bush. Those Republicans who disliked signs of compromise by the Administration lay the blame at Baker's door.

Baker was known to be wanting a move after the 1984 election having had four years as Chief of Staff. He had wanted to be Secretary to the Treasury, as it has the higher public profile of a Cabinet post which will suit his own political ambitions. He is expected to do the job well.

Married with eight children.

February 1985



CONFIDENTIAL

PRIME MINISTER'S VISIT TO WASHINGTON : 21 FEBRUARY 1985 :
MEETING WITH MRS DOLE, US SECRETARY OF TRANSPORTATION

(I) OUR OBJECTIVES

- a) to respond to a request for a courtesy meeting from an important Washington figure :
- b) in so far as transportation matters may be discussed to make Mrs Dole aware of :
 - i) the need for a jointly agreed approach to competition and liberalization policy for the future development of UK/US aviation;
 - ii) the negotiations on a shipping agreement between US and Consultative Shipping Group (CSG);
 - iii) British Rail's attempts to see 'Railbus' in US.

(II) OUR ARGUMENTS

b)i) If Laker liquidator's suit and class action settled and the way cleared for BA's privatisation, negotiations can resume to encompass both competition rules and further liberalization; UK committed to civil aviation liberalization provided competition is fair.

/b)ii)

CONFIDENTIAL



CONFIDENTIAL

b)ii) Agreement close between two sides (US and CSG) on arrangements to resist shipping protectionism in developing countries: this agreement will benefit UK and US merchant shipping. Appreciate major role of Department of Transportation in moving shipping talks to this stage.

b)iii) British Rail promoting sale of versatile, cheap 'Railbus' in US. Carries 135 passengers. 75 mph and very economical.

(III) TACTICAL ARGUMENTS

b)i) threat of new anti-trust suits continues to deter airlines from cutting fares;

(IV) HER OBJECTIVES

Mrs Dole probably interested in the meeting for domestic political reasons; so far as we know has no plans to raise substantive points.

/(V)

- 2 -

CONFIDENTIAL



CONFIDENTIAL

(V) BACKGROUND :

1. Mrs Dole called on the Prime Minister at Number Ten on 21 May 1984. Topics covered included the US Administration's policy on the liberalisation of transport and services, the situation in the Gulf and prospects for a settlement of the European budget issue. She also met Mr Ridley to renew UK/US Memorandum of Understanding on Cooperation in Transportation (ie. exchanges between Road Research laboratories.) She is relatively unfamiliar with Laker/Bermuda 2 problems and could be helpful in the future. The personality note is at Annex A.

2. Civil Aviation : See brief for meeting with President Reagan.

3. US/Consultative Shipping Group Negotiations : Consultations between US and CSG (12 European countries and Japan, chaired by UK) have been underway at official level for nearly three years. Aim to secure agreement to keep the parties' shipping trades with developing countries open to one another's shipping lines, and to develop a system of collective resistance to growing and excessive developing country protectionism.

/In



CONFIDENTIAL

In January, officials concluded that the main principles of the proposed agreement were sufficiently clear to seek political endorsement for the package and authority to formulate an international agreement.

4. This progress has been secured in spite of resolute opposition in Washington from protectionist forces among US shipping lines and their allies in the Administration. It is important that the Administration be encouraged to stick to its position.

5. Railbus :

A cheap lightweight diesel multiple unit incorporating Leyland bus bodies and rail underframes. It is very versatile. Each car can carry up to 135 passengers at up to 75 mph with maximum operational economy at up to 10 miles per gallon.

6. Built and marketed by BR's subsidiary British Rail Engineering Ltd (BREL). BREL have sold over 75 2-car units to BR who are highly impressed by its performance. Three demonstrator railbuses touring the Far East, Europe and the USA.

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- 4 -

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7. The US demonstration attracted wide interest on tour in Rhode Island and at a conference in Washington. Several authorities asked for a trial : Norfolk (Virginia), New Orleans (Louisiana), Birmingham (Alabama), Atlanta (Georgia), Miami (Florida) and Columbus (Ohio). A number of states are considering purchases and BREL hope to win orders for up to 30 2-car sets during 1985.

Maritime, Aviation and
Environment Department

February 1985

- 5 -

CONFIDENTIAL

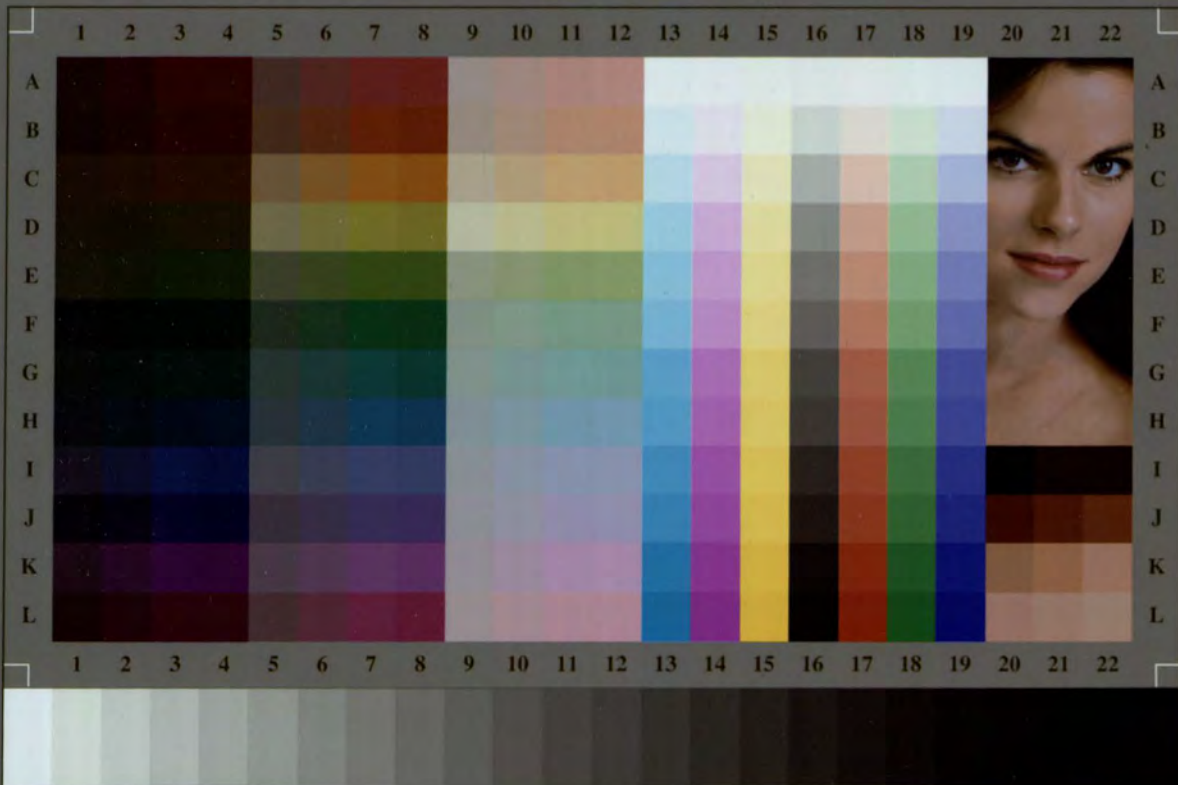
ELIZABETH DOLE
US Secretary of Transportation

Born Salisbury, North Carolina, 29 July 1936. Graduated in political science, Duke University, 1958, followed by postgraduate study at Oxford. Received an MA in Education from Harvard in 1960. She then studied law and was admitted to the District of Columbia bar in 1966. Staff Assistant to the Assistant Secretary for Education, Health and Welfare 1966-67, then returned to legal practice 1967-68. Associate Director and subsequently Executive Director, President's Commission for Consumer Interests, Washington 1968-71. Deputy Director, Office of Consumer Affairs, the White House, 1971-73. Member, Federal Trade Commission (FTC) 1973-79, with a brief interlude in 1976 to help her husband's campaign as Vice-Presidential running-mate to President Ford. She finally resigned from the FTC in 1979 to take part in her husband's unsuccessful campaign for the Republican Presidential Nomination, later working in the Reagan campaign and in the Reagan transition team.

Mrs Dole was the President's Assistant for Public Liaison at the White House from 1981 to January 1983 when she was appointed to her current position. She was the second woman to be appointed to Reagan's Cabinet (the first being Jeane Kirkpatrick, and followed later in January 1983 by the appointment of a third, Margaret Heckler as Secretary of Health and Human Services). Her appointment was seen as part of an attempt to silence criticism from women's groups unhappy with the administration's performance on women's issues.

Mrs Dole married (in 1975) Senator Robert Dole, Republic Senator from Kansas, currently Chairman of the Senate Finance Committee and thought to be a strong contender for the 1988 Republican Presidential nomination. Mrs Dole herself is often mentioned as a possible Republican Vice-Presidential candidate.

February 1985



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