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10 DOWNING STREET

From the Private Secretary

cf. Master Sec.  
✓ Israel: Nov 79: CD for Israel.  
✓ Middle East Situation Pt 2.  
12 March 1980

Dear Paul,

Call by Mr. Yadin

Mr. Yigael Yadin, the Deputy Prime Minister of Israel, called on the Prime Minister this afternoon. He was accompanied by the Israeli Ambassador.

Mr. Yadin and the Prime Minister began by discussing the state of the Israeli economy. Mr. Yadin said that the Israeli Government were faced with an extremely serious situation. The methods they had adopted were not dissimilar to those being pursued by the Prime Minister. They had decided to impose a 6% reduction on every Ministry, to cut subsidies severely and to increase incentives to exporting industries. The last few months had seen a reduction in the inflation rate for the first time in many months. Nonetheless the situation remained very serious. The reduction in subsidies on bread and milk products had affected both the consumers, and, because of reduced sales, the farmers. Social problems were consequently becoming acute. Nonetheless the programme for tackling the economic crisis was one of the very few issues on which there was near unanimity in Cabinet.

Particular gravity was lent to the crisis by Israel's shortage of oil. The wells which had been returned to Egypt had previously provided some 30% of Israel's supplies. The Camp David Agreement provided for Egypt to supply the same amount of oil to Israel but at market ie spot prices. The Israeli Government expected to spend three times as much next year as this on oil. Moreover, it was not always easy to find suppliers even at spot prices. Mr. Yadin referred to Israeli hopes that the UK might be able to help at some stage. The Prime Minister said that we were not yet self-sufficient in oil and that even when we were existing agreements with the European Community and IEA would inhibit our freedom to supply third parties. Mr. Yadin made it clear that he had not expected to hear anything different.

Turning to the Arab/Israel dispute, Mr. Yadin said that he thought the current tendency to link the need to consolidate Arab opinion against the Soviet invasion of Afghanistan with the finding of a solution of the Arab/Israel dispute was misguided. If Saudi Arabia and the other Arab states did not already realise the gravity of the Soviet threat, nothing was going to make them do so. The linkage between the two problems was merely creating a pretext for the Governments concerned to do nothing about the Soviet threat.

/ The linkage

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The linkage contributed to a solution of neither problem. The Prime Minister said that the Arab presentation of linkage tended to be rather more complex than Mr. Yadin had suggested. They frequently said, for instance, that the failure of the Americans to press Israel harder to find a solution to the Palestine problem made it difficult for Arab Governments to accept their help in facing the Soviet threat. It was clear in any case that a solution acceptable to all those involved would facilitate the region's response to the Soviet invasion of Afghanistan.

Mr. Yadin did not dissent from this last point. When asked by the Prime Minister whether the Camp David talks were likely to make any further progress, Mr. Yadin admitted that the talks were not going well at present. He added that indeed the situation might well get worse before it began to get better. Nonetheless he still believed that success was possible. Neither Mr. Begin nor President Sadat nor President Carter could afford a failure. The breakthrough might not come until the very last moment. It might well necessitate a further summit meeting at Camp David. But agreement would, according to Mr. Yadin, be reached. Meanwhile, the negotiations were extremely delicate and the activities of outsiders were not always helpful. Mr. Yadin said that, speaking very frankly, he would be inclined to say to the Europeans "if you cannot contribute, please keep quiet". He was particularly worried about the activities of the French who, as so often, seemed intent on being mischievous.

The Prime Minister said that she was concerned about the position of King Hussein. The West Bank had once been part of Jordanian territory, yet he was not being consulted in any way at present. Mr. Yadin said that the Camp David Agreement contained references to Jordanian involvement in the discussions. King Hussein had been invited to Camp David, but had refused the invitation. Mr. Yadin said that he himself thought that King Hussein ought to be a partner in the negotiations. His own guess was that President Sadat was aiming at a second Camp David in June or July at which he would secure an agreement which was less than 100% successful on the autonomy issue; and that thereafter he would suggest that King Hussein and the representatives of the Palestinian residents on the West Bank should be invited to carry discussions further. The difficulty for President Sadat was of course to achieve a satisfactory measure of progress on the autonomy issue by July.

There was a brief reference to the question of settlements in the occupied territory. The Prime Minister said that she had made plain to Mr. Begin that she saw no sense in putting up new settlements on territory occupied by Israel in 1967. Mr. Yadin said that he had noted the Prime Minister's reference to "new" settlements. The difficulty about the previous week's UN resolution had, of course, been that it had called for the dismantling of all settlements in the new territories. The Prime Minister did not respond to this beyond repeating that Mr. Begin was familiar with her views on the point.

/ On the general

On the general situation in the Middle East, Mr. Yadin said that President Sadat was deeply worried about the Soviet threat. Looking at events in Libya, Ethiopia, Iran and Afghanistan he felt encircled. He thought that Saudi Arabia was "next in line" and was highly critical of the Saudi regime for its failure to recognise the danger. The incident at the Great Mosque had been far more serious than was generally acknowledged. President Sadat was also critical of the Americans for their failure to develop a strategy for dealing with the Soviet challenge. He thought the Americans should have made more of an attempt to assign roles to eg the Egyptian, Saudi and Israeli Governments. All three Governments would be willing to respond to a clear lead. Mr. Yadin concluded the conversation by suggesting that the Prime Minister should delegate a representative to get in touch with the Egyptian military intelligence authorities to discuss with them their assessment of the situation in Saudi Arabia. The Prime Minister said that she would consider this further.

*Yours ever*

*Richard Alexander*

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