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DEPARTMENT OF STATE
BRIEFING PAPER

EAST-WEST RELATIONS

SUMMARY

Prime Minister Thatcher's government approaches East-West issues with a combination of vocal anti-communism and a pragmatic desire to harmonize Western interests in responding to Soviet adventurism. The British have staked out a hard-line position at the present CSCE review meeting, and are playing a central role in Allies' efforts to develop effective contingency measures to respond to a Soviet intervention in Poland. At the same time, the British fear being whipsawed between contradictory US and "European" approaches to the Soviets. Accordingly, while they favor linkage in general, they are conscious of the greater constraints operating on the Europeans (particularly the FRG) and favor examining linkages closely on a case by case basis. This makes the UK a strong proponent of Allied consultation and harmony. Thatcher, along with other Europeans, will view the patterns of consultation and cooperation established to deal with the Polish crisis as indicative of the Administration's approach to European issues in general.

OBJECTIVES

- Assure the British that we understand the need for thorough Allied consultation, in advance of decisions.
- Exchange views on Poland (see separate paper).
- Reiterate that differentiation between the Soviet and Eastern Europeans will continue to be a hallmark of the US approach.

DISCUSSION OF OBJECTIVES

--The Prime Minister will probably urge continued close coordination both in restricted meetings with key allies and in the wider NATO contexts, especially on the issue of sanctions in response to Soviet intervention in Poland. Reassure her on how important we regard such

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coordination, and express our appreciation for the helpful role the British have played in encouraging thorough consultations among key allies.

--Thatcher will likely suggest US participation in additional economic assistance to Poland, with some subtle degree of conditionality. Reassure her that we understand the need to deal in a coordinated way with the Polish economic situation.

--The British hope that in the event of a Soviet intervention in Poland, differentiation between the Soviet Union and East Europeans will give the latter options beyond total dependence on the Soviets. Reiterate our sensitivity to the different constraints and perceptions operating in Eastern Europe.

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POLAND

SUMMARY

Mrs. Thatcher's visit follows closely on the heels of a change of government within Poland that could ease tensions at least temporarily. It follows by two days a meeting in Paris of Poland's creditors and decisions there on a coordinated response to the likelihood of rescheduling brought about by Poland's deteriorating economy. The British share our concern over Poland and have been supportive of our efforts to press ahead with our contingency planning, both political and economic. They have also urged us to respond positively to Poland's financial requests, downplaying conditionality in the short term. A logical starting point for your conversation would be the January exchange of letters between Secretary Haig and Lord Carrington.

OBJECTIVES

- Exchange assessment on the situation in Poland.
- Review the state of Allied consultations on contingency planning.
- Exchange views on Poland's financial situation and possible responses by Poland's creditors.
- Reaffirm the continuity of US policy on Poland.

DISCUSSION OF OBJECTIVES

- The elevation of General Jaruzelski, a nationalist and reported ally of Kania, to the premiership suggests that Kania has won more time to seek a peaceful internal solution. We expect a continuation of the carrot and stick approach, pairing a willingness to negotiate with calls for discipline and a veiled threat of force. Jaruzelski's image suits both these ends. He combines a reputation for professionalism with one for integrity and restraint; this could strike a relatively responsive public chord. Solidarity and Rural Solidarity have responded

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positively. Student strikes, however, are spreading to new campuses, raising the possibility that force may yet be deemed necessary.

- Having agreed with the British and other key Allies (France and FRG) on the key elements of economic measures against Moscow in the event of intervention, we have begun very private discussions in NATO on the political and economic responses to such intervention. We are also continuing discussions within NATO on possible responses to Polish use of force. Our position on NATO defense/military responses is that the Allies should agree to whatever SACEUR feels is necessary. We have developed a "buddy" system for consulting key non-NATO Allies (Japan, Spain and ANZUS).
- Poland, close to defaulting on its \$25 billion foreign debt, is seeking massive assistance from the West. The Europeans, including the British, want to move forward quickly with bridge financing to buy time until longer term debt relief measures are in place. The British have offered a \$86 million first quarter contribution to this effort. We have told them we will participate in the "bridging" effort by deferring \$88 million in CCC credit repayments due March-June 1981. This, combined with the earlier extension of \$670 million in CCC loan guarantees, represents a major US effort which goes beyond our relative share of Poland's debt burden. On longer term debt relief, we differ with the British and other Europeans principally on economic conditionality. We believe Poland should commit itself to a meaningful stabilization program as a sine qua non; the Europeans are reluctant on this.
- We have consistently emphasized that Poland's problems are for the Poles to resolve without outside interference. We have maintained a low profile designed to avoid giving the Soviets a pretext for intervention and have counseled restraint on all parties. This policy has been reaffirmed privately in Secretary Haig's letters to Gromyko and his Allied counterparts; in his January 28 press conference, in which he stressed our commitment to the NATO communique; and in recent statements by the State Department Spokesman.

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SOUTHWEST ASIAN AND PERSIAN GULF SECURITY

SUMMARY

The British have cooperated closely with us on Southwest Asia. They have allowed us to construct major naval facilities on Diego Garcia, given generally favorable responses to our approaches on enroute access, and worked with us on Gulf naval coordination. They doubt, however, that we will achieve stability in the Gulf unless there is also progress toward settlement of the Arab-Israeli dispute. They are also concerned that US military activities not threaten the internal stability of the Gulf States. Our aim during the visit of Prime Minister Thatcher should be to build general political support for further cooperation.

OBJECTIVES

- Share our current thinking on regional strategy with the British, encouraging them to proceed with improvements in their power projection capabilities and to maintain their regional security commitments.
- Convey our appreciation for HMG's positive approach in enroute access discussions, emphasizing our interest in improving airfields in the U.K.
- Reassure the British that we will continue to give due weight to their rights of sovereignty and other interests on Diego Garcia.
- Gain more appreciation for our proposed framework for naval coordination to protect shipping in the Persian Gulf.

Discussion of Objectives

-- The British have been steadfast in support of our Southwest Asian strategy. They have helped us with facilities to sustain our peacetime naval presence, and they approve of the idea of a Rapid Deployment Force for use in a crisis. On their own, they are committed to a three to four ship Indian Ocean presence through 1981, and they have maintained strong political, security assistance, and arms sales relationships with the Gulf States. They occasionally deploy air and specialized ground units to the region, and they are aiming for the capability

to deploy a commando battalion by air. In their overall regional view, the British highlight the linkage between progress toward a comprehensive Middle East settlement and security in the Gulf. They stress that in the absence of tangible progress toward a comprehensive Middle East settlement endorsement of US security policies would leave Gulf State regimes vulnerable to opposition elements.

-- In our discussions with the British, we have reviewed possible US responses to a range of contingencies. These could involve as few as three or as many as 250 airlift and tactical aircraft missions per day from the US to Southwest Asia, a substantial portion of which might be routed through the UK. The British reaction has been generally favorable. They have agreed in principle to consider quickly and sympathetically any Southwest Asia-related access request. Some progress has also been made toward identifying improvements needed at selected airfields in the UK. We would like to continue our consultations on improving those facilities for use in a contingency airlift.

-- The British have agreed to our constructing major new support facilities on Diego Garcia. They have also granted us increased and less restricted use of facilities. They are concerned for domestic political and press reasons over several aspects of our presence on the island, including:

- o [REDACTED] the staging of combat operations, [REDACTED] which are subject to joint decision. B1
- o B-52 operations and large scale amphibious exercises within the British Indian Ocean Territory.
- o budgeting for military construction, since British firms are entitled to a share of joint venture projects.

-- While Mrs. Thatcher has from the outset voiced support for naval coordination in the Gulf, the British were slow in getting ships to the scene and have, in general, tried to develop controls over our potential responses in the Gulf. In navy-to-navy talks in London and contacts with the British Embassy here, they pressed us to adopt a complex convoy method of naval coordination, NATO-type rules of engagement, and structured political consultations. We resisted all of these proposals as unnecessarily restrictive and as unpalatable to the French. The British are now preparing comments on our national Rules of Engagement modified for the region.

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THE CARIBBEAN AND CENTRAL AMERICA

SUMMARY

The Thatcher Government shares most U.S. views on the Caribbean and Central America. We consult closely on Caribbean issues and have agreed to share responsibilities, including security assistance. The UK, however, is also interested in ending the financial burden of its remaining colonies. It is determined to grant independence to Belize by the end of 1981 despite Guatemala's claim to Belize.

OBJECTIVES

- Emphasize your Administration's determination to promote the security, and political and economic development of Central America in the face of growing Cuban intervention and urge the British Government to support our stance.
- Underline the high US priority for Caribbean problems and our readiness to provide economic and security assistance, especially to Jamaica. Urge HMG to sustain its current Caribbean aid levels.
- Urge Mrs. Thatcher to advise the Belizeans to seriously consider ceding some minor cays to Guatemala if that is what is required to reach a successful overall settlement of the dispute, and encourage the British to provide a post-independence security guarantee in Belize.
- Seek HMG cooperation in bringing its Caribbean colonies to independence only after thorough preparation and indicate our readiness to support such regional cooperation as a "regional" coast guard.

DISCUSSION OF OBJECTIVES

-- The guerrilla offensive in El Salvador was supported with massive training and weapons supplies from Cuba, Vietnam, and other Soviet allies with the help of Nicaragua. The U.S. decision to resume military assistance reflects our determination to meet the challenge of Cuban intervention aimed at undermining regional security. The Administration will be a consistent and reliable ally of the GOES

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as it works to implement political, economic and agrarian reforms and to end the violence from all sides including the security forces. In the face of the left's international propaganda campaign, the support of our European allies will be important.

-- We aim to develop close, effective relations with the region to prevent Cuba from gaining additional footholds in the Caribbean. The 21 Caribbean countries and territories face economic and political problems due to their fragmentation, impoverishment, and vulnerability to Cuban intervention. The US is providing substantial economic assistance to the Caribbean states through bilateral and multilateral channels. HMG has been most helpful in providing security and economic assistance, particularly to Jamaica. We hope it will reverse its plans to reduce its assistance elsewhere in the Caribbean.

-- The UK and Guatemala may have achieved a breakthrough in their ongoing efforts to negotiate a solution to Guatemala's longstanding claim to the neighboring British territory of Belize. We understand that the Guatemalans now might be prepared to recognize Belizean independence in exchange for the cession of several small Belizean cays. The Belizean position on this formula is still not clear. Irrespective of the outcome of the current talks and any eventual threat of force by Guatemala, the British are determined to grant independence to the colony by the end of 1981. Last fall, the US voted for a UN resolution affirming inter alia the right of the Belizean people to independence and territorial integrity. The USG is prepared to impress upon the Guatemalans the advantages of gracefully accepting Belizean independence, as well as the dangers of their own and regional security of a bellicose response. At the same time, we would expect the UK to urge the Belizeans to seize what may be the last chance for a peaceful resolution of this issue.

-- The UK has granted independence to all its major Caribbean possessions, though seven small dependencies remain. It plans to grant independence to Antigua this year and foresees several others becoming independent shortly. The fragmentation of the region into mini-states that are not capable of supporting and protecting themselves creates an unstable situation. We want to work closely with the British and others to develop a regional structure for cooperation. We hope that thorough preparations will be made for all of these dependencies. The UK has already taken helpful steps to create a "regional" coast guard and we would like to support it.

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NATO DEFENSE RESOURCES AND IMPROVEMENTS

SUMMARY

Despite HMG's strong commitment to improving UK defense capabilities, British economic difficulties have forced Mrs. Thatcher to cut the defense budget, as a result of which the UK will raise defense spending in real terms by 5% in the next two years. Nevertheless, at 4.9% of GNP, British defense spending as a percent of gross national income is among the highest in the Alliance, approaching closely our own. HMG will be looking for further indications of how we will press our case for defense increases and improvements and how we intend to treat the 3% guideline. For our part, we wish to explain our position on the 3% spending standard in the context of our interest in using NATO defense planning procedures to create meaningful measures of actual defense improvements.

OBJECTIVES

-- Suggest that long-established NATO defense planning procedures be reemphasized as the primary means to agree on and urge Allied commitment to making necessary defense improvements.

-- Explain that the 3% guideline is useful as a minimum resource (input) benchmark but that specific force increases and defense improvements (output) are much more important;

-- Express appreciation for UK support of the 3% guideline and note approvingly proposed UK spending increases.

DISCUSSION OF OBJECTIVES

-- We believe a more orderly, rational and effective approach needs to be taken to improve NATO defense planning. In this regard, we think established NATO planning procedures should be reemphasized as the primary means to agree on force goals. We also think the planning process must be improved to assign hard priorities to force goals and key programs, as well as to take into account additional planning needs such as those now covered by the LTDP. In our view, the NATO planning process provides the mechanism through which pressure can

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be exerted on Allies to meet agreed defense improvement goals in a way which does not detract from Allied unity. We are now working on various ideas to this end which we will elaborate during the preparation of Ministerial guidance this spring. We look forward to British support and understanding for this effort.

-- The UK and other Allies are still unclear about our views on the future of the 3% spending guideline. HMG, which remains committed to a 3% real increase in principle, has announced that it will increase spending by only 5% over the next two years. It is concerned, however, that further backsliding on defense increases would be encouraged if we do not replace the 3% guideline with something equally effective. Thus, HMG will welcome clarification that while we intend to retain the 3% guideline as a useful resource benchmark, we will place greater emphasis on the need for all the Allies to make actual force increases and other defense improvements. In this sense it should be expected that the 3% guideline may tend to become a secondary standard overlaid with more important measurement guidelines which set defense improvement goals for the Allies to meet. In short, what is done will become more important than what is spent. In this output-oriented context, our initial analysis indicates that Allies will have to spend at least 3% more per year to make needed defense improvements.

-- Defense Secretary Nott recently announced that UK defense spending for the current FY 80 will likely increase by over 3%, and that UK defense spending increases over the 3-year period through FY 82 will be 8% (including a 5% increase for the last two years combined). This spending increase could go higher as a result of cost overruns, although the UK must take a 200-million-pound defense cut in the next fiscal year. HMG will be grateful for our acknowledgment of their strong support for the 3% guideline since its initiation in 1977, and for our praise at their effort to achieve a 3% annual spending increase since that time.

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UK NATO INITIATIVE

SUMMARY

For several months, UK officials have spoken privately of a possible NATO initiative which might reexamine NATO's organization, the defense roles of its members, and the idea of a "division of labor," including beyond the NATO area. British thinking on specifics of the initiative has been vague, although recently they have suggested a study, by a group of "Wise Men," to focus on national defense efforts aimed at eliminating duplication. Such a study might suggest defense specialization among Allies. The UK initially discussed a NATO initiative with one seeming objective -- to defuse Alliance strains resulting from US charges of inadequate European defense efforts. Britain's current objective may include US or Allied concurrence for Britain to devote lower priority to certain European defense missions in order to rebuild a modest UK capability East of Suez.

OBJECTIVES

- Give UK views a full hearing, without commitment.
- Note that our own thinking on a number of NATO-related issues is under review.
- Caution that a broad NATO study could tempt others to cut back on defense to placate their Left.
- Discuss frankly with the UK whether now is the time for major NATO initiatives.
- Listen to UK views on a division of labor while noting our concern that the other Allies might use this as an effort to substitute foreign aid for defense spending.
- Encourage British efforts East of Suez while cautioning against cuts in central NATO roles.

DISCUSSION OF OBJECTIVES

- We want to hear the UK out and register reactions as appropriate.

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-- We should note that the new Administration is reviewing foreign issues and is largely in a listening mode on UK ideas.

-- Cautions. A NATO study focusing on Allied defense roles and perhaps national specialization poses two types of problems. One is that a number of Allies -- including Norway, Denmark, Holland, and Belgium -- have domestic opposition to defense efforts and might want to use a study to shed unpopular roles (including nuclear) and justify defense cuts. Another problem is the general concept of national defense specialization, which could weaken Allied solidarity in ground, naval, or air efforts which we may want to keep deliberately multi-national to maintain Allied involvement.

-- Do we need a NATO initiative? NATO is preoccupied with Poland and has had a full plate of initiatives in recent years. Additionally, we have had important successes in coordinating sensitive policies with key Allies informally rather than through NATO's mechanisms (examples: naval coordination in the Persian Gulf; contingency planning on Poland). Such coordination could be complicated by a far-reaching NATO initiative, particularly if the French refused to participate. Finally, it is prudent to know the outcome of a NATO study before launching one.

-- We should encourage British interests in restoring their capabilities to act East of Suez, including the Persian Gulf and Indian Ocean. At the same time, the UK's record over the past decade is one of consistent retrenchment East of Suez, and there is no assurance that new resources budgeted in that direction would not be cut in the future. Of all UK NATO roles, its commitment to the central front (the British Army of the Rhine, or BAOR) is the most significant. It provides forces to a key sector and is integral to other Allied efforts in Germany and to post-war arrangements governing Berlin and the two Germanies. In encouraging greater British activism East of Suez, we should signal the importance of maintaining resources for the BAOR and other key NATO commitments.

-- The British may wish to focus on the defense aspects of a division of labor in the Persian Gulf, Southwest Asia, and elsewhere (see paper on Persian Gulf). If the UK raises the question of a more systematic set of relationships between Allies and Third World countries or regions, we may want to caution that some Allies want to substitute foreign aid for defense spending and that a formal NATO study or plan may in fact complicate informal discussions and agreements (for example, in the Quadrilateral format).

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SECURITY/ARMS CONTROL ISSUES
TNF, CW, ERW, BW AND MULTILATERAL ARMS CONTROL

22424

SUMMARY

Three particularly sensitive areas involving deployment questions in Europe where the British will want to know US intentions involve Theater Nuclear Forces (TNF), Chemical Weapons (CW) and Enhanced Radiation Weapons (ERW). We also wish to get British support for holding off action in multi-lateral arms control fora while the Administration studies the issues.

OBJECTIVES

TNF:

- Express appreciation for UK support for GLCM basing.
- Affirm US support for NATO's two-track decision, while noting that this is a complicated issue, and we are still examining how to proceed on the arms control track.
- Forestall Allied pressure for early resumption of US-Soviet talks to allow a thorough review of US SALT/TNF policies.

CW:

- Point out that the Administration intends to seek funds for construction of a plant to manufacture binary chemical munitions and that if in some years time we decide deployment is desirable, we will consult closely with any affected Ally.
- Inform the UK that we have not scheduled any further US/USSR negotiating round, in light of our policy review.

ERW:

- Assure Thatcher that the issue remains under review, that we are sensitive to the immense political problems ERW raises, and that we will consult with our Allies before a decision is made.

BW:

- Advise the British that, as part of the Administration's arms control review, the Sverdlovsk problem will be examined carefully, and we will consult following this review.

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-- Reiterate our decision to support the French CDE proposal and our expectation that all the Allies will hold firmly to our agreement that there can be no compromise on the criteria for agreeing to such a meeting.

Multilateral Arms Control:

-- Make clear that the Administration's comprehensive review will also cover these issues, and express our hope that in the interim the UK and other Allies will help discourage pressures for wide-ranging actions in multilateral bodies.

DISCUSSION OF OBJECTIVES

-- TNF: The UK has consistently supported both tracks of NATO's modernization program. Alone among the proposed basing countries, it has announced the two locations for LRTNF warheads to be based in the UK, and is moving forward with the necessary preparations. The UK will seek reassurance that we are not embarking on a major policy change on TNF and will welcome confirmation of continued US support for NATO's two track approach. The British Government values the US-Soviet talks on LRTNF as a public symbol of an on-going arms control "process," but will be sympathetic to the new Administration's desire to conduct a comprehensive review before resuming talks with the Soviets. Provided they are persuaded that we do not underestimate the strength of arms control pressures in Europe, the British can also be helpful with other Allies in buying time for us to develop our policies.

-- CW: The Administration will seek funds for constructing and equipping a binary CW munitions plant; however no decisions have been taken on production or deployment. British officials have noted the political sensitivities of CW in Europe and asked the US to keep them closely informed of our intentions.

-- ERW: The British will likely seek a commitment that we consult with them before taking steps toward deployment. You will want to reassure Thatcher on this point, while keeping our options open.

-- BW and the Sverdlovsk incident: The British may suggest that we proceed now with multilateral efforts to deal with this problem and will expect the US/UK bilateral consultations before any US action. For our part, we will want to discourage any UK initiatives until completion of our review.

-- Multilateral Arms Control: The British may ask that we accompany any decision on CW modernization with a reiteration of our commitment to a comprehensive and verifiable convention prohibiting CW. The West can continue in the MBFR negotiations on the basis of current guidance. We do not expect the British to push for action in this field. In the Madrid CSCE Review Conference US support for the French CDE proposal will help maintain Western unity in the difficult concluding session.

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MIDDLE EAST PEACE ISSUE

SUMMARY

The UK has increasingly taken the lead in efforts to find a role for the EC in resolving the Arab-Israeli dispute. The UK supports what was accomplished at Camp David but, like many other EC members, it is dubious that the autonomy talks will succeed or if they do, that the Palestinians can be persuaded to accept the results achieved. The British are confident their past experience in the Middle East qualifies them to play an important role in bringing about a settlement. They have given us a good idea of how they plan to proceed. Our aim is to insure that the EC not harm our negotiating efforts by helping to legitimize the PLO and that the British stay in close touch with us as they and other EC states consider what position to take. Thatcher will be receptive to this approach, but may encourage you to try to induce greater Israeli flexibility toward the Palestinian issue.

OBJECTIVES

-- Place the Arab-Israeli issue in the context of our world strategy and our regional security policy. Emphasize that a climate favorable to the peace process can be enhanced if the West shows that it is united and determined to defend its vital interests in the region and elsewhere.

-- Apprise the British of our continuing commitment to the Camp David process and our plans for high-level consultations with Egypt, Israel and other concerned parties, such as Jordan and Saudi Arabia later this year.

-- Encourage HMG to stay in close touch with us, and underscore our concern that the EC proceed cautiously and not undercut our efforts.

DISCUSSION OF OBJECTIVES

-- We see the peace process as subordinate to our world and regional security concerns. The British insist that progress, or at least the appearance of progress, toward a more comprehensive settlement of the Palestinian issue is essential and contributory to further progress on security cooperation with the Arab regional states. We remain committed to the Camp David framework and to consultations

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with our Israeli and Egyptian partners on any broadening of that framework. The British admit a successful conclusion of the Camp David process would be extremely helpful to our joint regional security concerns but are convinced that, to achieve that objective, a better basis for Palestinian participation must be found. We believe there is no need for haste since significant progress cannot be made until after the Israeli election, June 30, at the earliest. The British agree, but feel that we ought to prepare now for a massive push to accomplish something at that time. They want to begin exploring options soon.

-- During your meeting, Mrs. Thatcher or Lord Carrington may raise some specific ideas about a future Middle East strategy. These would build on the EC "Venice Declaration" of June 1980 by which the Europeans endorsed a call for Palestinian self-determination and for PLO association with the ongoing peace negotiations. The British would begin by querying the Arabs on exactly what is meant by Palestinian self-determination (which Palestinians? which territories?). They would hope eventually to obtain unilateral Palestinian recognition of Israel's right to exist. This might be embodied in the final communique issued by a Euro-Arab conference which the British are likely to host and co-chair after they assume the Presidency of the EC on July 1. The PLO will probably co-chair on the Arab side. The British think they might create a climate permitting West Bank Palestinian leaders to engage in negotiations.

-- If they follow such a course, the British will be on a slippery slope. They can cut across our efforts and add to PLO intransigence without achieving the goals they seek. The Israelis strongly oppose these views. Sadat generally supports them but has indicated he does not want the PLO in the negotiations during the current phase. You should warn the British not to proceed on the premise that they will seek to "deliver" the Palestinians and then expect us to "deliver" Israel.

-- Additionally, you could encourage the British to channel European activity more closely into line with our own. For example, would the Europeans encourage Hussein to enter the negotiations? Would they try to persuade pragmatic elements in the PLO to renounce terrorism and recognize the UN resolutions on which the Camp David framework is based?

-- Finally, you could emphasize that, while we regard the resolution of the Arab-Israeli dispute as important to Western interests, it must be seen in the overall context of our world regional security concerns. We recognize the Saudis and other conservative regimes see the Palestinian problem as posing a greater danger through internal subversion than the threat posed by the Soviets. However, moving toward a resolution of the Arab-Israeli dispute without demonstrating the West's resolve to defend its vital interests would do little to advance Western influence or meet the Soviet challenge. On the other hand, if our friends perceive the West as united and determined to protect its interests in the Middle East and elsewhere, they are more likely to take the risks so necessary to building upon the Egyptian-Israeli treaty.

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DEPARTMENT OF STATE
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NORTHERN IRELAND
(If Raised)

SUMMARY

Prime Minister Thatcher will probably raise British policy toward Northern Ireland. She is unlikely to renew her request for the US licensing of gun sales to the predominantly Protestant Royal Ulster Constabulary (the Northern Ireland police force). Key Congressional leaders, including Speaker O'Neill, remain strongly opposed to such sales.

OBJECTIVES

- Express our interest in British policy toward Northern Ireland, and our support for a political solution which would command support of both the Protestant majority and the Catholic minority.
- Note that we are prepared to explore ways of cooperating with the British and Irish governments in the suppression of terrorism in Northern Ireland.
- (If arms sales raised) State that, while we deplore terrorism in the province, it would be very difficult for us to license gun sales to the Royal Ulster Constabulary because of intense opposition by the Irish-American community and Congressional leaders and because it could affect the cooperation we have received from both groups in discouraging support for the IRA.

DISCUSSION OF OBJECTIVES

--US policy has been to prevent the Northern Ireland issue from disrupting our close cooperation with the UK and Ireland on multilateral issues. US policy statements on the conflict express concern about the tragic situation in Northern Ireland, call for an end to violence, express support for a peaceful solution, and indicate that, in the event of such a settlement, we would be prepared to join with others to see how job-creating investment there could be encouraged.

--Cooperation between the British and Irish governments on the suppression of cross-border terrorism is very good. There may be ways that the US could contribute to the UK/Irish joint effort. If the Prime Minister is receptive to your suggestion,

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you could also raise the issue when you meet with Irish Prime Minister Haughey on March 17. If US cooperation were with both the British and Irish governments, it would likely be more acceptable to the Irish-American community and such Congressional leaders as Speaker O'Neill.

--In July 1979, Speaker O'Neill persuaded then-Secretary Vance to cease State Department authorization for the sale of weapons to the Royal Ulster Constabulary. The British regarded the suspension as unhelpful to their efforts to suppress terrorism, and Prime Minister Thatcher raised the issue without success with President Carter at their December 1979 meeting. The RUC issue is currently dormant at the official level, but there has been growing US Congressional and Irish-American pressure against a change in arms sales policy by the new Administration. Speaker O'Neill warned visiting British Members of Parliament in January that such a step would provoke strong Congressional reaction.

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DEPARTMENT OF STATE

Washington, D.C. 20520

February 25, 1981

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MEMORANDUM FOR MR. RICHARD V. ALLEN
THE WHITE HOUSE

Subject: Briefing Materials for the Visit of UK Prime
Minister Thatcher

The Secretary discussed the situation in Belize with the Guatemalan Foreign Minister on February 22. As a result of that discussion we are transmitting new briefing material on Belize for the President's meeting with Prime Minister Thatcher.

Attached are copies of replacement page 3 and a new page 4 of the Appendix to the Secretary's Memorandum for the President as well as a revised Issues Paper on The Caribbean and Central America (Tab 11).

L. Paul Bremer III
Executive Secretary

Attachments:

As stated

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2. Suggested Points

-- We have sought since 1967 to waive the visa requirement for citizens of certain countries, including the UK. Congress has always demurred and we are considering another approach.

F. UK-Canadian Constitutional Issue

1. Suggested Point

-- We have sought to remain uninvolved in this issue which concerns sensitive relationships between Canada and Britain.

G. Breeder Reactor Cooperation

1. Essential Factors

The UK would like to expand cooperation with us in the breeder reactor area, to include a demonstration program. They are technically ahead of us in some areas and under pressure to join, at high cost, a French-led consortium. Due to the heavy cost of breeder demonstration, a properly-designed US/UK cooperative program could mean significant benefits and savings for both sides. We envisage participation by US industry and eventually by other countries, such as Japan.

2. Suggested Points

-- The US is committed to its nuclear energy development program, including breeder reactors.

-- A cooperative program in breeder reactor demonstration could benefit both the US and the UK. We hope exploratory talks can begin soon.

H. Belize

1. Essential Factors

The UK wants to grant independence to Belize this year--with or without a settlement of Guatemalan claims to the colony. Failure to settle the dispute now could lead to tensions between Guatemala and Belize, invite Cuban intervention and contribute to regional

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destabilization. The British have indicated some willingness to retain a garrison in Belize after independence.

SUMMARY

2. Suggested Points

- The U.S. views the Caribbean as a region of strategic importance. We consult closely on Caribbean matters with our allies, and we consult with the UK, however, on the financial burden of its remaining commitments in the region determined to be essential to the stability of the Caribbean of 1981 despite the fact that the UK do everything possible to reach an agreement with Guatemala and retain a garrison in Belize after independence.

OBJECTIVES

- Urge the British to support our stance in El Salvador and to condemn Communist intervention there.
- Underline our readiness to provide economic and security assistance to the Caribbean and urge the US to maintain its present level of support for the Caribbean (6 million pounds) and the entire Caribbean.
- If the Belizeans do not accept Guatemala's latest offer, seek British agreement to detach the relevant cays and cede them directly to Guatemala. Encourage the British to maintain a post-independence security guarantee in Belize.
- Seek NSG cooperation in bringing its Caribbean colonies to independence only after thorough preparation and indicate our readiness to support such regional cooperation as a "regional" coast guard.

DISCUSSION OF OBJECTIVES

- The guerrilla offensive in El Salvador was supported with massive training and weapons supplies from Cuba, Vietnam, and other Soviet allies with the help of Nicaragua. The U.S. decision to resume military assistance reflects our determination to meet the challenge of Cuban intervention aimed at undermining regional stability. The Administration will be a consistent and reliable ally of the OAS.

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DEPARTMENT OF STATE
BRIEFING PAPER

THE CARIBBEAN AND CENTRAL AMERICA

SUMMARY

The Thatcher Government shares most U.S. views on the Caribbean and Central America. We consult closely on Caribbean issues and have agreed to share responsibilities, including security assistance. The UK, however, is also interested in ending the financial burden of its remaining colonies. It is determined to grant independence to Belize by the end of 1981 despite Guatemala's claim to Belize.

OBJECTIVES

- Urge the British to support our stance in El Salvador and to condemn Communist intervention there.
- Underline our readiness to provide economic and security assistance to the Caribbean and urge the UK to maintain its present level of support for Jamaica (6 million pounds) and the entire Caribbean.
- If the Belizeans do not accept Guatemala's latest offer, seek British agreement to detach the relevant cays and cede them directly to Guatemala. Encourage the British to maintain a post-independence security guarantee in Belize.
- Seek HMG cooperation in bringing its Caribbean colonies to independence only after thorough preparation and indicate our readiness to support such regional cooperation as a "regional" coast guard.

DISCUSSION OF OBJECTIVES

-- The guerrilla offensive in El Salvador was supported with massive training and weapons supplies from Cuba, Vietnam, and other Soviet allies with the help of Nicaragua. The U.S. decision to resume military assistance reflects our determination to meet the challenge of Cuban intervention aimed at undermining regional security. The Administration will be a consistent and reliable ally of the GOES

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as it works to implement political, economic and agrarian reforms and to end the violence from all sides including the security forces. In the face of the left's international propaganda campaign, the support of our European allies will be important.

-- We aim to develop close, effective relations with the region to prevent Cuba from gaining additional footholds in the Caribbean. The 21 Caribbean countries and territories face economic and political problems due to their fragmentation, impoverishment, and vulnerability to Cuban intervention. The US is providing substantial economic assistance to the Caribbean states through bilateral and multilateral channels. HMG has been most helpful in providing security and economic assistance, particularly to Jamaica. However, the UK has not given assurance that it will maintain current balance of payments support for Jamaica and plans to reduce its assistance elsewhere in the Caribbean.

-- The Guatemalans say they are prepared to recognize Belizean independence in exchange for the cession of several small Belizean cays and adjacent territorial waters. The US and UK have pressured Belize to accept, but the Belizean position on this formula is still not clear. The UK may need to move unilaterally to seize the opportunity for a peaceful settlement. Irrespective of the outcome of the current talks and any eventual threat of force by Guatemala, the British are determined to grant independence to the colony by the end of 1981. Last fall, the US voted for a UN resolution affirming inter alia the right of the Belizean people to independence and territorial integrity.

-- The UK has granted independence to all its major Caribbean possessions, though seven small dependencies remain. It plans to grant independence to Antigua this year and foresees several others becoming independent shortly. The fragmentation of the region into mini-states that are not capable of supporting and protecting themselves creates an unstable situation. We want to work closely with the British and others to develop a regional structure for cooperation. We hope that thorough preparations will be made for all these dependencies. The UK has already taken helpful steps to create a "regional" coast guard and we would like to support it.

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COUNCIL FOR COOPERATION AMONG
ARAB STATES OF THE GULF

SUMMARY

On February 4, 1981, Saudi Arabia and its smaller Gulf neighbors agreed to establish the "Council for Cooperation Among Arab States of the Gulf". Although the organization is likely to stress initially economic and cultural cooperation, there are latent but clear political and security dimensions. Our approach is to be cautiously supportive -- so as not to compromise it by an embrace, but also owing to the past tendency of such efforts to contain an anti-superpower bias which could compromise our strategic requirements.

BACKGROUND

Since mid-1979, Saudi Arabia and its smaller Arab neighbors in the Gulf (Kuwait, Bahrain, Qatar, United Arab Emirates, and Oman) have been moving steadily toward more formal and effective cooperation. Oman's unsuccessful effort during the spring of that year to launch a joint Hormuz surveillance scheme was followed in October 1979 by the more positive Saudi-hosted Taif Conference. At this latter meeting, in addition to expected discussions on economic, educational, and interior/police matters, ministers for the first time tentatively examined security cooperation.

Movement toward closer dependence upon one another was being forced upon these states by area tensions arising from the Iranian revolution, the Soviet invasion of Afghanistan, and their proximity to the Iraq/Iran war. A "Kuwaiti Initiative" to create an intergovernmental institution to further their common interests circulated during the November 1980 Arab Summit. On February 4, 1981, at Riyadh with strong Saudi support, there was formal agreement to establish the "Council for Cooperation Among Arab States of the Gulf".

Although reports indicate that the organization initially will stress economic and cultural cooperation, its "charter" several times discusses cooperation "in all spheres". This intentionally obscure wording appears

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aimed at alleviating Iraqi as well as Iranian suspicions that Gulf security cooperation is being advanced in a grouping which excludes them. Iraq, for its part, is poorly placed to object for the time being; a major part of that country's wartime resupply comes through Kuwait and Saudi Arabia.

OBJECTIVES

-- To seek an exchange of views with UK representatives concerning the compatibility of this new organization with US and Western objectives.

-- To assure UK representatives that while we welcome this initiative in the general context of our support for Gulf cooperation, we do not intend to complicate its chances by too close a public embrace.

-- In addition, to express to the UK representatives a note of caution in that such regional groupings have in the past manifested an anti-superpower bias which would, if followed through, disproportionately affect our strategic needs.

DISCUSSION OF OBJECTIVES

-- The US has long supported the principle of regional cooperation in the Gulf. If this new initiative flourishes, the organization might provide a better environment for cooperation in security matters and might serve our broad interest in strengthening the moderate states in the region.

-- In quietly encouraging Gulf cooperation compatible with our interests, we will wish to keep in close touch with the UK in appreciation of the special British influence in the Gulf.

-- Soviet propaganda is already attempting to tar this initiative as "U.S.-inspired". We do not want to complicate its prospects by too robust a public welcome and are advising participants of our intention to maintain a low profile.

-- We will want to look for the moment when the new organization might begin to evolve as supportive of Western security objectives in the region and to consider how we might best encourage such a trend or discourage any trends to the contrary.

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DEPARTMENT OF STATE
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SOUTHERN AFRICA

SUMMARY

Southern African policy has traditionally been an area of close cooperation between the US and UK. The 1979-80 Zimbabwe settlement represented a triumph of British diplomacy, with which the United States was indirectly, but closely associated. We have also pursued a coordinated policy toward the Namibia question.

OBJECTIVES

-- Make clear our continuing interest in working with the British in pursuit of common interests on southern African issues such as Namibia, Zimbabwe, Angola and South Africa and welcome opportunities to consult fully with the British at the expert level in developing our approach toward the region.

-- Refer to your Administration's first messages to the Africans on Namibia which requested patience while we review possible courses of action and seek Mrs. Thatcher's assessment of how best to advance the now-stalled negotiations.

-- Indicate that we are still reviewing our policy options toward Angola and will consider Savimbi's possible visit in the context of our overall policy toward southern Africa.

-- Assure her that we share the UK's interest in Zimbabwe; that we will be attending the March donors conference in Salisbury; and that we expect to be able to make a substantial pledge.

DISCUSSION OF OBJECTIVES

-- The US and the UK have similar interests and problems in dealing with southern African issues in the African and global contexts. Both have significant economic and - to a lesser extent for the British - strategic interests in mineral rich southern Africa, South Africa and the rest of the continent. We both want to assure stability in the region and to limit Soviet adventurism; the UK believes a Namibia settlement is central to that goal. A common front can enhance effectiveness and reduce exposure in dealing with these

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problems. The 1980 Zimbabwe settlement, in which we played a supporting role, was the first major foreign policy success of Mrs. Thatcher's government. We have been working with the British (and the FRG, Canada, and France) on Namibia for four years now. We also have a common interest in maintaining unity in any call for sanctions against South Africa in the Security Council, whether they relate to Namibia or apartheid in South Africa. The British may suggest early discussions at the expert level in developing a common approach to southern African issues.

-- We have sent messages to the Foreign Ministers of South Africa, the African Front Line states, and Nigeria, indicating your Administration's continuing interest in the Namibia issue and urging no hasty action while we were reviewing our position and having discussions with interested parties. The messages were well received and the Africans have exercised restraint thus far. However, the pressures are building. The British are concerned about the possibility of an early call for sanctions in the Security Council against South Africa unless we become visibly engaged in following up on our earlier message to the Africans.

-- The British may raise the question of a private visit to the United States by UNITA President Savimbi and a report they have received that US officials favor arranging South African withdrawal from Namibia in exchange for Cuban withdrawal from Angola. They have expressed privately their concern that receiving Savimbi too early and too warmly could prejudice our options toward southern Africa. They are also skeptical about linking a Namibian settlement to Angola.

-- Because of the UK's role in the evolution of the present situation in Zimbabwe and the pivotal position of that country in the region, the British are especially concerned about the future of that country. Prime Minister Mugabe seems to have Zimbabwe on a reasonable and pragmatic course, given its enormous problems. A donors conference is scheduled to be held in Salisbury March 23-27. The British can be expected to press for high-level US representation at the conference and a substantial pledge.

February 20, 1981

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DEPARTMENT OF STATE
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UK DOMESTIC ECONOMIC POLICY

SUMMARY

Thatcher's objective is to change the prevailing psychology that British society is entitled to increased levels of government services regardless of the state of the economy and that business is entitled to government help to stay alive, regardless of how well--or badly--managed. Her strategy is to reduce the burden of government on the economy, freeing resources for the private sector. So far she has failed to implement effectively her tactical policy goals of reducing the budget deficit, government consumption and the growth in the money supply, but it is too early to say whether or not she will eventually succeed.

The Tories failed to give due weight to the impact of events outside their control and implemented their strategy inefficiently. The public sector is now larger in relative terms than when Thatcher took office; public spending is higher and the money supply is growing too fast. The UK is in a deep recession. Real GDP declined 3% in 1980, and unemployment, at a record level of 10%, is likely to keep rising throughout 1981. The strength of sterling's exchange rate has squeezed profits by eroding British international competitiveness. The inflation rate slowed in the last half of 1980 to about 8%. Together with high unemployment, this development is promoting current wage settlements below actual living cost increases. Should this wage pattern continue it could be a major factor in the recovery of economic activity, now not expected until the second half of 1981.

OBJECTIVES

- Exchange views with Thatcher on her experience, in part to learn from British mistakes.
- Explain your intentions for US economic policy direction and implementation.

DISCUSSION OF OBJECTIVES

-- Thatcher has found it difficult to control the growth in money supply, and is concerned about whether the operating techniques of the Bank of England are adequate to do so. She has faced the opposition one would expect

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in any Western industrialized country to cut government spending for specific programs, although stabilization measures outside her control have worsened the situation due to the recession. There is a real question about her intentions or ability to avoid increasing subsidies to money-losing nationalized industries. North Sea oil has insulated the UK from the latest oil price shocks and in effect been used to finance wage increases. While she is trying to restructure an economy which in many ways is different from the US we share common problems.

-- Thatcher will be interested in your economic program and your plans for implementing it.

February 17, 1981

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FORTHCOMING SUMMITS

SUMMARY

At the Ottawa Summit preparatory meeting to be held in London February 17-19 we will convey our position that North/South issues should not dominate this Summit as the Canadians have suggested. We will press for a more balanced agenda by stressing energy security and East/West economic relations. The UK may suggest that the first morning meeting at Ottawa on economic topics be restricted to Heads of Government and personal representatives. Depending on the outcome of the preparatory meeting Thatcher may follow up on these issues with you.

Although committed to attend a North/South Summit if held, the British would prefer it be postponed until after the July Ottawa meeting, enhancing the ability of the Ottawa Seven to coordinate their views. Thatcher will ask for a decision on your attendance and about your meeting with Lopez Portillo.

OBJECTIVES

- Discuss the relative attention to be given at Ottawa to different topics.
- Exchange views on the format for and participation in meetings at Ottawa.
- Inform Thatcher that you have not yet decided whether to attend a North/South summit.
- Discuss the best way to structure a North/South summit to meet our mutual objectives if Thatcher attends and you do not.

DISCUSSION OF OBJECTIVES

-- Thatcher should be more sympathetic than our other Summit partners to engaging at Ottawa in a review of East/West economic relations. The British have less at stake in trade with the USSR and Thatcher's views on how the Alliance should conduct its relations with the Soviets are close to ours. She will want to insure that the Seven

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explore fully ideas on North/South relations which will protect the UK budget. The British agree with the Germans and Japanese that the International Energy Agency must be the focal point for any oil stock plan.

-- Thatcher found the afternoon set aside at Venice for political discussions particularly worthwhile and will agree to the presence of Foreign Ministers. The UK would like to see a preparatory meeting by foreign policy experts prior to Ottawa. Thatcher may balk at including ministers in the first morning meeting on economic topics. We should have a better idea of how closely our views coincide after the mid-February preparatory meeting.

-- It would be difficult for us to support a North/South summit conceived as an effort to make a breakthrough on specific substantive negotiations. We have been concerned that such a meeting will raise expectations which we cannot fulfill. A meeting without US participation would be widely regarded as a failure. Some participants--not to our knowledge Thatcher--have suggested that their presence depends on US attendance. Thatcher is lukewarm about the meeting and wary that if it is held prior to Ottawa it will lead to expectations for follow-up action by the Seven. She does not want to be left out and is committed to attend, but would prefer that any North/South meeting follow Ottawa to enhance our ability to coordinate. Summit promoters will meet in March to finalize the date, tentatively set for June. You have not yet decided whether to attend, and your decision may be complicated if the Soviets, Chinese or Cubans participate.

-- If Thatcher plans to attend a North/South meeting whether or not you will be present she could be a useful ally. We should seek her support to insure that no commitments are made on aid levels, that any summit not engage in substantive negotiation of specific issues, and that specialized institutions --such as the IMF and the GATT--are protected.

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NORTH/SOUTH RELATIONS

SUMMARY

Mrs. Thatcher is likely to be interested in proposed cuts in the US foreign assistance budget. The UK and other donors are concerned that the US will not provide its "fair share" of foreign assistance and especially that it will weaken its support for the multilateral development banks that are a major factor in some other donors' foreign aid programs.

Two other issues important in recent North/South discussions are global negotiations in the UN and the North/South summit being promoted by Mexico and Austria. Sponsors of the latter will meet again in Vienna in March to complete preparations. We have expressed reservations about the idea.

Progress toward launching global negotiations in the UNGA has essentially come to a halt. UNGA President von Wechmar is trying to restart negotiations on the basis of his efforts in December, but there is little chance he can produce procedures and an agenda that will meet G-77 demands and US concerns.

OBJECTIVES

-- Explain that the process of cutting back the U.S. budget is affecting all areas, including foreign aid, and that although we continue to support multilateral development banks and will meet our commitments, our foreign policy needs cause us to give priority to bilateral security and economic assistance.

-- Inform Thatcher that you have not yet decided whether to attend a North/South summit.

-- Seek UK support for our position that we remain unwilling to go along with global negotiations procedures that might damage institutions like the IMF, IBRD or GATT and that we cannot agree to an agenda that focuses on G-77 demands instead of global economic problems of common concern.

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DISCUSSION OF OBJECTIVES

-- Other countries have become alarmed at the prospect of major reductions in US foreign assistance. They feel the US already provides less than its fair share of aid. Our reduction of emphasis on multilateral development banks (MDBs) and funds is particularly alarming to some of these countries. They rely heavily on the MDBs as the most effective way for them to use their small aid budgets. (The UK is reported to be cutting back bilateral programs to meet MDB commitments.) The new US policy, increasing emphasis on bilateral security and economic assistance, is a departure from recent practice. The UK and others need to be reassured that although we are changing our priorities, we do not intend to abandon the MDBs.

-- The Carter administration told interested countries we had serious reservations about US participation in a North/South summit. It was thought that such participation would arouse expectations that it would be impossible to fulfill. The UK was initially skeptical, but Thatcher is now committed to attend. You have made no decision about US participation.

-- The UK joined the US and the FRG at the last UN General Assembly in blocking a consensus on the adoption of procedures for global negotiations that we thought would threaten the competence of important institutions like the IMF, the IBRD and GATT. We are concerned by reports that the FRG may now be willing to go along with less than completely satisfactory procedures; if so, the UK would probably go along. The French have accepted the position of most EC countries that the procedures proposed are adequate. We are reconsidering all aspects of global negotiations and our participation in them.

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ENERGY

SUMMARY

Thatcher is expected to raise our Strategic Petroleum Reserve (SPR) fill policy and our natural gas pricing policy. We in turn would like to obtain a preliminary reading of British views as to energy issues which should be discussed at the July 19-21 Ottawa Economic Summit meeting.

OBJECTIVES

- Reassure the British that our SPR fill policy will not stimulate an increase in world oil prices, and advise them that we will consult our allies prior to making any decision to accelerate the fill rate.
- Respond to British concerns regarding our natural gas price controls.
- Obtain Mrs. Thatcher's views on energy issues to be discussed at the Summit.
- Raise concerns about UK tax treatment of oil company operations in the North Sea.

DISCUSSION OF OBJECTIVES

-- In September 1980, we resumed filling the Strategic Petroleum Reserve (SPR) at a rate up to 170,000 barrels/day. At that time and since, the British have voiced concerns that our fill rate would result in higher world oil prices. They have also noted that we had agreed at the 1979 Summit not to buy oil for government stockpiles when this would place undue pressure on world oil prices. We maintain that a large SPR is in the interest of our allies as well as ourselves. We will continue to offset the impact of the present rate of fill by producing and swapping from our Naval Petroleum Reserve up to its capacity of 170,000 barrels/day. We have made no decisions yet with respect to the future fill rate of the SPR. We are mindful of the need to treat the timing and manner of accelerated purchasing discreetly, in part so as not to arouse concerns of key oil producing countries like Saudi Arabia. We will discuss any decision with our Allies in advance of any announcement. Oil market conditions have eased somewhat, and US oil decontrol has reduced our own

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demand. We thus are confident that any increase in the SPR fill rate would not have an impact on overall US demand and therefore on world oil prices.

-- The British contend that natural gas price controls subsidize US petrochemical and textile production, giving it an unfair competitive advantage over British textiles. We are considering acceleration of gas price decontrol. Under the current schedule, most US-produced gas will be decontrolled by 1985. Given the inflationary impact of decontrol (especially on households) Congressional opposition to decontrol will be strong. Since domestic production is presently sufficient to satisfy demand, the need for incentives to increase production is controversial. We consider the subsidy question to be a trade, not an energy, issue, and will continue to discuss it in trade forums.

-- We would like to obtain British support for a discussion of energy security at the Summit. One likely topic would be the danger of excessive reliance by Western Europe on the Soviet Union. In particular, we are concerned about the implications of the proposed Western Siberia-Western Europe gas pipeline. We see a need for insurance against an interruption of gas from that pipeline. The British could help provide such insurance by creating gas production surge capacity in the North Sea (installation of expanded gas storage capacity and of a standby fuel switching capability in the countries receiving Soviet gas will also be essential). We would also appreciate British support in conducting a comprehensive study of this issue in the EC and NATO over the coming months.

We have recently received a number of disturbing reports from US firms about changing UK tax treatment of oil company operations in the North Sea. According to US companies, the proposed new Supplementary Petroleum Tax amounts to a heavy de facto royalty. We are concerned that this may discourage exploration and development. In addition, it could place US firms at a major competitive disadvantage depending upon the treatment of these payments under US tax law.

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TWO-WAY STREET IN DEFENSE PROCUREMENT

SUMMARY

During the 1977 NATO Summit, the US called for a "two-way street" in arms cooperation. We have subsequently initiated discussions in NATO fora to increase cooperation in achieving standardization and interoperability.

OBJECTIVES

-- Reaffirm US support for the two-way street concept.

-- Acknowledge UK support in promoting arms cooperation efforts.

-- Emphasize that the US will continue to make progress in bilateral arms cooperation programs with the UK.

DISCUSSION OF OBJECTIVES

The British have told us that the Prime Minister will stress the need for the US to pursue the two-way street in arms cooperation and procurement. UK Defense Secretary Nott has indicated that it would be politically impossible for him to decide in favor of costly US systems, even when they are the most cost-effective, unless he can point to significant US purchases of British systems. Our arms cooperation initiatives are intended to strengthen industrial capability on both sides of the Atlantic, and we support Allied efforts to rationalize European defense procurement.

The UK has been especially supportive of Atlantic arms cooperation. However, the governmental defense trade balance between the US and UK for 1975-

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1980 was approximately 3.5 to 1, with US purchases from the UK of \$400 million in contrast to the \$1.4 billion UK defense purchases from the US. In addition to bilateral purchases from the US (e.g., Trident), the UK has supported arms cooperation through dual production (e.g., consortium production of the US AIM-9L Sidewinder Air-to-Air Missile) and families of weapons. The key to the success of the air-to-air family of weapons is the UK participation in the European development of the Advanced Short-Range Air-to-Air Missile (ASRAAM). The UK also participates in cooperative development agreements for an Anti-Tank Guided Weapons (ATGW) family and for the Multiple Launch Rocket System (MLRS).

The US remains committed to the two-way street. We have completed negotiations for US procurement of the UK Rapier air defense missile system (which the UK will man as a guide). The US has recently contracted to procure the UK's combat support boat and is giving serious consideration to procuring other systems including the Searchwater radar and the L16-series mortar. The prospects for a significant cooperative program for the advanced AV-8B V/STOL aircraft are good. The Low Altitude Airfield Attack System (JP-233) program has great significance, because the UK expects codevelopment to be followed by joint procurement. Although eliminated by Congress from the FY 81 budget, JP-233 is being considered by DOD in the supplemental budget request.

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SUMMARY

VISA RECIPROCITY

In response to a commitment made during a recent debate in Parliament, the Prime Minister is expected to raise the lack of reciprocity in our visa policies; Americans visiting England enter without visas; citizens of the United Kingdom must obtain visas before traveling here.

OBJECTIVES

- Point out that US law does not permit a general waiver of the visa requirement for citizens of the UK.
- Stress that since 1967 previous Administrations have supported legislation to waive visa requirements for citizens from the UK and that a new effort is being considered by your Administration.
- Note that we make every effort to facilitate visitor visa issuance for UK citizens, that visas are issued without charge and usually without personal appearance at our Embassy in London, and for multiple entries indefinitely.

DISCUSSION OF OBJECTIVES

- The Immigration and Nationality Act does not permit us to make a general waiver of the visa requirement for UK citizens. (A general waiver is legally possible only for citizens of Canada, Mexico and the Caribbean Islands and has been granted only for Canadians).
- The only real solution is legislation. The Congress has never been receptive to a change in legislation. The Department continues to favor a change and has resubmitted legislation to OMB seeking your Administration's support.
- The law does permit visa issuance on as liberal basis as possible if reciprocity exists and we authorize issuance of tourist and business visas to UK citizens under the most liberal terms.

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THE CANADIAN CONSTITUTIONAL ISSUE

SUMMARY

The British Government will be under strong pressure in the next few weeks from Trudeau to force through the British Parliament a controversial Canadian constitutional proposal. Quebec and the five other Canadian provinces strongly oppose the request that the British government amend and send to Canada ("patriate") the Canadian constitution. Their opposition centers on the unilateral nature of the request and the amendments which they charge expand federal powers at their expense. The Trudeau government asserts that Prime Minister Thatcher's failure to support the Canadian request would precipitate a crisis in UK-Canada relations.

OBJECTIVES

-- Avoid becoming involved in the Canadian constitutional dispute.

DISCUSSION OF OBJECTIVES

-- The British government retains the power to approve amendments to the Canadian constitution, the British North America Act of 1867. This is so because, in 1931, when the British government recognized the independence of the other self-governing countries of the Commonwealth and ceded the power to amend their constitutions, the Canadian Federal and provincial governments were unable to agree on an amending formula.

-- Provinces opposed to Trudeau's constitutional proposal charge that constitutional practice in Canada and the nature of the federal system prohibit the federal government from unilaterally seeking constitutional changes that would affect the division of powers between the federal and provincial governments. If the British Parliament were to approve such changes, they charge, it would be altering the federal structure of the Canadian government--clearly a colonial act. The Canadian federal government, of course, argues that Britain has no choice but to approve an amendment duly enacted by the Canadian Parliament. Prime Minister Thatcher faces a most uncomfortable dilemma.

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US/UK Breeder Reactor Cooperation

SUMMARY

Thatcher will seek confirmation that the US is committed to nuclear power and shares the UK perception that the fast breeder must be developed. She may ask whether we are now prepared to explore an expanded program of breeder cooperation with the UK in which others (like Japan) ultimately might participate. The UK believes that now is the time to embark on demonstration of the breeder reactor and its associated fuel cycle system. In view of the high cost they are seeking partners, either the US or France. Both the UK and France have demonstration breeders and both are ahead of the US in fuel cycle development.

The US and UK have cooperated on breeder technology but not yet agreed on any joint, large-scale demonstration project. The UK has been under pressure to join a French-dominated consortium but the cost could be quite high. Some UK officials and the US business community see merit in an expanded US/UK program, to include the private sector. Capital and operating costs of demonstration plants will be high and cooperation could result in significant savings. We have informed the British in technical discussions that we are prepared to take a fresh look at expanded cooperation.

OBJECTIVES

- Assure Thatcher we will strengthen the development of nuclear power, including the breeder system.
- Underscore that breeder development can be intensified by enhanced international cooperation.
- Stress that although our breeder budget is now being revised, we are prepared to begin exploratory talks with the UK on a cooperative program aimed at a large-scale demonstration breeder reactor.

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DISCUSSION OF OBJECTIVES

-- Representatives of your Administration have stated that maintaining the option of using fast breeder reactors is essential for prudent energy planning. Skepticism remains in foreign circles about the strength of the US commitment to nuclear power and the breeder in light of previous actions. Explicitly supporting the breeder would reassure the UK and others of your Administration's commitment to nuclear power in general and to the breeder in particular.

-- The development of collaborative efforts in large, capital-intensive energy projects such as breeder reactors could bring more resources, both monetary and technological, to bear. This is particularly the case with the British since their emphasis is on demonstration rather than research. Technically, our two programs complement each other. Depending on the specifics, expanded cooperation with the UK could lead to more efficient use of US resources and speed the pace of development. We (and, we believe the UK) wish to leave the door open to include others (such as Japan).

-- Your Administration has not yet fully developed its domestic breeder program, but we clearly are pointing to an expanded demonstration program. Expanded collaboration with the UK could be of direct and significant benefit to the US if appropriately designed. We hope to launch these exploratory talks as soon as practicable.

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US-UK-CHINA RELATIONS

SUMMARY

Prime Minister Thatcher's strong apprehension over Soviet global policy has led the UK to seek improved relations with China. She will be concerned about the future of US-China relations.

OBJECTIVES

--Reassure the Prime Minister and the other NATO allies that US-China relations will remain healthy and productive.

--Inform the Prime Minister that the US will continue and expand the pattern of strategic consultations which has been established with the Chinese.

--Elicit British thinking on China's role in the East-West strategic balance.

DISCUSSION OF OBJECTIVES

--Both our European and Asian allies are concerned that US-China relations not retrogress. Our allies are aware that the Chinese leadership has voiced uncertainty about any significant shift in the form and substance of the US unofficial relationship with Taiwan. You may reassure the Prime Minister that the US has sought to alleviate Chinese concern by our recent reaffirmation of the Joint Communique on the Establishment of Diplomatic Relations, and tell her that our policy toward China is now under active review.

--You may wish to reassure the Prime Minister that you recognize the strategic importance of China and of favorable US-China relations. Note crucial Chinese help in the context of resistance

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to the Soviet invasion of Afghanistan and of Soviet-backed Vietnamese-generated instability in Southeast Asia. Note Chinese support for the Zimbabwe settlement and Chinese support for Western efforts to solve the Namibia problem and prevent further Soviet and Soviet-proxy intervention in Africa. You may wish to reassure the Prime Minister that we deeply value the many fruitful opportunities for coordinated responses to global problems which our pattern of strategic consultations with the Chinese has provided, and inform her that the US will soon move to reestablish this dialogue.

--Though high-level UK-China political contact has been sparse since former Chinese Premier Hua Guofeng's autumn 1979 visit to the UK, Foreign Secretary Carrington will visit China at the end of March. You may wish to elicit the Prime Minister's views on China's role in the East-West strategic balance, including ways in which she believes the Chinese can play a useful role.

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UK-EC RELATIONS

SUMMARY

The Thatcher Government has recently strengthened its commitment toward the EC. Recent public statements, in particular, have accentuated ties to Europe. This follows her success in reducing Britain's contribution to the EC budget, despite polls showing wide-spread public opposition to EC membership. Thatcher appears to be motivated by a desire to heal the bruises caused by the budget controversy and to become a more co-equal partner with the FRG and France in Community affairs. The move also is a recognition of the UK's heavy economic stake in Europe, as well as a desire to calm European concern about London's future within the EC-10. From all indications, Thatcher's efforts have produced a greater similarity of views with Schmidt and Giscard.

OBJECTIVES:

- Work closely with the UK on political cooperation issues, particularly when the UK occupies the EC Presidency.
- Encourage Community members to resolve their internal differences, while not damaging US interests.

DISCUSSION OF OBJECTIVES:

-- Under Thatcher and Lord Carrington, the UK is playing a vigorous role in EC political cooperation. In EC activities related to the Middle East, the UK has been active at the UN and in regard to the EC initiative which aims at assisting in a peaceful settlement to the Arab-Israel conflict but with PLO participation. The UK will play a still more prominent role when it assumes the six-month Presidency of the EC in July. The British can be expected to press forward with EC activities in the Middle East, an area where London would like to play its traditional role. In regard to East-West relations, Thatcher generally shares our views on most key issues. Moreover, basically self-sufficient in energy resources, the UK does not face the dilemma of its major EC partners

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regarding Soviet supply of natural gas, with all its implications for differences in EC perceptions of East-West issues. We expect an open and cooperative relationship with the British during their EC Presidency; however, they will need to be cautious in dealings with us in order to allay their EC colleagues' suspicions about the UK-US "special relationship" permitting the US to impinge on the EC consultative and decision-making process.

-- With a relatively efficient agricultural sector, the UK has taken a reformist approach to the interrelated EC institutional problems of budget restructuring and reform of the Common Agricultural Program (CAP) which currently consumes more than 70% of the total budget. Recently, the UK seems to be moderating its demand for radical restructuring of the CAP, perhaps indicating a less confrontational approach. Resolution of the budget issue, together with CAP reform, will strengthen the Community as it expands further to include Spain and Portugal in this decade. In other institutional areas, the UK has resisted becoming a full partner in the European Monetary System. Another area of contention is fisheries, where UK reluctance to admit EC fishermen to its waters has thus far blocked the successful conclusion of a common EC fisheries policy. In all of these problem areas, the US must be wary that solutions satisfactory to the Community do not impact adversely in our economic/monetary interests.

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NUCLEAR TESTING ISSUES

SUMMARY

Although the UK has recently indicated that it is prepared to continue its participation in the Comprehensive Test Ban (CTB) trilateral negotiations, the Prime Minister is very skeptical about the talks. The UK has been conducting an internal review of its policy on test ban issues, and the British may attempt to draw out your Administration's views or influence our final position. We will need to examine the whole spectrum of test ban issues, but a review has not yet begun. Therefore, at this time we can do little more than assure the UK that our mutual security concerns will be given priority in our review and that we will consult with them before approaching the USSR on test ban issues.

OBJECTIVES

-- Assure the UK of continued US cooperation in nuclear testing, particularly in support of their Trident program.

-- Indicate that we will fully consider UK testing requirements and consult with them bilaterally as our position develops and before we engage the Soviets.

DISCUSSION OF OBJECTIVES

-- The British MOD has indicated to DOE that the development of a British warhead for their Trident may require continued testing through 1983. As UK nuclear tests are conducted at the US test site in Nevada, the British will require our cooperation.

-- We have not yet decided what position we will take on nuclear testing issues, such as continuing the CTB negotiations, ratifying the existing 150-kt Threshold Test Ban Treaty (TTBT) or seeking a lower threshold treaty. We should, however, assure the British that we will consider their security interests in our approach to test ban issues and promise to consult bilaterally before approaching the Soviets.

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COCOM

SUMMARY

NATO members (except Iceland) and Japan coordinate national controls on exports for security reasons in the Coordinating Committee, or COCOM, in Paris. The British support COCOM's goals. There are, however, several areas of mutual concern that require resolution.

OBJECTIVES

-- Obtain British support for proposals to add to the COCOM list significant items in militarily relevant industries.

-- Reach an understanding with the British concerning conditions on the possible sale of the RB 211 turbine engine and associated technology to the USSR.

-- Seek agreement in COCOM on a more liberal policy for China, under which the British (as well as other COCOM members) will submit for review proposed military sales to China.

-- Assure Mrs. Thatcher that we are working with other US Government agencies to avoid delays in the handling of British COCOM cases.

-- Seek British support for our recent proposal to clarify COCOM control over the export of technology.

DISCUSSION OF OBJECTIVES

-- COCOM has essentially rejected a US proposal that COCOM consult informally on Soviet projects with more than \$100 million foreign input involving process know-how in eight militarily relevant industries. However, the British and others may support an effort to identify and embargo key equipment and technology required by the Soviet Union in such industries. We are preparing a proposal incorporating this approach.

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-- The British have been exploring the possibility of selling Rolls Royce engines, together with extensive repair and maintenance technology, to the Soviet Union for use on the Soviet gas pipeline, and have consulted with us. The technology for the RB-211 is controlled by COCOM, although the industrial version of the engine itself is not. We have asked that the British offer the Soviets only the minimum technology necessary for routine maintenance and servicing. The US-made GE LM 2500 turbine engine, also unembargoed by COCOM, is being considered as an alternative to the RB 211. We have indicated to the British that similar conditions would be imposed on repair and maintenance technology connected to any such US sale.

-- The British have been selling military equipment to China. They have consulted on these sales with the US through bilateral channels rather than submitting cases to COCOM. A consensus proposal (submitted by the UK) is now being discussed in COCOM that would facilitate their bringing such cases to the Committee, and that would allow sales of dual-use items not previously permitted. COCOM members agree on the substance of the proposal, but disagree on the procedure for implementation (the French resist formalizing it).

-- The British are especially critical of US postponement of action on COCOM cases pending a review of US license applications for reexport of US-origin parts. We are working with Commerce to put into effect former-President Carter's September 9 decision to discontinue the U.S. license requirement for cases we approve in COCOM.

-- In December the US made a proposal for clarification of COCOM control over technology. The other COCOM countries have not yet taken positions on the proposal.

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Bilateral Trade Issues

SUMMARY

US merchandise exports to the UK have been booming in recent years. They rose from \$2.7 billion in 1972 (the year before the UK entered the EC) to an estimated \$12.8 billion in 1980. The US trade surplus, always favorable in recent years, is estimated at \$2.5 billion in 1980. Much of the recent rise has to do with the decline of the dollar and the strengthening of the pound. As a result of the severity of the UK economic recession, pressures exist in the UK for greater control of imports. The major trade issues discussed below concern the UK, but they are primarily the components of our trade relationship with the EC.

The first issue involves US price controls on domestic energy sources and their impact on US exports of petrochemicals and synthetic fibers. The EC alleges that price controls have given the US an unfair cost advantage on the production of petrochemicals and synthetic fibers since crude oil and natural gas are used as basic feedstocks by these industries. The US position is that these controls account for only a very small percentage of our competitive advantage. The real cause is related to the downturn in US domestic markets, exchange rate movements, and US plant and structural advantages. Last year the UK, with EC approval imposed one year quotas on imports of polyester filament yarn and nylon carpet yarn. Antidumping duties have also been imposed by the EC on various petrochemicals.

The second issue concerns present and possible future UK/EC restrictions on Japanese auto imports. Since 1975, Japanese auto sales in the UK have been subject to an unofficial restraint agreement limiting Japanese auto exports to eleven percent of the UK

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market. A recent upsurge in Japanese exports to the EC have made European governments increasingly fearful about the health of their domestic auto companies. The UK Government is under pressure to support further restraints. On the other hand, Nissan has just announced a major plant in the UK, and BL and Honda have a cooperative agreement.

Objectives

-- Convince the EC to refrain from taking further restrictive action on imports.

-- Caution the UK against introducing new or stricter limits on Japanese auto imports since the potential for trade diversion resulting from this would increase pressures for similar restrictions here.

Discussion of Objectives

-- You can point out to Mrs. Thatcher that the US has recently decontrolled the wellhead price of crude oil and the refinery price of gasoline. In addition, your Administration is considering price decontrol of natural gas and export liberalization of naphtha.

-- The USG has attempted to resist the pressure to restrict Japanese auto shipments to this country judging that limiting imports would not solve the US industry's fundamental structural problems. Your Administration, however, remains under strong Congressional, industry, and labor pressure for aid to the auto industry. Several bills have already been introduced which either authorize the President to enter into negotiations with Japan on auto export restraints or impose outright quotas. Should the UK or the EC implement further restraints on Japanese autos, pressure here for a similar arrangement would be considerable.

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AFGHANISTAN

SUMMARY

The United States and the UK consult closely and regularly on Afghanistan. We have been in accord both on the essential elements of a possible solution and on tactics in pursuit of a settlement.

OBJECTIVES

-- Exchange assessments of the military/political situation in Afghanistan.

-- Agree on a common approach to the current diplomatic initiatives -- Pakistani and French.

DISCUSSION OF OBJECTIVES

-- The military situation in Afghanistan remains a standoff. The Soviets control the larger towns, but about 70 percent of the countryside is out of the regime's control. We foresee no short-term change in this balance unless there is a substantial increase in weaponry on the nationalist side or a large-scale increment in Soviet troop strength. Lack of manpower in Afghanistan puts more of the administrative and military burden on the Soviets. While Babrak Karmal is thoroughly unpopular, the Soviets cannot replace him without giving the lie to their claims that the country is returning to normal.

-- Two political initiatives have been put forward in the past two months:

(1) The Pakistani/Soviet/UN initiative: Waldheim's appointment of a member of his secretariat, Perez De Cuellar, as his personal representative on the Afghanistan problem, is likely to please no one. We have made clear to Waldheim our displeasure at his

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handling of this matter. The Pakistanis resent the announcement being made in Delhi. Moscow may hardly be pleased that there is no reference to bilateral talks between the Afghans and the Pakistanis. The Iranians won't play. We conclude that this particular initiative is unlikely to produce results. After the dust settles, Waldheim may try to send De Cuellar to the regional capitals. We are considering whether to urge him to include Moscow.

(2) The French Initiative: Giscard's proposal for a conference on non-intervention in Afghanistan has suffered from lack of prior consultation. The UK, the only EC member notified in advance, was annoyed at what it saw as French highhandedness. Secretary Haig's reference to the proposal at his January 28 press conference has been interpreted as an endorsement by the French. The British, and our other European allies, on the other hand, are fully aware that we have questions about the initiative. There has been a total lack of Soviet comment on the idea. Our posture is to await French clarification of the initiative.

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THE LABOUR PARTY AND SECURITY ISSUES

SUMMARY

Labour, in increasing disarray since its 1979 defeat by Prime Minister Thatcher, is involved in a bitter left-right struggle over party policies and leadership. Left-wing Michael Foot was chosen to succeed right-wing Jim Callaghan as party leader in November 1980.

In response to the left's growing strength, some of the best-known former cabinet ministers (including David Owen and Shirley Williams) may lead a walk-out, organizing a new "social democratic" party.

With Labour so divided, its foreign and defense policies are not yet firm. In general, however, the policies being expounded are at odds with the US interest in a strong British contribution to Alliance security.

OBJECTIVE

-- Note that Labour Party positions on security issues are causing misgivings here.

DISCUSSION OF OBJECTIVE

Within the Labour Party, those who believe that Britain should unilaterally renounce the basing of US nuclear missile systems on British soil appear to be increasing in strength and number. The party already has strong reservations about the UK purchase of Trident, and opposition to GLCM basing is becoming widespread among the party activists. Most elements within Labour favor cuts in defense spending, arguing that an economy characterized by high unemployment, high inflation and low productivity cannot afford the defense effort to which the Thatcher Government has committed Britain.

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EXTRATERRITORIALITY

SUMMARY

In the past few years, the UK and other Commonwealth countries have objected with increasing vigor to the application and enforcement of US laws to activities outside US territory which have a direct and substantial effect on our (and their) foreign commerce. We consider such "extraterritorial" jurisdiction to be permissible under international law and authorized by Congress. The problem arises most frequently in the antitrust area; recent instances include the Westinghouse uranium cartel litigation and Justice Department action against ocean shipping lines. Enforcement actions by other agencies, such as the SEC, as well as the Iranian assets freeze and economic embargoes, have also proved troublesome. In 1980 the UK adopted the "Protection of Trading Interests Act", which enables HMG to prohibit compliance with US requests for information and documents in the UK, to render US judgements unenforceable in UK courts, and to permit defendants against whom treble damage antitrust awards have been rendered in the US to recover two-thirds of the award (the punitive portion) in UK courts.

OBJECTIVES

- Assure Mrs. Thatcher that we are sensitive to British concerns and will continue to make appropriate efforts to see that they are taken into account by our courts and agencies, consistent with their obligations to enforce our laws;
- Reaffirm the UK's undertaking to consult with us before taking actions to implement the Protection of Trading Interests Act; and
- Express our interest in discussing further the recent UK proposal for bilateral negotiations on the issue of "nationality jurisdiction" in cases of conflicting national regulation.

DISCUSSION OF OBJECTIVES

-- Principles of international law and comity require Governments to take into account the views of foreign governments on matters affecting their significant national interests. While this does not mean deferring to their wishes on every issue, particularly in law enforcement matters, we do endeavor to provide adequate opportunity for notification and consultation.

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-- Then-Secretary of Trade John Nott agreed with Ambassador Brewster in March 1980 to consult with us before invoking the provisions of the Protection of Trading Interests Act in matters affecting US interests. Although the Act has not yet been invoked in any specific case, we wish to reaffirm this commitment and to suggest that it be embodied in a more formal understanding. A general undertaking for consultation and cooperation in antitrust matters already exists by virtue of a 1977 exchange of letters between then-Secretary of Trade Pliatsky and Assistant Attorney General Shenefield. It would be appropriate to build on that understanding by asking for advance notice and an effective opportunity to consult before the Act is applied with respect to US companies or actions.

-- Last November, in connection with an antitrust investigation of the US/Australia/New Zealand shipping trade, the UK inquired whether we would be prepared "to seek an internationally agreed basis for any investigations that may be undertaken and for possible eventual solutions" to the problem of regulating multijurisdictional activities. They characterized the request as "especially important" and expressed interest in discussing "the entire issue of nationality jurisdiction". We have attempted, without success, to clarify exactly what they have in mind. Because the proposal touches on potentially difficult legal issues, we should discuss it further with the UK before agreeing to enter into negotiations.

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IRAN

SUMMARY

The British were very supportive of our efforts to free the hostages and kept us informed of developments in Iran during the long crisis. Mrs. Thatcher will be interested in having the Administration's latest views on matters concerning Iran, particularly the hostage release agreement, and your assessment of the current situation in Iran.

OBJECTIVES

-- Outline the Administration's views on the hostage release agreement and future relations with Iran.

-- Provide our assessment of the current situation in Iran.

DISCUSSION OF OBJECTIVES

-- The Administration reviewed all aspects of the agreement reached with Iran on the release of the hostages and has concluded that it is in the overall interests of the U.S. to carry out the agreements. In reaching this determination we considered a number of factors including a) the rights of U.S. claimants, b) the Administration's policy on combatting terrorism, c) U.S. international interests and obligations towards third parties (i.e., Algeria, the Bank of England) who had themselves made commitments during the course of negotiations, and d) long-term interests of the U.S. and its allies in the Persian Gulf, including Iran. We are currently studying the issue of future relations with Iran bearing in mind the desirability of countering possible Soviet moves in that part of the world. U.S. interests may require that, over time, we move toward establishment of

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more normal relations with Iran. Iranian cooperation in the implementation of the agreement will be one factor in our consideration of such movement. We will also consider whether Iran's future behavior conforms to international law and usage, as well as signs that it has abandoned support for international terrorism. When we have completed this study we will be in a position to exchange views with the Foreign Office.

-- Ayatollah Khomeini continues to be the dominant political figure in Iran and is likely to remain so as long as his health holds out. Khomeini's main preoccupation at this point is to ease the tensions in Iran caused by (1) the Iran-Iraq war, and (2) a resurgence of political rivalries between the various groups that in the past cooperated to bring down the Shah. The dominance of the religious conservative elements, led by Prime Minister Rajai and Islamic Republican Party leader Beheshti, is being challenged more openly by other factions including President Bani-Sadr and former Prime Minister Bazargan. Khomeini has avoided taking sides thus far--calling instead on all to unite for the sake of the revolution--but there is little likelihood of achieving any longstanding reconciliation. Iran is still troubled by minority unrest, particularly in the Kurdish areas. The Soviet Union and the communist elements in Iran have avoided friction with Khomeini but Moscow can be expected to seek political advantages from Iran's current political and economic disarray. Meanwhile, the war with Iraq continues to drain Iran's limited reserves with virtually no prospects for an early end to the conflict. We have noted a steady increase in Iranian oil exports and growing international interest in commerce with Iran following the release of the hostages. A clearer assessment of Iran's domestic and foreign policy lines will have to await further developments.

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