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THE SECRETARY OF STATE
WASHINGTON

December 20, 1984

MEMORANDUM FOR: THE PRESIDENT

From: George P. Shultz *GP*

Subject: Your meeting with Margaret Thatcher, Prime Minister of the United Kingdom, December 22, 1984

I. THE SETTING

Prime Minister Thatcher wished to meet with you early on following your reelection in order to stress the close links she hopes to continue to have with you in your new administration. Consequently she requested the meeting to take advantage of her return from a trip to Beijing and Hong Kong, where she signed an agreement regarding Hong Kong sovereignty. Mrs. Thatcher will want a frank exchange of views on major political and economic issues; there are several important matters which you may wish to raise in order to stress USG concerns about current British positions.

II. ISSUES

1. UK Diplomatic Successes including Hong Kong

Mrs. Thatcher will be returning from Beijing, where she is to sign an agreement on Hong Kong returning sovereignty to China in 1997. We have expressed strong backing for the agreement and Thatcher may ask the USG to reiterate publicly that support. This settlement is one in a string of foreign policy successes on a number of long-term problems. The main effect of HMG's successes has been to reduce vulnerabilities regarding remnants of the Empire and to improve relations with Europe (both East and West). The "successes" are: HMG did reasonably well in EC budget debates, which are over for a while; Gorbachev's visit and the proposed May visit by Gromyko indicate improved relations with the USSR; discussions with the Spanish on Gibraltar have brought agreement on doing away with border restrictions and on continuing talks on other issues; and HMG held its own in the UN debate on the Falklands this fall. You should congratulate Mrs. Thatcher on the Hong Kong agreement and note that she and her Foreign Office seem to be succeeding on a number of difficult issues such as Gibraltar and the EC budget.

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2. The East-West Relationship

Mrs. Thatcher will be interested in your views on relations with the USSR and Eastern Europe, including prospects/strategy for arms control talks. Since the Prime Minister believes that such talks cannot carry the entire burden of maintaining relations between East and West, she has encouraged a policy of broad contacts with the USSR and Eastern Europe while remaining firm on long-term Western positions. The Prime Minister had a lengthy private meeting with Politburo member Mikhail Gorbachev on December 14 at Chequers and will want to brief you on those discussions. On arms control issues, Thatcher is generally supportive, but is critical of SDI. She opposes a full-scale SDI development program as likely to touch off a futile arms race and to undercut Britain's independent deterrent. She supports a CW ban as being in the West's interest. You may wish to convey to Mrs. Thatcher your personal determination to use the Shultz-Gromyko Geneva discussions as an opening to pursue serious reductions in nuclear arms. You may wish to provide her with a candid assessment of our planning for Geneva and stress that we will have concrete proposals to present to the Soviets. You may also wish to reemphasize the need for alliance unity in order to obtain meaningful arms control agreements. If Mrs. Thatcher returns for an arms control seminar in February, we would have time for a more detailed exchange on these issues.

3. Aviation Antitrust Issues

Mrs. Thatcher will express her appreciation for your November 16 decision, based on foreign policy grounds, to close the Department of Justice's Grand Jury investigation of criminal antitrust cases connected with the Laker Airlines bankruptcy. She has written to you that HMG cannot take any further steps to liberalize the civil aviation regime unless the USG makes a commitment to remove private treble damage remedies currently contained in the Clayton Act Antitrust. She is likely to reiterate that position.

The British have offered to lower winter fares, which is mutually beneficial, but not enough to meet our needs. Since your decision, we and Ambassador Price have pressed British ministers to take a positive step which would show that your action resulted in more, not less, competition. HMG has been singularly unresponsive. You should stress to Mrs. Thatcher your disappointment at the lack of a positive British response and the need for some significant steps in a market-oriented direction, such as longer term liberalization on airfares and increased frequency of flights. We have told her and others in the UK Government that there is little chance that Congress would find the elimination of private treble damage remedies in the Clayton Act to be in the public interest.

4. Global Economic Outlook

Mrs. Thatcher will be interested in your views on the current economic situation with special emphasis on the short-term prospect for the U.S. economy in the wake of a marked slowdown in economic activity in the second half of 1984. Since she believes that Britain's recovery depends heavily on a continuation of the U.S. strong economic performance, she will want your feelings about timing of a pick-up in the U.S. economy in 1985. She may also inquire about deficit reduction and tax reform plans. You may wish to reassure her that we see a revival of growth to a sustainable pace early in 1985, supported by lower interest rates and continued low inflation. You may also wish to outline your efforts to reduce the Federal deficit and discuss possibilities for tax reform.

5. Terrorism

Thatcher may thank you for the time bomb experts sent to London following the Brighton bombing and for the initiatives we took to be more helpful on the Irish Republican Army (IRA) problem. HMG is very concerned about terrorism, particularly the Provisional IRA, but also by Middle East terrorist activities. We have enjoyed close cooperation and information sharing on common terrorist threats such as the most recent hijacking in Tehran. You may want to take the opportunity to seek Mrs. Thatcher's support to reactivate the Bonn Declaration on hijacking with special regard for Iran as the focus of five recent hijackings. You could raise the importance of the US and UK continuing to encourage greater activity and cooperation generally among Western governments; more intelligence sharing; tighter interpretation of the Vienna Convention; extradition treaties; and exchanging information on physical security and contingency planning in high-threat countries.

6. Northern Ireland

Mrs. Thatcher appreciates our efforts to block aid to the IRA through NORaid (Northern Irish Aid Committee) and will be interested in trends in U.S. public and congressional attitudes toward this matter. Following Thatcher's stiff public comments on her talks with the Irish Republic's Prime Minister FitzGerald this fall, she has tried to give a more upbeat gloss to the next Anglo-Irish Summit early next year. You should stress to her that US policy on Northern Ireland has not changed; however, we are concerned that unless there is an appearance of progress at the next summit, there may be a radicalization of Irish-American opinion which would endanger our current bipartisan policy toward Northern Ireland.

Mrs. Thatcher may mention a New York court's denial on political offense grounds of HMG's request for extradition of convicted murderer and IRA gunman Joseph Doherty. This is the fourth such denial in four years. The USG is sympathetic to British concerns and is discussing with HMG possible avenues to prevent future denials on these grounds.