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NOTE OF A MEETING BETWEEN THE PRESIDENT OF THE UNITED STATES OF AMERICA AND THE PRIME MINISTER IN PRESIDENT REAGAN'S SUITE AT CHATEAU MONTEBELLO AT 0855 ON MONDAY 20 JULY 1981

PRESENT

The Prime Minister
Foreign and Commonwealth Secretary
Sir Robert Armstrong
Mr. C. A. Whitmore

President Reagan
The Hon. Alexander M. Haig, Jr., Secretary of State
The Hon. Donald T. Regan, Secretary of the Treasury
The Hon. Edwin Meese, III, Counsellor to the President
Mr. Richard Allen (National Security Adviser)

The meeting followed a breakfast at which the President and the Prime Minister met without advisers.

Global Negotiations

The Prime Minister said that she and the President had touched on what might be said about global negotiations in the Communiqué earlier at breakfast. The President did not like the term "global negotiations" any more than she did, for it was impossible to envisage negotiations that were genuinely global. At the Economic Summit in Venice last year, she had put forward the view - which President Reagan shared - that it was important that more aid should be given bilaterally and less multilaterally. This approach, however, was not acceptable to everybody, and she did not want to find that the United States and the United Kingdom were put in the dock and held to be against helping the Third World - not least when the Americans were giving more aid than anybody else. For this reason, she was prepared to go along with what was said in the Communiqué about the global negotiations. This was a matter on which tone of voice was very important.

Mr. Haig said that he agreed with the thrust of the Prime Minister's comments. This was a subject which could all too easily get out of hand, and it was essential to retain some control of it.

/Mr. Meese added

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Mr. Meese added that the United States had prepared a revised form of words which talked about "a readiness to participate in preparations for a global negotiation process". They felt that this was sufficiently low key to be acceptable. Mr. Trudeau was ready to go along with it.

The Foreign and Commonwealth Secretary said that it would not be possible for the Prime Minister to take the lead in responding to the new American formulation. The European Community had agreed on a form of words on the global negotiations at the last meeting of the European Council and since we had the Presidency, we could not simply abandon those words in favour of the American version. There would, however, be no difficulty about our giving support to the Americans, provided some one else took the lead and especially if the French and the Germans were content.

The Prime Minister said that Sir Robert Armstrong and the other Personal Representatives should pursue the matter.

Trade with Japan

The Prime Minister said that we had to get over to the Japanese ^{that} the practice of concentrating their export efforts on certain narrow fronts - the so-called "laser technique" - was likely to kill the industries concerned in the countries importing their products. They must understand that they could not continue in this way. The United Kingdom was an open trading nation and wanted to remain so. We exported 33 per cent of our GNP, more than any of the other countries represented at the Summit. We wanted the open trading system to continue. But if the Japanese went on trading in the present way, there would be a rising tide of pressure to introduce protective measures against them. We should have to work on the Japanese primarily behind the scenes, though we should need some suitable words in the Communiqué.

Mr. Meese said the Americans shared the concern expressed by the Prime Minister. The question was how to achieve our objectives without it appearing that we were ganging up against the Japanese. He believed this should be a minimal part of the Communiqué. Mr. Haig said that he believed that the wording in the draft Communiqué was satisfactory, though he understood that the French were seeking a more protectionist form of words.

/ Sir Robert Armstrong said

Sir Robert Armstrong said the European Commission had suggested a form of words which made reference to keeping the problem "under review". This would be a helpful means of keeping up the pressure on the Japanese.

The Prime Minister said that the problem arose largely because the Japanese were very efficient. They were already ahead in many sectors of advanced technology. They had virtually no strikes and their workers enjoyed a lower standard of living than their counterparts in the West. The Japanese labour force was very well disciplined. One-third of all Japanese profits was re-invested. The fact was that most Western countries simply could not match this kind of industrial competition. If we fired a warning shot now at the Summit, it might mean that all of us, including Japan, would face fewer problems later. Mr. Regan said that he was sceptical that the language in the Communiqué would have the desired effect. He accepted that it was better than nothing but he doubted whether the Japanese would back off. They would go on doing whatever they wanted to do and they would find the necessary means to do so.

The Lebanon

Mr. Haig said that the Americans had had confirmation that there had been an Israeli ground attack overnight in South Lebanon. There were also reports of a further ground incursion and a landing of helicopter-borne troops in South Central Lebanon. The PLO had continued their rocket attacks against Israel overnight, and Israel had responded with air strikes. Mr. Habib had seen Mr. Begin yesterday evening. Mr. Begin remained opposed to a ceasefire because he believed it would allow the PLO to build up their strength, particularly in heavy armaments, but he had told Mr. Habib that he would present his plan for a ceasefire objectively to the meeting of the Israeli Cabinet which was due to take place the following day. Generally, the situation remained very tense, and Israel was preparing to move substantial forces into the Lebanon.

/ President Reagan said

President Reagan said that the United Nations seemed to be largely ineffective in the Lebanon. He thought it would be a good idea to strengthen UNIFIL.

COCOM

President Reagan said that he thought there would be advantage in holding a meeting of COCOM at a high level in the autumn. The meeting would not deal with specific cases of trade with the Eastern Bloc but would concentrate on improving COCOM's guidelines and furthering the exchange of information between the member countries.

Mr. Haig said that he saw such a meeting as having two outcomes. First, he thought it should unblock the supply to Warsaw Pact countries of a host of non-critical, low-technology items which were at present held up. Second, it would result in tighter control being exercised over the supply of high technology items. COCOM was in a shambles at the moment and it was important that the member countries all brought their thinking into line. He did not think the Germans would cause difficulties.

The Foreign and Commonwealth Secretary said that we should have to be sure that enough agreement would be achieved to justify holding a COCOM meeting at a high level. Nothing could be worse than having such a meeting ending in disarray. There were no difficulties about the proposed meeting as far as the UK was concerned, but there might be problems with some of our allies.

Interest Rates

The Prime Minister said that she and the President had touched upon the problem of US interest rates over breakfast. The British Government had given the highest priority to bringing down the rate of inflation in the UK. This was essential for both future investment and the social fabric of the country. Low inflation was vital for confidence in the future. We had now brought down our rate of inflation from over 20 per cent to about 11 per cent, but it would be difficult to get it down any further now that the pound had fallen against the dollar because of US interest rates. We were, in effect, now importing inflation. The same was true of /other members

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other members of the Community. The UK had not responded by putting up its own interest rates. Nonetheless, nobody at the Summit wanted a public row about this. She would back President Reagan's strategy of giving the highest priority to the fight against inflation and she would support his policy of cutting public expenditure and taxation. But it would be very helpful if he could say that he did not want high interest rates and that he hoped that they would drop before long.

Mr. Meese said that it would be very helpful if the Prime Minister took that line later that day. President Reagan had inherited high interest rates and they were not a deliberate part of his policy. He was taking a number of measures which he hoped would bring down American interest rates. US tax cuts were not designed to increase the budget deficit but to deal with the fact that the Carter regime had built in a 22 per cent increase in taxation over the next three years.

Mr. Regan added that the decline in other currencies against the dollar was not due only to high US interest rates but also to increased confidence more generally in the United States and its economic policies.

The meeting ended at 0920.

JAW.

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