

SUBJECT

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RECORD OF A CONVERSATION OVER LUNCH BETWEEN THE PRIME MINISTER
AND THE UNITED STATES SECRETARY OF STATE AT 1400 HOURS AT 10 DOWNING
STREET ON 29 JANUARY 1982

Present:

The Prime Minister
The Lord Privy Seal
Sir Robert Armstrong
Sir Michael Palliser
Sir Kenneth Couzens
Mr. Michael Franklin
Mr. John Coles

The Hon. Alexander Haig
His Excellency the American
Ambassador
The Hon. Edward J. Streator
Mr. Sherwood Goldberg

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MIDDLE EAST

Mr. Haig said that his trip to the Middle East had been worthwhile. There had been some concern that Mr. Begin, following the annexation of the Golan Heights, might take some other rash action. If he had moved to annex the West Bank, this would have created an impossible situation. But attention had now been re-focused on the need to make progress with the peace process. The Lord Privy Seal asked whether there was any doubt about Israel maintaining the timetable of withdrawal from Sinai. Mr. Haig replied that he believed the withdrawal would be implemented. The rhetoric on both sides had been toned down as a result of his visit. Both Egypt and Israel saw the possibilities of progress though the differences between them were still large. Thanks to the help of Lord Carrington, the Israeli Cabinet would consider at its Cabinet meeting on 31 January the question of European participation in the Sinai force and he believed that a favourable decision would be taken. He considered that this issue was now settled. He had also been able to solve an Egyptian/Israeli problem regarding the Straits of Tiran. An observation post would be put on the islands and this would satisfy Mr. Begin. He believed the peace process was now back on course. But if the PLO made a move in the Lebanon, Begin was spoiling to move in. The Americans had done their best to make this clear to the PLO and believed they understood the situation. He could not, however, rule out some extremist Palestinian group provoking a crisis.

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/ The Prime Minister

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The Prime Minister said that the President of Egypt was visiting London next week. Her impression was that he was handling the situation competently. Mr. Haig described Mubarak as "sturdy but not Sadat". His rhetoric was closer to that of Nasser. This could cause trouble. He had spoken defensively about his decision to bring some Soviet technicians back. There were to be 35 in one Soviet-aided plant, 12 in another, 10 in another, and all for short periods. Mubarak argued that this was of no significance. Egypt's Mirage deal with France had also caused the Americans' concern. The Israeli lobby asked why America should help Egypt when Egypt had money for such an arms project. He wondered whether Saudi money was involved. Sir Michael Palliser suggested that it was in the general interest that Egypt should rebuild its bridges with Saudi Arabia. Mr. Haig said that at his last meeting with Mr. Gromyko, the latter's attitude on the Middle East appeared to have changed. At a previous meeting he had not mentioned the Middle East. This time he had argued that Camp David was dead, and that the Soviet Union should be reinserted in the peace process. He said that the Russians wanted only a small Palestinian state, after which they would recognise Israel within its 1967 borders. It was clear that Gromyko smelt a new opportunity. The Russians were now much more active in Syria. He was also worried about their activity in Iran. Change could be expected in the Middle East region. His nightmare was that if Egypt moved too quickly towards Saudi Arabia and was then disappointed in the response, it might be tempted to move closer towards the Soviet Union. In the past Saudi responses to Egyptian overtures usually had been disappointing. The Prime Minister pointed out that the Saudis now had more resources. The Lord Privy Seal thought that Egypt was likely to move closer towards other Arabs after Sinai withdrawal. Was Mubarak's position dependent on the completion of the withdrawal process? Mr. Haig said that if this went wrong Mubarak would be finished. But he did not believe it would. He added that in Israel Mr. Begin had wanted to resume business as usual with the United States but he had made it plain that this was not possible. It would take time to restore the level of confidence destroyed by the Israeli move on Golan. Begin was shaken. The Prime Minister commented that Begin had the best lobbying system in the world. Mr. Haig agreed, but said that

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the decision on AWACS for Saudi Arabia had shaken his confidence in this too. The Prime Minister agreed that that had been a most successful operation. She said it was always wise to remember that the characteristics that had enable Israel to survive made adaptation now more difficult. She agreed with Mr. Haig that Begin lived in the past and in that respect was quite different from many Israelis. He was difficult to argue with about anything. Mr. Haig commented that the annexation of Golan had been very controversial in Israel. Shamir had been upset. The Israeli Ambassador in Washington was greatly shaken. Mr. Begin only had a majority of two but the present coalition was nevertheless much more stable than the previous one.

In a brief discussion of the prospects for the autonomy talks, the Prime Minister said that she had always thought the issue of Jerusalem was the most difficult of all. Jerusalem was very important to the Saudis. Mr. Haig agreed. He believed the Americans had made some progress on some of the issues but the question of East Jerusalem remained the most intractable.

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POLAND

The Prime Minister said that she particularly wanted to convey to Mr. Haig her concern about the present state of Western reactions to the Polish situation. So far things had gone fairly well. She, and she thought most others closely concerned, agreed that the single most important aim was to keep the Western Alliance together. The last meeting of the NATO Council had gone well. A substantial measure of agreement had been reached on the steps to be taken towards Poland. But she was now somewhat concerned about the measures proposed with regard to the Soviet Union. We had always regarded these as a political signal. The Russians had not invaded Poland and it was therefore not a question of applying the sanctions which had been previously devised for such a situation. We of course recognised the role that the Russians had played in bringing about the current situation in Poland. We had carefully studied the United States measures in respect of the Soviet Union - the Americans had been kind enough to give us the details a few hours before they were announced. Her concern was about the way in which Western reactions were developing at the moment. We were still discussing the extent to which the American measures should affect existing contracts. In some respects our own position on this matter was more favourable than that of our European partners because we were less dependent on Soviet energy. But the Soviet aim was to disrupt the Western Alliance. The West must not help them in any way. Any measures that the West took must be so designed as to harm the Soviet Union more than ourselves. We had recently heard reports that steps might be taken to bring about a default, not only on Polish debts but on the debts of the whole of the Eastern European Group of countries. This would doubtless bring about difficulties for the countries concerned but it would also create incalculable difficulties for the Western banking system. That system was a feature of the reputation of the Western world in financial matters. If it were harmed, the West would suffer more than the Soviet Union. If the measures were applied to Poland alone, perhaps the Western banking system could absorb the consequences, but if they were extended to Eastern Europe more generally the effects could be extremely harmful. German banks were the most vulnerable, but she understood that some American banks were involved too. She urged most strongly that no-one should proceed along this route.

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/ The consequences

The consequences were unpredictable.

The second major point she wished to raise concerned the Siberian gas pipeline. We might not like the fact that the French and the Germans were so heavily involved. We understood the American view that no-one should be fundamentally dependent on a potential aggressor for an important source of supply. Our own position with regard to oil and gas supplies differed greatly from that of France and Germany who were largely dependent on external sources. They had suffered badly twice from disruption of their oil supplies from the Middle East. Fear of further disruption doubtless motivated, at least in part, their wish to benefit from the Siberian pipeline. We had to face the fact that the French and the Germans were never going to abandon the relevant contracts. If the measures proposed in reaction to the Polish situation created difficulties for them over the pipeline, deep resentment and hostility would be aroused. The net effect would be to undermine the Western Alliance rather than harm the Russians. We should not do the Russians' job for them, especially when it was they who were in trouble over Poland. The Americans had not included a grain embargo in their first round of measures since, clearly, this would have grave implications for them. Indeed, few of the measures adopted by the United States would have a serious economic effect within America. But some of them would hurt Europe. America's annual exports of manufactured industrial goods to the Soviet Union amounted only to some \$300 million. But their measures threatened \$4 billion worth of European contracts related to the Siberian gas pipeline. There was, to say the least, a certain lack of symmetry.

Continuing, the Prime Minister said that we wished to follow the American lead in devising measures which (a) harmed the Soviet Union more than ourselves and (b) whose burden on Europe was comparable to the burden of United States measures on the United States. It was important that the countries concerned should get together and devise such measures. We knew what Britain could contribute. As regards the pipeline, existing contracts would have to be exempted. While this was very important for Germany and France, we also had an interest. British contracts amounted to a value of some \$400 million, which could be compared with the figure of \$300 million she had quoted for annual United States exports of industrial manufactured goods to the Soviet Union.

The main firm involved, John Brown, was in the heart of an area of unemployment.

She hoped there would be no disarray at the NATO meeting on 3 February. We needed before then a confidential meeting between ourselves, the United States, France, Germany and Italy, at the level of senior officials, to devise a range of measures which involved equal burden sharing. We might need another meeting after 3 February. It would be important to bring the Japanese in at the right stage (the Prime Minister showed Mr. Haig a recent British press article entitled "Japan picks up orders blocked by Reagan"). A further point was that industrial co-operation between Europe and the United States had developed significantly in recent decades. If Europe came to believe that it could no longer depend on United States technology, because this was dependent on sudden political decisions, an extra barrier would be created between Europe and America and firms would look elsewhere for technology.

The Lord Privy Seal said that during Mr. Haig's absence in the Middle East we had heard a number of rumours about a possible new range of measures which were being discussed in Washington. This was what alarmed us. We should consult to ensure that anything we did damaged the Soviet Union more than the Alliance. Mr. Haig said that it was true that a number of people in Washington were advocating that Poland should be put in a position where it had to default on its debts. The State Department had analysed the possible consequences. He was not sure that they saw things quite as grimly as we did. He thought that the West could withstand the shock but the West would be damaged more than the Poles or the Russians. The Prime Minister said that the possible chain reaction should not be underestimated. Mr. Haig said he was not sure that the outcome of debate in Washington would be a decision to promote default on Polish debts and he was inclined to believe that it would not be. But there was tremendous frustration in America about not only the European reaction to the Polish situation but also what was seen as President Reagan's failure to react. This was particularly serious because some of the President's best supporters shared this frustration. The Prime Minister suggested that this group did not include American farmers, for they would certainly react

adversely if a grain embargo was applied. The Prime Minister reiterated that in her judgement it was right to send political signals to the Soviet Union rather than apply sanctions.

Mr. Haig said that he agreed with this view but many in Washington did not. The President had taken the view earlier that the Americans ought to get out ahead of Europe. That view had been shown to be right. The Prime Minister commented that the Americans had not got out ahead. We had carefully studied the measures they had taken and they did not have that effect. Mr. Haig said that, nevertheless, the perception in the United States was that the Americans had done more than the Europeans. There had been great controversy in Cabinet discussion but his view had prevailed when he had argued that the United States should attempt to proceed in tandem with Europe. A review of the situation was now in progress and it was quite true that President Reagan was thinking of adopting further measures. If he decided to do more, he might move towards total sanctions, including on the export of grain. The Prime Minister said that in that case there would be nothing left. What would the Americans do if the Russians invaded Poland? The Russians might conclude that they had nothing further to lose by invading. Mr. Haig said that he understood that argument but total sanctions would deprive the Europeans of the complaint that the Americans were doing less than they were. There was also the point that if the Russians did invade, sanctions could not reverse the situation. The time to exert leverage was now. He had had the clear impression from his recent meeting with Gromyko that the Russians were uncertain as to how to handle the Polish situation. He had told them that the operation in Poland was failing and that resistance would grow. Gromyko had said unconvincingly that he did not share that view. He had given a distinct impression of unsureness. It was important to reverse the situation in Poland if this was humanely possible. A failure to do so would be very serious, following the failure to reverse the situation in Afghanistan. While there were some arguments for total sanctions, he was personally most concerned that there was no likelihood of the Europeans joining the Americans on such a course. Agreeing with this, the Prime Minister pointed out that American farmers would be bound to circumvent the grain embargo. Mr. Haig agreed. Total sanctions were only worthwhile if all the countries and interested groups concerned supported them. The Prime Minister pointed out that they would not.

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Reverting to the Siberian pipeline project, Mr. Haig said that he was well aware that the Europeans disliked retroactive action in respect of existing contracts. But he must bring home to us that the President was in a very difficult position. The pressure was building up for more action. If the President decided merely to send further political signals, he would be charged with "tokenism". The Prime Minister said that it was not realistic to think that action taken by the West would cause the Russians to reverse the situation in Poland. The net result would be to damage the West and please the Soviet Union. Mr. Haig said that he believed the Americans could only take a step backwards if Europe were to take a step forward. He too had felt that the NATO Foreign Ministers meeting had been successful. But the general reaction in the United States was that it had been barely adequate. The Prime Minister commented that since then the Europeans had taken various decisions. Subsidised food would not be sold to Poland but the funds would instead be diverted to help the Polish people. Tougher conditions for credit to the Soviet Union were also being actively considered. Mr. Haig said that he agreed that the countries concerned should meet to decide what action they could take conjointly. The Lord Privy Seal said that our particular worry was that the Americans might proceed rapidly to a second batch of measures. We should try to agree some package before the NATO meeting on 3 February, otherwise that meeting could well be disastrous. The Prime Minister said she thought it essential that any further measures should be most carefully studied. She had noted Mr. Haig's remarks about the pressure on the President but she was well used to demands from people that something should be done which did not affect them. Once action was taken, voices of another group were heard - those who were affected by the measures. She regarded the new freedom in Poland as a gangrene in the Soviet system. She wanted it to spread. Mr. Haig said that he was sure that the Americans should take up our suggestion of a meeting. He was personally close to our thinking but there were real difficulties within the United States Cabinet. He would be seeing President Reagan tomorrow. The President might be influenced by his view that what had really disturbed and confused Gromyko was the fact that the West had so far maintained its unity on Poland. However, if our present problems were to be solved, Europe must do more. The Prime Minister said that that was not in dispute. Mr. Haig said that there was no need for the West to

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but
worry about Danish or Greek reservations, / he was concerned about
the French attitude. He had written a letter to the French Foreign
Minister about the recent French/Soviet energy bill which would
"blister his ears".

The Prime Minister explained that she was considering whether
to send a message to President Reagan on these matters. Mr. Haig
advised her to do so. The President had great respect for her.
The Prime Minister said that she reciprocated that respect. She
also regarded Helmut Schmidt as a great friend. He was a most
loyal member of the Western Alliance, despite his difficulties
with his Party.

A.J.C.

29 January 1982

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