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CONFIDENTIAL

PP NASSAU

PP CHOGM

FM WASHINGTON

TO PRIORITY UKDEL NASSAU

TELNO 6

OF 172030Z OCTOBER 1985

AND TO PRIORITY FCO

FOLLOWING FOR PRIME MINISTER'S AND SECRETARY OF STATE'S PARTIES

MY TELNO 5: PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN

1. THE WHITE HOUSE/NSC HAVE MADE NO PROPOSALS FOR THE AGENDA FOR THE PRIME MINISTER'S MEETING WITH THE PRESIDENT IN NEW YORK ON 23 OCTOBER: NOR I THINK NEED WE. BUT THE PRIME MINISTER MIGHT LIKE MY ADVICE BOTH ON SUBJECTS WHICH THE PRESIDENT MAY RAISE, AND ON THOSE WHICH SHE MIGHT WISH TO RAISE.

2. AS IN THE MULTILATERAL MEETING ON 24 OCTOBER, THE MAIN SUBJECT FOR THE PRESIDENT WILL BE THE 19/20 NOVEMBER SUMMIT WITH GORBACHEV. WE KNOW THAT HE SEES THE PRIME PURPOSE OF HIS CONSULTATIONS IN NEW YORK AS COMPARING NOTES WITH KEY ALLIES ON HIS SUMMIT APPROACH, AND THUS SEEKING TO ENSURE A DISPLAY OF ALLIANCE SOLIDARITY WHICH WILL STRENGTHEN HIS HAND IN GENEVA. IT IS CLEARLY IN OUR INTERESTS TO SUPPORT HIM ON THIS IN PUBLIC: BUT IN PRIVATE, AND PARTICULARLY IN THE BILATERAL, IT WOULD BE REASONABLE TO PRESS HIM ON THE MAIN THEME OF THE PRIME MINISTER'S SEPTEMBER MESSAGE. FOLLOWING THE SOVIET QUOTE COUNTER-PROPOSALS UNQUOTE, THE CASE FOR THE US BEING SEEN TO PUT FORWARD, EVEN IF ONLY THROUGH SOME QUOTE RE-PACKAGING UNQUOTE, THEIR OWN CONCRETE AND SPECIFIC PROPOSALS IS CLEARLY EVEN STRONGER. THE DEBATE ON WHETHER TO DO SO STILL CONTINUES HERE, AND IT WOULD BE VALUABLE

Prime Minister

Papers on your meeting with

18/1909.

President Reagan

Further briefs on

bilateral subjects

are coming.

CDP 21/1x

IF THE PRIME MINISTER COULD PRESS THE POINT IN NEW YORK. SHE MIGHT ALSO WISH TO STRESS THE IMPORTANCE FOR THE ALLIANCE OF THE PRESIDENT'S 11 OCTOBER DECISION TO KEEP THE SDI RESEARCH PROGRAMME WITHIN THE CONFINES OF THE GENERALLY ACCEPTED INTERPRETATION OF THE ABM TREATY: AND TO TELL HIM OF OUR REACTION TO THE SOVIET PROPOSAL FOR DIRECT DISCUSSIONS WITH THE UK AND FRANCE ON QUOTE THE NUCLEAR BALANCE OF FORCES IN EUROPE UNQUOTE.

3. THE PRESIDENT MAY ALSO REFER TO THE ECONOMIC AND TRADE ISSUES WHICH INCREASINGLY DOMINATE HIS DOMESTIC POLITICAL AGENDA.

THOUGH THE PROTECTIONIST TIDE IS FOR THE MOMENT CONTAINED AND EVEN ABATING SLIGHTLY, HE WOULD WELCOME AN EXPRESSION OF SUPPORT FROM THE PRIME MINISTER FOR HIS RESISTANCE TO IT. OF COURSE THE ADMINISTRATION'S STRATEGY OF REGAINING CONTROL OF TRADE ISSUES FROM CONGRESS IS TO BE SEEN TO INSIST THAT TRADE MUST BE FAIR AS WELL AS FREE: AND THE DANGERS IN THIS ARE OBVIOUS. IT MIGHT BE SALUTARY TO REMIND HIM THAT THE US TOO IS OPEN TO CRITICISM FOR QUOTE UNFAIR UNQUOTE TRADE (EG JONES ACT RESTRICTIONS ON SHIPPING, HEAVILY SUBSIDISED AGRICULTURE AND EVEN - A CURRENT ISSUE - BANS ON THE IMPORT OF BOOKS IN ENGLISH BY US AUTHORS BUT PRINTED ABROAD). WHILE RECOGNISING THE CURRENT POLITICAL PRESSURES, THE PRIME MINISTER MIGHT WARN THAT ONE MAN'S RETALIATION, IN THE CAUSE OF QUOTE FAIR UNQUOTE TRADE, IS ANOTHER MAN'S PROTECTIONISM.

4. ON THE WIDER ECONOMIC PICTURE, THE PRESIDENT'S AGREEMENT TO BAKER'S 22 SEPTEMBER G5 INITIATIVE FOR AN ORDERLY DOLLAR DEPRECIATION AND ITS INITIAL SUCCESS IN ACHIEVING A MODERATE AND MEASURED DECLINE IN THE DOLLAR (10 PERCENT AGAINST THE YEN, 7 PERCENT AGAINST THE DM) HAS CERTAINLY STRENGTHENED THE ADMINISTRATION'S HAND AGAINST THE PROTECTIONISTS. THE FUNDAMENTAL PROBLEM OF THE FISCAL DEFICIT HAS OF COURSE STILL BEEN DUCKED - AND I SEE NO POINT IN AGAIN PRESSING THE PRESIDENT THIS MONTH FOR FURTHER ACTION ON THE FISCAL SIDE - BUT IT WOULD NONETHELESS BE USEFUL (EG IN STRENGTHENING BAKER'S HAND AGAINST REGAN AND SPRINKEL) IF THE PRIME MINISTER WERE TO EXPRESS SUPPORT FOR THE G 5 OUTCOME.

5. SHE MIGHT ALSO WISH TO WELCOME BAKER'S RECENT PROPOSALS IN SEOUL ON DEBT. THE CASE BY CASE APPROACH, AND THE IMF'S LEADING ROLE, OF COURSE REMAIN CRUCIAL, BUT THE GREATER EMPHASIS NOW BEING GIVEN BY THE US TO GROWTH AS WELL AS ADJUSTMENT BY DEBTOR COUNTRIES, AND TO THE NEED FOR INCREASED FINANCIAL FLOWS, SEEMS HELPFUL SEMI-COLON AS IS RENEWED US SUPPORT FOR THE WORLD BANK. IT IS SAID HERE THAT BAKER CHOSE TO CLEAR HIS LINES WITH THE PRESIDENT BEFORE SEOUL AT A TIME WHEN REGAN WAS OUT OF TOWN, AND THAT REGAN REMAINS CRITICAL: SO ON THIS ISSUE TOO A WORD OF SUPPORT FOR BAKER MIGHT NOT GO AMISS.

6. THE PRESIDENT MAY ALSO WISH TO REFER TO TERRORISM, AND THE PLO/ACHILLE LAURO AFFAIR: WHILE THE PRIME MINISTER MAY HAVE CHOGM IMPRESSIONS (EG ON SOUTH AFRICA) TO REPORT. BUT I STRONGLY RECOMMEND THAT SHE FIND TIME TO TOUCH ON THE FOLLOWING THREE BILATERAL ISSUES.

7. FIRST, MSE. WITHIN THE PENTAGON WE UNDERSTAND THAT OSD AND THE ARMY ARE STILL LOCKED IN DISCUSSION OVER THE INDEPENDENT COST EVALUATION GROUPS REPORT ON THE ARMY'S EVALUATION OF THE GTE AND ROCKWELL BIDS. WE ALSO BELIEVE THAT THE ARMY ARE STICKING TO THEIR GUNS AND CLAIMING THAT THE CEG REPORT DOES NOT AFFECT THEIR ORIGINAL SELECTION OF THE GTE SYSTEM. THIS IS NOT UNEXPECTED: WE NEED TO KEEP THE PRESSURE UP TO ENSURE THAT OSD ASK THE ARMY TO THINK YET AGAIN.

8. I THEREFORE THINK IT VERY IMPORTANT THAT THE PRIME MINISTER MENTION HER CONTINUED INTEREST IN THE MSE PROGRAMME. SHE MIGHT STRESS THE TECHNICAL AND OPERATIONAL SUITABILITY OF PTARMIGAN AND THE POLITICAL SIGNIFICANCE (EG IN THE TRIDENT CONTEXT) OF A ROCKWELL/PLESSEYS WIN. THE PRESIDENT'S RESPONSE MAY WELL BE THAT HE CANNOT INTERVENE IN THE COMPETITIVE PROCESS: THE PRIME MINISTER'S ANSWER MIGHT BE THAT, PARTICULARLY WHERE COMPETING SYSTEMS ARE NOT WHOLLY COMPARABLE, AN ELEMENT OF SUBJECTIVE POLITICAL JUDGEMENT IS INEVITABLE, AND WELL UNDERSTOOD.

9. SECONDLY, SDI PARTICIPATION. THE JOINT WORK BY MOD/DOD OFFICIALS, COMMISSIONED DURING THE DEFENCE SECRETARY'S VISIT IN JULY, IS NOW COMPLETE, WITH PAPERS BEING SUBMITTED TO MINISTERS ON BOTH SIDES. MUCH NEGOTIATING UNDERGROWTH HAS BEEN CLEARED AWAY, BUT THE CENTRAL ISSUE OF THE SCOPE OF THE UK RESEARCH PROGRAMME REMAINS TO BE SETTLED AT THE POLITICAL LEVEL, AND I IMAGINE THAT A FIRST MEETING MAY TAKE PLACE IN THE MARGINS OF THE NPG MEETING LATE THIS MONTH. IN MY JUDGEMENT, THE WHITE HOUSE ARE KEEN THAT DOD SHOULD REACH A DEAL WITH US WHICH WOULD PERMIT AGREEMENT, AND AN ANNOUNCEMENT, BEFORE THE 19/20 NOVEMBER SUMMIT IN GENEVA. THIS GIVES US, IN THE SHORT TERM, NEGOTIATING LEVERAGE. THE PRIME MINISTER MIGHT INCREASE THAT LEVERAGE, AND WHITE HOUSE PRESSURE ON WEINBERGER TO BE ACCOMMODATING, IF SHE WERE TO REMIND THE PRESIDENT THAT SHE IS KEEN TO SEE UK SUPPORT FOR THE SDI RESEARCH PROGRAMME GIVEN CONCRETE, SUBSTANTIVE, AND CONTRACTUAL FORM SEMI-COLON AND THAT SHE SEES NO REASONS WHY AN EARLY AGREEMENT SHOULD NOT BE POSSIBLE, PROVIDED THAT THE US SIDE ARE WILLING TO MOVE ON THE SCOPE OF THE UK'S SHARE, ON WHICH THE BALL IS STILL IN THE US COURT.

10. FINALLY, I RECOMMEND THAT THE PRIME MINISTER MENTION NORTHERN IRELAND, AND THE US-UK SUPPLEMENTARY EXTRADITION TREATY, ON WHICH I HAVE SENT SEPARATE ADVICE (MY TELNO 2895).

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