

SECRET file

SUBJECT



10 DOWNING STREET

1 ROL  
UN: UNSSOD:  
Feb 1982

From the Private Secretary

24 June 1982

Dear Sir,

PRIME MINISTER'S TALKS WITH PRESIDENT REAGAN

I enclose the record of the conversation which took place at the White House on 23 June.

There is one point which requires rapid action. The Prime Minister told President Reagan that she would make enquiries as to the precise facts about John Brown's attitude to the recent American decision to extend the embargo on the export of certain goods to the Soviet Union, since the Americans seemed to have obtained from the firm the impression that they were not particularly concerned about it. The Prime Minister would be grateful if the Secretary of State for Trade could take this matter up urgently with John Brown and let her have an account of the situation which can then be conveyed to the US Government. It would be most helpful if contact with the firm could be made this week.

I am copying this letter and enclosure to John Rhodes (Department of Trade), David Omand (Ministry of Defence), John Halliday (Home Office) and David Wright (Cabinet Office).

I should be grateful if circulation of the record could be closely restricted to those who have an operational need to know its contents.

Yours ever  
John Halliday

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

SECRET

SECRET

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND  
PRESIDENT REAGAN AT THE WHITE HOUSE AT 1700 HOURS ON WEDNESDAY,  
23 JUNE 1982

---

Present:

Prime Minister	President Reagan
Sir Nicholas Henderson	Vice-President Bush
Mr Whitmore	Mr Haig
Mr Gillmore	Judge Clark
Mr Coles	Mr Rentschler

\*\*\*\*\*

The Prime Minister opened the conversation by expressing warm gratitude for the successful operation recently conducted by the FBI against arms smuggling by the Provisional IRA in the United States.

President Reagan said that he wished to raise the question of the sanctions applied by the United States to the Soviet Union in connection with Poland. His recent decision that these sanctions should be extended was based on a point of principle. When they had originally been imposed, it had been made clear that they would be kept in being until there had been some internal liberalisation in Poland, either in respect of the position of Mr. Lech Walesa or the release of detainees or the restoration of a dialogue with Solidarity. He knew that his decision to extend the sanctions affected John Brown but representatives of the Company had indicated recently in Washington that it would not cause them great financial distress. He had hoped that following his discussions on this problem in Europe

SECRET

/President Mitterrand

SECRET

-2-

President Mitterrand or Chancellor Schmidt would have indicated to the Russians that if they worked actively to influence the Polish situation the sanctions might be lifted. Private representations to the Russians could be effective. During his recent meeting with Mr. Gromyko, Mr. Haig had raised certain internal questions. For example, he had raised the case of a young man on hunger strike in the Soviet Union who had relatives in the United States. Within 48 hours the Soviet media had indicated that the release of this young man was likely.

The Prime Minister said that we had wanted existing contracts to be exempted from the American sanctions. The latest decision would cause us serious problems in an area which already had heavy unemployment. It would be said that the damage caused to Britain by the American decision was proportionally much greater than that caused to the United States whose main exports to the Soviet Union were of grain rather than of manufactured goods.

President Reagan said that when Mr. Carter had originally imposed the grain embargo, in connection with Afghanistan, American farmers had complained that they alone were being asked to bear a burden. Consequently, he had promised in his presidential campaign that he would remove this discrimination. The existing grain agreement was now coming to an end. The Russians were pressing for the conclusion of a new agreement but the United States had so far declined to open discussions. The Prime Minister said that she presumed there would be a new grain agreement. President Reagan said that he hoped that the Russians would take some step that would make this possible. The Prime Minister enquired whether she could, therefore, say publicly that there would not be a new agreement. President Reagan replied that none had yet been negotiated.

(Mr. Haig

- 3 -  
SECRET

Mr Haig said that even if there were no agreement, grain would continue to be sold on the market. The Prime Minister commented that in that case American farmers would not suffer. But John Brown's employees would. The company was ready to commence implementation of this contract with the Soviet Union and only needed American rotors to be able to do so. If they were prevented from going ahead, they would be disinclined to buy sophisticated equipment from the United States again. She would be pressed on this matter on her return. She could say that the latest decision was seen by the Americans as being based on principle but the fact was that US grain would continue to be sold while John Brown could not purchase the necessary rotors from elsewhere. President Reagan said that the Americans were prepared to be painted as the villains. But if the Russians brought about change in Poland, then the decision on sanctions could be changed.

The Prime Minister asked again whether she could state that the Wheat Agreement would not be renewed. Judge Clark stated that this question had not be discussed, much less decided. Mr Haig added that so far some \$850 m worth of United States exports of manufactured goods had been affected by the sanctions. The President's latest decision would bring the figure to about \$1 billion. The Prime Minister pointed out that the John Brown contract was worth £400 m. Sir Nicholas Henderson observed that British exports to the Soviet Union were on a downward trend while American exports were rising.

President Reagan repeated that John Brown had not expressed great concern to the US Government about the latest decision.

Sir Nicholas Henderson suggested that there must have been some

SECRET/misunderstanding because

SECRET

misunderstanding because their statements to us had been quite different. President Reagan suggested that John Brown could obtain the equipment they needed from the French subsidiary of the American company concerned. Judge Clark commented that legal proceedings had now begun. This would lead to delay and the hope must be that there would be change in Poland during that time. The Americans believed that the Russians had not taken seriously the original decision on sanctions. It was hoped that the latest decision would induce a change of mind.

The Prime Minister said that she would arrange for a further discussion with John Brown because our clear understanding was that they were seriously worried about the situation. Meanwhile, there seemed little doubt that the US would continue to export wheat to the Soviet Union by one means or another and thus total American exports to the Soviet Union would continue to rise. European firms would be reluctant to order sophisticated equipment from the United States in future and would go elsewhere. Existing contracts should have been exempted. The effect of the United States decisions was to prevent the fulfilment of normal commercial engagements. America's word was at stake. President Reagan said that it had been made clear at the time of the original decision what the consequences would be. Judge Clark said that John Brown had originally claimed that 1700 jobs would be at risk but the figures seemed to have changed recently. The Prime Minister said that she intended to enquire into the precise facts. But there would be much resentment in Britain if America's exports to Russia continued to rise while ours went down.

The Prime Minister said that we were also concerned

SECRET

- 5 -

about the recent United States decision in respect of steel imports from European countries. This was a matter for the European Community but if the Community did not take it up through the courts, we should probably do so. She believed that the British Steel Corporation would contest the decision. It would cost us £50 m in exports of specialised steel and job losses which, as with those in the case of John Brown, would be sustained in Scotland. Sir Nicholas Henderson emphasised that the matter was a very serious one. We had reduced our steel exports to the United States by an enormous percentage. But British Steel was now likely to be badly hurt by the American decision.

The Prime Minister then described the latest situation in the South Atlantic. We had returned around 10 thousand prisoners of war to Argentina. Many of the prisoners we had taken had been in very bad condition. The Argentine Armed Forces appeared to keep their officers in luxury but to have little regard for their other ranks. Some officers had had to be allowed to keep their small arms because they were afraid their own troops might attack them. Some of the soldiers had been in an appalling state, suffering from trench foot, dysentery and parasites. The medical treatment given by the Argentines to their wounded had been well below an acceptable standard.

Sometime ago we had sent a message to President Galtieri through the Swiss Government that we would send back the prisoners, lift sanctions and remove the exclusion zones if we received an assurance that hostilities had been permanently ended. We had received no direct reply.

/ The Argentine

SECRET

SECRET

The Argentine note to the United Nations had been very equivocal. Intelligence reports suggested that while many units were reverting to normal states of alert, the air force at Rio Grande was still on a high level of security. We did not know why. The first group of prisoners which had been repatriated had apparently been taken to camps and not allowed to go home.

President Reagan asked whether we could confirm that some conscripts had been shot in their feet. The Prime Minister said that she had read this story but could not confirm it. We were retaining some 600 officers, pilots and engineers until a permanent cessation of hostilities had been achieved. They would shortly be put on a boat to Ascension, and, in the absence of a satisfactory Argentine statement, might be flown from there to Britain. Then, if the elapse of time revealed that hostilities were not being resumed we might send them back. Another serious problem had been caused by the indiscriminate sowing of plastic mines, whose position was not, as the rules of war required, marked. Four of our personnel involved in mine removal had already been wounded. This was very demoralising. Mr. Haig said that the United States had a good deal of specialised equipment available which he thought could be flown into Port Stanley. President Reagan asked that this should be investigated. The Prime Minister said that this would be most helpful. Meanwhile, we were removing about 3,000 of our troops from the Falklands. But our ships were still vulnerable. We were worried that some wild action might be contemplated by the Argentinians.

/Time was

SECRET

SECRET

Time was now needed for reconstruction and rehabilitation. Mr. Hunt was returning as Civil Commissioner shortly and teachers and doctors would be going back. At a later stage, we would discuss the future with the Islanders. We would probably bring them closer to self-government, perhaps resembling the situation in American possession such as Guam.

The President suggested that the United Kingdom needed a peaceful settlement which relieved us of the burden of defending the Islands for a lengthy period. The Prime Minister said that we should be obliged to defend the Islands. The runway would have to be extended, Rapier batteries established and further aircraft deployed. President Reagan asked whether, with the new Government in Argentina, there might be a better prospect of a genuine peace. The Prime Minister replied that this might be possible. But we should have to proceed slowly. The attitude of other Latin American countries had been by no means uniform. A recent leader in a prominent Brazilian newspaper had praised the British action. After her speech in the United Nations General Assembly earlier in the day, the representatives of Colombia, Chile and one other Latin American country had offered their congratulations. We would do everything possible to restore normal relations with other countries of Latin America, and believed that they would respond positively.

The Prime Minister said that events in the Lebanon had produced a mood in Arab countries the like of which she had never seen before.

SECRET

/They found



SECRET

They found Israel's actions in the Lebanon utterly disproportionate. President Reagan said he was aware of this. The Arab countries accused the United States of collusion with Israel. The Prime Minister commented that Prince Saud had agreed with her when she had told him recently that she did not believe the stories of United States/Israeli collusion.

President Reagan said that he had sent Mr. Habib to the area to try to secure a ceasefire. He had been very blunt with Mr. Begin during the latter's recent visit to Washington. But he believed that the accounts of the slaughter of civilians had been much exaggerated. The present situation could offer a great opportunity for a Lebanon which had been torn apart for seven years. The Lebanese themselves saw a great need to disarm the PLO. The seven separate Lebanese factions had come together and were discussing the formation of a central authority and a single army. Mr. Habib was trying to promote a settlement. The Israelis wanted a new Lebanese Government to be established, a multi-lateral force to be constituted and all foreign troops to be withdrawn from the country. The Prime Minister asked where the Palestinians were to go. President Reagan said that it was necessary to distinguish between the PLO and the Palestinians. Many of the latter were content to remain in the Lebanon. Mr. Begin had told him that the Israelis had discovered in the Lebanon arms supplies of a far greater quantity than could ever be used by the PLO. Indeed, it looked as though the Soviet Union had been establishing its own arms depots in the Middle East. The removal of these weapons would be a major undertaking for the Israelis. The Prime Minister asked what kinds of weapons had been discovered. Mr. Haig referred rather vaguely to sophisticated

SECRET

rocketry and large quantities of ammunition for conventional Soviet weapons.

The Prime Minister said that she found the Soviet attitude to the Lebanese situation rather puzzling. She assumed that they would be concerned about the reputation of the Soviet equipment in Syrian hands which had fared so badly. President Reagan agreed that the Russians had been unpleasantly surprised by the success of the American equipment supplied to Israel. Soviet tanks and planes had been no match for their American counterparts.

Mr. Haig said that the situation was now critical. Mr. Habib had just met the Salvation Council and had presented to them firm propositions. He thought that Sharon would not refrain from entering Beirut unless the PLO made firm commitments to disarm, to leave Beirut and to shed some of their leaders.

Mr. Habib was now waiting for answers from Yasser Arafat.

The Prime Minister asked what would happen to Major Haddad.

Mr. Haig replied that his forces would have to be honourably absorbed. Major Haddad would be retired comfortably to another country. So far, Mr. Begin had not objected to these propositions.

The Prime Minister said that the task of constructing a Government in the Lebanon would be very difficult. The PLO would be forced back to terrorism. And the question would remain - where would the Palestinians go? We felt a special obligation. It was we who had walked out of Palestine. The Israelis were Finlandising Lebanon. The Arabs believed that Jordan would be the next to suffer. When the latest situation had developed she had feared that a third world

SECRET

/recession

SECRET

recession would be brought about by Arab action on oil. But so far this had not happened. Mr. Haig commented that this was because most Arabs wanted the Lebanese situation to be straightened out. The Prime Minister observed that the Arabs made the valid criticism that the Middle East went from crisis to crisis but the underlying problem was never dealt with. President Reagan said that he had told Mr. Begin that in return for American patience with Israel he wanted real commitments to deal with the Palestinian problem. Mr. Begin had faced strong criticism on the Hill and had left Washington in a more sober frame of mind. The Prime Minister said that she understood Congressional criticism of Israel. Israel's friends felt let down. The Israelis were inflicting massive suffering and were refusing to let international relief agencies help. President Reagan commented that there had been a great change in American attitudes to Israel.

The conversation ended at 1800 hours.

A.J.C.

23 June 1982

SECRET