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MR. COLES

Visit of the American Secretary of State  
16th-19th December 1982

I attach the following Departmental briefs for the visit of Mr. Shultz on 16th to 19th December:

- Brief No.1 - East/West Economic Relations:  
Follow-up to "Summary of Conclusions"
- Brief No.2 - Defence/Arms Control
- Brief No.3 - Middle East
- Brief No.4 - Agriculture
- Brief No.5 - Trade

2. Sir Robert Armstrong will submit tomorrow a brief on points that the Prime Minister might make to Mr. Shultz on the international economic situation which he has said he would particularly like to discuss.

R.P. Hatfield

15th December 1982

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VISIT OF THE AMERICAN SECRETARY OF STATE TO LONDON, 16-18 DECEMBER  
EAST-WEST ECONOMIC RELATIONS: FOLLOW-UP TO 'SUMMARY OF CONCLUSIONS'

Points to Make

1. How do you see things going after your talks with our European colleagues, after last week's NATO meeting in Brussels, and after yesterday's and today's discussions here in London?
2. Understand that a framework for follow-up is gradually taking shape in OECD and elsewhere, and that France has at least agreed to all the studies. We shall of course participate fully. Like you, we want to press ahead, but we must be careful not only with the French, but also with the smaller Europeans whose cooperation is essential. Proper consultation of great importance.
3. What are your views on deadlines for completion of the studies? (If asked) We think aiming for the next Economic Summit is a sensible idea. We should aim to take stock then of work done and in hand, and review future prospects.

Essential Facts

Reference A: Text of Mr Shultz's letter of 4 December and our reply

Reference B: UKDEL OECD telno 83

Reference C: UKDEL NATO telno 476 and extract from 477

Reference D: Summary of Conclusions

1. Secretary Shultz on his European tour has had consultations in NATO at the NAC, with the EC Presidency and Commission, and with the Governments of West Germany, Belgium, the Netherlands, Italy, Spain and France. Where relevant, he has discussed follow-up work to the Washington talks, basing himself on the text of his letter of 4 December sent to the Summit Seven, plus Presidency and Commission (Reference A).

2. The German response to the Shultz letter was favourable and in line with our own. Neither the Presidency nor the Commission had detailed discussions of the letter with Shultz. France accepted, after discussion at dinner with our closest allies on Wednesday 8 December, that all studies listed in the Summary of Conclusions should go ahead (including the difficult subjects of non-COCOM technology and credit harmonisation) although the status of the Summary itself remained uncertain. But they vetoed any steering group, and this has been accepted.

3. NATO Foreign Ministers agreed this format on 9 December, despite restiveness by smaller nations at being left out of Washington process, and that the NATO Council would meet again to consider a monitoring rôle for NATO (proposed by Luxembourg and Norway, supported by the UK: Reference C).

4. At the FAC lunch on 13 December, it was agreed that Community

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follow-up should be on the basis of the Commission/Presidency draft paper on procedures, currently under discussion by Ambassadors at Coreper and due for circulation in the New Year.

5. The Americans may press us, as a Summit partner, to agree that all the follow-up work should be completed in time for the Williamsburg Summit, and be endorsed there, (prospective dates 28-30 May). The timetable would be very tight, but we should not dismiss the proposal out of hand, particularly since it was agreed at the NAC that Ministers might consider the conclusions to the OECD studies at the June NAC in Paris.

6. On the other hand, we should treat with caution requests or suggestions by the Americans that we help them get things moving in the OECD and elsewhere. On subjects within Community competence we would have to keep to an agreed Community position, while on other subjects it would be usual to conduct prior Community discussions, before committing ourselves to assisting the US. It would in any case not be in our interests to become once more the interlocutor of the Americans to the Europeans. But this should not prevent us from reminding the Americans of the need to tread softly and to avoid giving the impression of bouncing people into action in the multilateral fora where the studies will take place. This is particularly important if they are to get work moving in the OECD without giving offence either to the Secretariat or to the smaller and neutral nations (Reference B).

TRADE RELATIONS AND EXPORT DEPARTMENT.  
FOREIGN AND COMMONWEALTH OFFICE  
14 DECEMBER 1982

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FM FCO 061300Z DEC 82

TO PRIORITY WASHINGTON

TELEGRAM NUMBER 2123 OF 6 DECEMBER

INFO PARIS, BONN, ROME, COPENHAGEN UKDEL NATO, UKREP BRUSSELS  
INFO SAVING UKDEL OECD, OTTAWA, TOKYO, MOSCOW.

EAST/WEST ECONOMIC RELATIONS

FOLLOWING IS TEXT OF MESSAGE TO ME FROM SHULTZ DATED 4 DECEMBER.  
BEGINS

LOOKING AHEAD TO OUR MEETINGS IN EUROPE AND THE SESSION OF THE  
NATO COUNCIL, I WANTED TO SHARE WITH YOU MY THOUGHTS ON TWO OF  
THE KEY ISSUES BEFORE US: OUR CONSULTATIONS ON EAST-WEST  
ECONOMIC RELATIONS AND THE TRANSITION IN THE SOVIET UNION TO  
THE POST-BREZHNEV ERA.

ONE SUBJECT WHICH I WILL WANT TO DISCUSS BILATERALLY WITH YOU  
DURING MY VISIT TO LONDON IS HOW WE SHOULD FOLLOW-UP TO THE  
CONSENSUS ON EAST-WEST ECONOMIC RELATIONS CONTAINED IN THE  
QUOTE SUMMARY OF CONCLUSIONS UNQUOTE. AS YOU KNOW, THIS IS A  
MATTER TO WHICH THE PRESIDENT ATTACHES GREAT IMPORTANCE, AND I  
BELIEVE IT IS ESSENTIAL THAT WE AGREE AMONG OURSELVES ON HOW WE  
SHOULD MOVE AHEAD IN THE VARIOUS AREAS ENUMERATED IN THE QUOTE  
SUMMARY OF CONCLUSIONS UNQUOTE.

WHILE I DO NOT WISH TO GO INTO THEM IN DETAIL AT THIS TIME, I  
THOUGHT IT WOULD BE USEFUL TO PREPARE FOR OUR MEETING IF I GAVE  
YOU SOME IDEA OF HOW WE ENVISAGE THE FOLLOW-UP PROCESS DEVELOPING.  
AS A GENERAL RULE, WE BELIEVE THE SEVEN-NATION GROUP, WITH THE  
PARTICIPATION OF THE EC PRESIDENCY AND THE COMMISSION, WHICH  
WORKED TOGETHER SO EFFECTIVELY, SHOULD CONTINUE TO BE USED IN  
SOME WAY TO COORDINATE THE FOLLOW-UP PROCESS. AT THE SAME TIME,  
WE RECOGNISE THE DESIRABILITY OF USING EXISTING INTERNATIONAL  
ORGANISATIONS WHENEVER POSSIBLE, AND WE WOULD MINIMISE THE  
ESTABLISHMENT OF ANY NEW INSTITUTIONS EITHER TO CONDUCT THE

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FOLLOW-UP WORK OR AS A RESULT OF THAT WORK.

IN THE FIELD OF ENERGY, WE PROPOSE THE CREATION OF AN AD HOC SUMMIT GROUP ON ENERGY TO CONDUCT THE ENERGY STUDY REFERRED TO IN THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE. THIS GROUP WOULD BE EXPANDED TO INCLUDE OTHER DIRECTLY CONCERNED COUNTRIES. THE AD HOC GROUP WOULD COMMISSION THE OECD COMBINED ENERGY SECRETARIAT TO PREPARE THE ENERGY STUDY BASED ON TERMS OF REFERENCE AND GUIDANCE FROM THE GROUP. THE GROUP WOULD DRAW POLICY CONCLUSIONS BASED ON THE OECD/IEA ANALYSIS AND MEMBER COUNTRY CONTRIBUTIONS. WE WOULD HOPE THIS GROUP COULD BE CONVENED SOON, PERHAPS AS EARLY AS DECEMBER 15 IN PARIS, IN ORDER FOR THE GROUP TO COMPLETE ITS WORK BY EARLY MAY 1983.

ON CREDITS, WE SEEK TO BUILD ON POST-VERSAILLES PROGRESS IN THE OECD EXPORT CREDIT ARRANGEMENT AND OTHER OECD WORK TO HARMONISE EXPORT CREDIT POLICIES TOWARD THE USSR AND ENHANCING THE TRANSPARENCY OF WESTERN ECONOMIC RELATIONS WITH THE USSR AND EASTERN EUROPE. WE ALSO WISH TO ESTABLISH A FRAMEWORK WITHOUT FURTHER DELAY FOR PERIODIC EX POST REVIEW OF EAST-WEST ECONOMIC RELATIONS WHICH WOULD DRAW ON OECD DATA AND ANALYSES. A MONITORING GROUP CONSISTING OF SUMMIT SEVEN AND EC PARTICIPATION WOULD PROBABLY BE MOST EFFICIENT BUT WE ARE OPEN TO OTHER PROPOSALS. WE PROPOSE THAT A MEETING OF THIS GROUP BE HELD EARLY IN JANUARY TO DISCUSS PROCEDURES FOR THE REVIEW AND PROPOSALS FOR FURTHER WORK ON HARMONISATION OF EXPORT CREDIT POLICIES.

THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE REINFORCES THE AGREEMENT AT THE JANUARY, 1982 HIGH-LEVEL MEETING TO STRENGTHEN COCOM. WHAT WE NEED IS A STOCK-TAKING EXERCISE TO REVIEW WHERE WE STAND AND WHAT REMAINS TO BE DONE TO ACHIEVE OUR COMMON OBJECTIVE. FOR THIS PURPOSE, I PROPOSE THAT REPRESENTATIVES OF THE SEVEN MEET NEXT FEBRUARY, AT THE LEVEL OF UNDER SECRETARIES. WE SUGGEST THAT THE MEETING BE INFORMAL, AND THAT IT BE HELD WITHOUT PUBLICITY.

AT THE OPENING OF THE LIST REVIEW ON OCTOBER 4, THE US SUGGESTED THAT A SECOND HIGH-LEVEL MEETING OF ALL COCOM PARTICIPANTS BE HELD SOMETIME IN 1983. SUCH A MEETING MIGHT BE HELD IN JULY, FOLLOWING THE SECOND ROUND OF THE LIST REVIEW.

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BEFORE MAKING A FORMAL PROPOSAL IN COCOM ON THIS, WE WOULD LIKE TO DISCUSS OUR IDEAS WITH YOU IN FEBRUARY. IN ADDITION, WE PROPOSE THAT THE FEBRUARY MEETING REVIEW THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM IN GENERAL AND WHAT SHOULD BE DONE TO STRENGTHEN COCOM INSTITUTIONALLY.

ON OTHER HIGH TECHNOLOGY, WE BELIEVE THAT OUR FOLLOW-UP SHOULD BE CONDUCTED IN STAGES. WE WOULD LIKE TO MEET WITH THE SUMMIT SEVEN GROUP AT AN EARLY DATE TO DISCUSS THE OIL AND GAS SECTOR. WE WILL BE PREPARED TO EXCHANGE VIEWS WITH YOU ON THE REASONS WHY CONTROLS IN THIS SECTOR WOULD BE IN OUR MUTUAL SECURITY AND ENERGY INTEREST. WE ARE UNDERTAKING AN INTERNAL STUDY OF HOW OTHER TECHNOLOGIES CONTRIBUTE TO THE MILITARY OR STRATEGIC ADVANTAGE OF THE USSR. WE WOULD HOPE TO BE ABLE TO GIVE YOU AN INDICATION OF OUR THINKING AT A MEETING IN FEBRUARY, WHICH COULD BE HELD IN CONJUNCTION WITH THE MEETING WE WOULD LIKE TO HAVE ON COCOM MATTERS.

TO ENSURE THAT OUR ECONOMIC RELATIONS WITH THE SOVIET UNION ARE CONSISTENT WITH OUR STRATEGIC INTERESTS, WE SHOULD GO FORWARD WITH OUR AGREEMENT TO CONDUCT EXPEDITIOUSLY AN OVERALL STUDY ON EAST-WEST ECONOMIC RELATIONS. WE ENVISAGE THIS STUDY VERY MUCH ALONG LINES DEVELOPED IN THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE. I REMEMBER THAT WE ALL ATTACHED GREAT IMPORTANCE TO THIS EFFORT, AS IT WILL PROVIDE US WITH A COMMON ASSESSMENT OF EAST-WEST ECONOMIC RELATIONS AND THEREBY ENABLE US TO IMPLEMENT THE PRINCIPLES ON WHICH WE AGREED. IN OUR VIEW, A SPECIAL GROUP SHOULD BE FORMED TO CONDUCT THIS STUDY ON THE BASIS OF CONTRIBUTIONS FROM THE PARTICIPATING COUNTRIES. THIS GROUP COULD WELL CALL UPON THE OECD AND NATO FOR CONTRIBUTIONS IN THEIR RESPECTIVE AREAS OF EXPERTISE. A SECRETARIAT ROLE FOR ONE OF THESE INSTITUTIONS (OR THE TWO JOINTLY) IS ALSO A POSSIBILITY TO BE EXPLORED.

FINALLY, IT IS CLEAR TO US THAT SOME INFORMAL MECHANISM WILL BE NEEDED TO SUPERVISE THE FOLLOW-UP PROCESS AS A WHOLE. THE WASHINGTON AMBASSADORIAL GROUP HAS SERVED WELL IN THIS CAPACITY, BUT WE MAY WANT NOW TO CONSIDER OTHER POSSIBILITIES. I THINK YOU WILL AGREE THAT, AS FAR AS EAST-WEST ECONOMIC

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RELATIONS ARE CONCERNED, WHILE MUCH OF THE SUBSTANCE OF OUR CONSULTATIONS HAS CONCERNED MATTERS DEALT WITH IN OTHER BODIES, IT NEVERTHELESS IS IMPORTANT THAT NATO HAVE A SIGNIFICANT ROLE IN THE ON-GOING CONSULTATIVE PROCESS. ONE AREA WHERE THE RESOURCES OF THE ALLIANCE COULD BE PUT TO EXCELLENT USE, WITHOUT CONFLICTING WITH WORK DONE ELSEWHERE OR THE MISSIONS OF OTHER ORGANISATIONS, WOULD BE AN IN-DEPTH STUDY OF THE PROSPECTS FOR THE SOVIET ECONOMY, INCLUDING ITS ABILITY TO SUSTAIN PRESENT AND PROJECTED FUTURE LEVELS OF DEFENSE EFFORT. WE PLAN TO INTRODUCE PROPOSALS FOR THIS SPECIAL STUDY INTO THE COMMUNIQUE DRAFTING PROCESS AT NATO IN THE NEXT FEW DAYS.

ANOTHER THOUGHT I HAD ON WHICH I WOULD VALUE YOUR OPINION CONCERNS HOW THE ALLIANCE CAN MOST EFFECTIVELY DEAL WITH THE QUESTION OF THE SOVIET UNION'S POLICIES POST-BREZHNEV AND THEIR IMPLICATIONS FOR US. BREZHNEV'S DEPARTURE AND ANDROPOV'S EMERGENCE COULD WELL MEAN THAT DEVELOPMENTS IN MOSCOW, AND THEIR MEANING FOR THE WEST, WILL BE HIGHLY COMPLEX. I BELIEVE, THEREFORE, THAT A NATO STUDY ON LIKELY TRENDS IN SOVIET POLICIES, AND THEIR IMPLICATIONS FOR EAST-WEST RELATIONS, POST-BREZHNEV WOULD BE VERY TIMELY.

THIS IS AN IDEA WE MIGHT PROFITABLY DISCUSS. IF OUR EXCHANGE SUGGESTS THAT SUCH AN INITIATIVE HAS MERIT, WE MIGHT THEN INTRODUCE IT FOR MORE GENERAL DISCUSSION DURING THE SUPER-RESTRICTED SESSION OF THE NAC ON DECEMBER 9, WHICH WILL IN ANY CASE BE AN OCCASION FOR REVIEWING THE FULL SCOPE OF EAST-WEST RELATIONS IN THE POST-BREZHNEV ERA. IF THERE IS AGREEMENT THERE, THIS INITIATIVE TOO, COULD BE INCLUDED IN OUR COMMUNIQUE.

I LOOK FORWARD TO HEARING YOUR REACTION TO THESE IDEAS.

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TELEGRAM NUMBER 2130 OF 7 DECEMBER  
INFO ROUTINE PARIS, BONN, ROME, COPENHAGEN, UKDEL NATO, LKREP  
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INFO SAVING UKDEL OECD, OTTAWA, TOKYO, MOSCOW  
EAST/WEST ECONOMIC RELATIONS  
MY TEL 2123

PLEASE PASS FOLLOWING REPLY TO SHULTZ. BEGINS.

THANK YOU VERY MUCH FOR YOUR MESSAGE OF 4 DECEMBER.

I WELCOME YOUR SUGGESTED APPROACH TO THE FOLLOW-UP WORK  
OUTLINED IN THE SUMMARY OF CONCLUSIONS. YOU CAN RELY ON US TO  
PLAY A FULL AND CONSTRUCTIVE PART. YOUR PROPOSALS ON FORA AND  
THE TIMETABLE ARE PARTICULARLY USEFUL, AND AT FIRST SIGHT NONE  
OF YOUR IDEAS SEEMS LIKELY TO CAUSE US DIFFICULTY. I LOOK  
FORWARD TO TAKING THINGS FURTHER WHEN WE MEET IN BRUSSELS AND  
LATER IN LONDON.

THERE ARE JUST TWO POINTS THAT I SHOULD LIKE TO MAKE AT  
THIS STAGE.

FIRST, WE ARE STILL GETTING CRYPTIC BUT NEGATIVE NOISES  
FROM THE FRENCH ABOUT THE STATUS OF THE SUMMARY OF CONCLUSIONS.  
NO DOUBT YOU ARE IN TOUCH WITH THEM. CLEARLY SOME WAY MUST BE  
FOUND PAST THIS ROADBLOCK SO THAT THE FOLLOW-UP WORK CAN GO  
FORWARD AS YOU SUGGEST.

SECOND, THE SUMMARY OF CONCLUSIONS SPEAKS OF THE NEED FOR  
THE WEST TO CONDUCT OUR ECONOMIC RELATIONS WITH THE SOVIET UNION  
AND EASTERN EUROPE ON THE BASIS OF A GLOBAL AND COMPREHENSIVE  
POLICY WHICH SERVES OUR COMMON SECURITY INTERESTS. I ATTACH A  
LOT OF IMPORTANCE TO THIS POINT, AND SHALL WANT TO TAKE THE  
OPPORTUNITY OF OUR MEETINGS THIS WEEK AND NEXT TO EXCHANGE VIEWS  
ABOUT THE POLITICAL FRAMEWORK INTO WHICH THE ECONOMIC STUDIES  
WILL NEED TO BE FITTED.

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*W. B. ...*

*on 2<sup>13</sup>/12*

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FM UKDEL OECD 101700Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NO 83 OF 10 DECEMBER 1982

INFO IMMEDIATE WASHINGTON PRIORITY UKDEL NATO, UKREP BRUSSELS,  
PARIS, COPENHAGEN.

INFO SAVING OTTAWA, ROME, TOKYO, BONN, MOSCOW.

OECD: EAST-WEST ECONOMIC RELATIONS

1. THE FIRST VISIBLE U S ATTEMPT TO MOBILISE OECD ACTIVITY EMERGED WITHOUT WARNING ON 9 DECEMBER IN EXECUTIVE COMMITTEE DISCUSSION OF THE 1983 BUDGET. THE BUDGET COMMITTEE HAD RECOMMENDED TRIMMING THE SECRETARY GENERAL'S SEPTEMBER REQUEST FOR EXTRA STAFF FOR THE FINANCE, FISCAL AND ENTERPRISE AFFAIRS DIRECTORATE WHERE EXPORT CREDIT FINANCIAL FLOWS AND INDEBTEDNESS ARE AMONGST THE NUMEROUS THEMES OF WORK. THE U S AMBASSADOR, ADDRESSING THE SECRETARIAT REPRESENTATIVE, EXPRESSED STRONG DOUBT WHETHER EVEN THE STAFF INCREASES REQUESTED BY THE SECRETARY GENERAL WOULD BE SUFFICIENT TO CARRY OUT THE INTENSIVE EAST-WEST WORK IN THESE AREAS CALLED FOR IN RECENT STATEMENTS BY MINISTERS. THE AMBASSADOR ALSO INFERRED THAT A SIMILAR STATE OF AFFAIRS MIGHT BE FOUND WHEN THE EXECUTIVE COMMITTEE TURNED TO CONSIDERING THE STAFFING OF THE TRADE DIRECTORATE. THE SECRETARIAT'S PROVISIONAL RESPONSE IDENTIFYING RESOURCES CURRENTLY DEVOTED TO EAST-WEST WORK DID NOT SATISFY THE AMBASSADOR, WHO DEMANDED THAT THE SECRETARY GENERAL BE CONSULTED AND THAT THE COMMITTEE BE GIVEN A RESTATEMENT OF THE RESOURCES FOR WHICH PROVISION WOULD BE NEEDED IF A SUPPLEMENTARY APPROPRIATION WERE TO BE AVOIDED.
2. THESE EXCHANGES PROMPTED NO INTERVENTION BY ANY OTHER DELEGATION. AS IN MY OPINION THE TIMING, CONTENT AND MANNER RISKED MAKING EVIDENT ANY PRESENT LACK OF COHESION AMONGST THE SEVEN, AS WELL AS CONCENTRATING THE POSITION OF UNCERTAIN AS WELL AS OPPOSED COUNTRIES, I TOOK THE FIRST AVAILABLE OPPORTUNITY THIS MORNING TO CONSULT PRIVATELY WITH THE U S AMBASSADOR.
3. THE AMBASSADOR REVEALED THAT IN RECENT DAYS HE HAD DISCUSSED WITH THE SECRETARY GENERAL OBJECTIVES FOR WORK IN THE OECD AND THE RELATIONSHIP WITH GROUP OF SEVEN GROUPS WHICH WOULD BE SET UP. WITH SECRETARY SHULTZ'S VISIT HERE ON 15 DECEMBER IN MIND HE HAD BEEN CRITICAL OF THE LACK OF PREPARATION, WHICH HAD BEGUN ONLY ON 8 DECEMBER, AND HAD QUESTIONED WHETHER, APART FROM THE IAEA, THE STAFF RESOURCES REQUESTED IN THE 1983 BUDGET WERE ADEQUATE. KATZ SAID THAT VAN LENNEP HAD REACTED VIOLENTLY AGAINST G7 GROUPS AS FURTHER EVIDENCE OF INSTITUTIONALISATION OF ECONOMIC SUMMITS (THOUGH HE THOUGHT VAN LENNEP'S ATTITUDE MIGHT CHANGE IF HE WERE INVITED TO PARTICIPATE IN ANY GROUP CONCERNED WITH OECD WORK). KATZ READ TO ME PART OF A PERSONAL TELEGRAM TO SHULTZ REPORTING VAN LENNEP'S IRRITATION AND, AS I GATHERED, RECOMMENDING THAT U S PRESSURE BE MAINTAINED.
4. I ASCERTAINED THAT THE AMBASSADOR HAD MADE NO ATTEMPT TO FOREWARN, MUCH LESS CONSULT WITH, ANY OTHERS AMONG THE SEVEN HERE.

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SPECIFICALLY ASKED, HE SAID HE WAS MUCH ALIVE TO THE RISKS INHERENT IN BRINGING OUT INTO THE OPEN HERE PRESENTLY AVAILABLE SUPPORT FROM THE SEVEN. HE DID NOT THEREFORE EXPECT ME AND MY COLLEAGUES TO GO RUNNING WITH HIM DOWN A TUNNEL OF WHICH THE OTHER END WAS NOT IN SIGHT. I LEFT HIM IN NO DOUBT OF THE U K POLITICAL WILL TO ACCOMPANY THE U'S IN WELL CALCULATED PURSUIT OF OUR OBJECTIVES. WE AGREED TO REMAIN IN CONTACT.

5. THIS CONVERSATION WAS EXPLICITLY PRIVATE. OTHER REPRESENTATIVES OF THE SEVEN HAVE NOT YET VOLUNTEERED REACTIONS PUBLICLY OR PRIVATELY.

6. I THINK THIS MEANS THAT THE AMERICANS WISH TO RETAIN SOLE CONTROL OF THEIR INITIATIVE IN THE OECD, AT LEAST UNTIL SHULTZ'S VISIT ON 15 DECEMBER. THEY THEREFORE DO NOT EXPECT, AND MAY NOT EVEN WELCOME, SUPPORT, AT ANY RATE UNTIL THE OECD 1983 BUDGET HAS CLEARED THE EXECUTIVE COMMITTEE ON 13 OR 14 DECEMBER AND COMES TO THE BEGINNING OF THE DECISIVE PHASE IN THE OECD COUNCIL ON THE AFTERNOON ON 15 DECEMBER FOLLOWING THE SHULTZ/VAN LENNEP BREAKFAST THAT MORNING.

7. IN OECD BUDGETARY TERMS, HUNTING EVENTUALLY WITH THE AMERICANS FOR STAFF RESOURCES FOR TRADE AND POSSIBLY ALSO AGRICULTURE, COULD HAVE THE IMPLICATION OF GIVING THE US WHAT IT WANTS FOR ITS AGRICULTURAL TRADE OFFENSIVE IN THE OECD. I SHALL BE WATCHING THIS AND SHALL REPORT SEPARATELY.

FCO PLEASE PASS TO SAVING ADDRESSEES-

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FM US/UK/NATO  
TO IMMEDIATE FCO

TELEGRAM NUMBER 476 OF 9 DECEMBER

INFO IMMEDIATE WASHINGTON PRIORITY PARIS BONN MOSCOW ANKARA ATHENS  
BRUSSELS COPENHAGEN THE HAGUE LISBON LUXEMBOURG OSLO OTTAWA  
REYKJAVIK ROME MADRID UKDEL OECD

NORTH ATLANTIC COUNCIL MINISTERIAL MEETING, SUPER RESTRICTED  
SESSION: EAST/WEST RELATIONS, (INCLUDING ECONOMIC RELATIONS)  
1. THIS TOPIC TOGETHER WITH INF AND PUBLIC ATTITUDES, DOMINATED  
THE DEBATE IN SUPER RESTRICTED SESSION TODAY. A FULL REPORT  
IS IN MIFT. IN SUMMARY, IT WAS AGREED AT THE END OF THE MEETING  
THAT ASPECTS OF ECONOMIC ISSUES THAT HAD THEIR CENTRE OF GRAVITY  
IN SECURITY (SHULTZ'S WORDS) WERE A MATTER OF CONCERN TO THE  
ALLIANCE. STUDIES ON SOME ISSUES WERE ALREADY IN TRAIN IN OTHER  
BODIES, EG COCOM AND OECD. THESE SHOULD BE PURSUED WITH URGENCY,  
GOVERNMENTS INSTRUCTING THEIR DELEGATIONS TO THOSE BODIES AS  
APPROPRIATE. (IE TRANSFER OF TECHNOLOGY AND SIMILAR HIGH  
TECHNOLOGY ISSUES IN COCOM, CREDIT, TRADE, FINANCIAL ISSUES  
AND ENERGY IN OECD WITH THE IAEA PLAYING A PART IN THE LAST).  
THERE WOULD BE ANOTHER MEETING OF THE COUNCIL (LEVEL TO BE  
DETERMINED BUT PROBABLY AT PERMANENT REPRESENTATIVE LEVEL) TO  
CONSIDER A MONITORING ROLE FOR NATO, AS PROPOSED BY LUXEMBOURG  
AND SUPPORTED BY NORWAY AND BY YOU, WITH A VIEW TO AGREEING WHEN AND  
HOW THE OUTCOME OF THESE STUDIES SHOULD BE CONSIDERED BY NATO  
MINISTERS. M CHEYSSON WAS NOT PREPARED TO AGREE TO A DIRECTING  
ROLE FOR NATO BUT SEEMED TO BE WILLING TO AGREE TO THE MINISTERIAL  
COUNCIL CONSIDERING REPORTS PREPARED IN THESE OTHER BODIES AT  
THE NEXT MINISTERIAL MEETING IN PARIS IN JUNE. MEANWHILE  
CONSULTATIONS ON THESE ISSUES SHOULD NOT BE PURSUED IN OTHER  
MORE RESTRICTED FORA.

2. GREECE, FRANCE, AND SOME OTHERS, EMPHASISED THAT THEY ACCEPTED  
NO COMMITMENT TO BE BOUND BY THE FINDINGS OF ANY STUDIES.

GRAHAM

[REPETITION TO REYKJAVIK REFERRED FOR  
DEPARTMENTAL DECISION, REPEATED AS  
REQUESTED TO OTHER POSTS]

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TO IMMEDIATE FCO

TELEGRAM NUMBER 477 OF 9 DECEMBER

INFO IMMEDIATE WASHINGTON PRIORITY MOSCOW PARIS BONN MODUK

INFO SAVING ANKARA ATHENS BRUSSELS COPENHAGEN THE HAGUE LISBON

LUXEMBOURG OSLO OTTAWA REYKJAVIK ROME MADRID UKDEL OECD

MIPT: NORTH ATLANTIC COUNCIL MINISTERIAL MEETING - SUPER RESTRICTED SESSION: EAST/WEST RELATIONS (INCLUDING ECONOMIC RELATIONS)

1. THE US SECRETARY OF STATE OPENED THE DEBATE. WITH A NEW LEADERSHIP IN THE SOVIET UNION WE NEEDED, HE SAID, TO ASSESS WHETHER ANY GENUINE CHANGE HAD TAKEN PLACE OR WAS LIKELY. AT THE MEETING BETWEEN THE US VICE PRESIDENT AND ANDROPOV THE LATTER HAD FOLLOWED AN IDENTICAL LINE TO GROMYKO'S IN NEW YORK WHEN BREZHNEV WAS STILL ALIVE, WITH THE EMPHASIS ON CONTINUITY. ANDROPOV HAD NOTED PRESIDENT REAGAN'S STATEMENT ABOUT A CONSTRUCTIVE RELATIONSHIP AND, IN REPLY TO THE PRESIDENT'S LETTER ABOUT CBMS ETC HAD ASSERTED THAT THE SOVIET UNION WAS READY FOR REDUCTIONS IN NUCLEAR ARMAMENTS AND TO CONSIDER CBM PROPOSALS, IN THE CONTEXT OF THE GENEVA TALKS. HOWEVER, THE REACTION TO THE MX DECISION HAD BEEN VIOLENT, AS WAS WELL KNOWN, SO THAT THE MESSAGE WAS MIXED. MR SHULTZ'S IMPRESSION WAS THAT ANDROPOV SEEMED TO HAVE TAKEN AUTHORITY PROMPTLY AND TO BE A CAPABLE AND DECISIVE PERSON. IT WAS TOO EARLY TO DECIDE WHETHER THIS MEANT THAT THINGS WOULD CONTINUE AS BEFORE, OR WHETHER THE SOVIET UNION WOULD BE MORE CONSTRUCTIVE OVER SUCH THINGS AS ARMS CONTROL AND EVEN THE TREATMENT OF THEIR OWN PEOPLE, OR WHETHER THEY MIGHT PROVE MORE AGGRESSIVE, OR EVEN A MIXTURE. WE MUST WAIT AND SEE. MEANWHILE WE MUST SHOW REALISM, STRENGTH OF WILL AND PURPOSE AND THE STRENGTH TO NEGOTIATE IF THAT PROVED GENUINELY POSSIBLE.
2. THE US SAW A NEED TO STUDY IN NATO SOVIET POLICIES AFTER THE CHANGE OF LEADERSHIP WITH A VIEW TO A REPORT TO MINISTERS AT THEIR MEETING NEXT JUNE. THIS STUDY SHOULD BE A COLLATION OF ALLIANCE VIEWS.
3. MR SHULTZ SAID THAT THERE WAS A CLEAR RELATIONSHIP BETWEEN TRADE AND FINANCE ON THE ONE HAND, AND SOVIET MILITARY STRENGTH ON THE OTHER. WORK WAS IN HAND IN SOME FORA, FOR EXAMPLE COCOM, AND HE WELCOMED THAT. IT WAS IMPORTANT TO STUDY THE IMPLICATIONS OF TRADE IN OTHERS NOT STRICTLY MILITARY TECHNOLOGY, SUCH AS THE OIL AND GAS INDUSTRIES. IT WOULD BE WELL TO HAVE SUCH ISSUES STUDIED IN COCOM. IN ANOTHER FORUM, OECD, AS A RESULT OF EARLY WORK THERE AND OF THE MEETING AT VERSAILLES WORK WAS IN HAND ON CREDIT. EVERYBODY WAS CONSCIOUS OF THE IMPORTANCE OF THAT THROUGH THE HIGH LEVELS OF DEBT OBTAINING IN MANY EAST EUROPEAN COUNTRIES. WITH QUOTE ENERGISING UNQUOTE FROM

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/THE NAC,

THE ALLIANCE, HE HOPED TO SEE PROGRESS IN THESE AREAS. AT  
VERSAILLES ALSO IT HAD BEEN AGREED THAT THERE SHOULD BE A  
STUDY ON AN EX-POST BASIS OF TRADE AND FINANCE FLOWS TO THE  
SOVIET UNION. WITH A PUSH FROM THE NAC THIS COULD BE DONE.  
ANOTHER AREA FOR STUDY WAS ENERGY NEEDS AND ENERGY DEVELOPMENTS.  
APPROPRIATE FORA EXISTED SUCH AS THE OECD AND THE IAEA. THEY  
SHOULD BE PUSHED TO UNDERTAKE THIS WORK. FINALLY THERE  
OUGHT TO BE SOME WAY TO LOOK AT THE WHOLE SUBJECT. FRANCE,  
HE THOUGHT, HAD SUGGESTED EARLIER THAT IT WOULD BE GOOD IF  
THE ALLIANCE UNDERTOOK A STUDY OF THE SOVIET ECONOMY IN AN  
EFFORT TO EXAMINE ITS ABILITY TO SUPPORT THE SOVIET DEFENCE  
EFFORT. THE US FAVOURED THAT. HE WAS READY

TO DISCUSS IT ROUND THE TABLE, TO SEE IF WE COULD  
FIND A WAY OF IDENTIFYING WHAT IMPORTANCE SHOULD BE ATTACHED  
TO SECURITY ASPECTS IN ALL THIS AND HOW WE COULD WORK IN  
CONCERT AND NOT IN DISARRAY. HE STRESSED THAT BY PLACING EMPHASIS  
ON ECONOMIC ASPECTS HE WAS IN NO WAY TALKING OF A TRADE WAR.

4. ANOTHER ASPECT OF THE ECONOMIC SITUATION WAS THE WORLD  
RECESSION. ALTHOUGH NOT THE BUSINESS OF FOREIGN MINISTERS  
THIS HAD ITS IMPACT ON DEFENCE CAPACITIES AND ON THE MORALE OF  
OUR PEOPLES. IT WAS HIS VIEW, AND THE VIEW OF PRESIDENT REAGAN,  
THAT WE NEEDED TO HAVE AS AN OBJECTIVE ECONOMIC EXPANSION AND  
IF WE COULD WORK TOGETHER TOWARDS THAT SO MUCH  
THE BETTER. AGAIN, ALTHOUGH IT WAS NOT THE BUSINESS OF  
FOREIGN MINISTERS IT WAS IMPORTANT TO KEEP AN OPEN TRADING  
SYSTEM WITHOUT WHICH ALL THE TREMENDOUS BENEFITS SINCE THE  
WAR WOULD BE AT RISK.

5. CONCLUDING, MR SHULTZ SAID THAT THESE WERE THE THINGS  
ON HIS MIND AND HE BELIEVED IT WAS IN THE SPIRIT OF THE  
MEETING TO RAISE THEM. WE COULD TAKE HEART FROM DEVELOPMENTS  
ROUND THE WORLD AND THE EXTENT TO WHICH FREE GOVERNMENTS  
WERE EMERGING IN DIFFICULT SITUATIONS. THE ALLIANCE HAD  
WORKED AND HELD TOGETHER DESPITE STRAINS AND RUMOURS OF CRISES.  
THERE HAD BEEN NO WAR IN EUROPE. WE MUST BE DOING SOMETHING  
RIGHT AND IT WAS WORTH PRESERVING. THE US CONTINUED TO BELIEVE  
IN, AND SUPPORT, THE ALLIANCE WHICH WAS QUOTE RIGHT AT THE  
GUTS OF THE SECURITY POSITION UNQUOTE.

6. GENSCHER, FOLLOWING, SAID THAT THERE WAS NO ADVANTAGE  
IN TRYING TO FORECAST THE POLICIES OF THE KREMLIN BUT WE  
SHOULD SEE HOW WE COULD INFLUENCE DEVELOPMENT THERE.  
NOTHING IMPRESSED THE SOVIET UNION MORE THAN A FIRM  
WESTERN POSITION. THE ALLIANCE SHOULD AGREE ON SUCH A  
POSITION COUPLED WITH A READINESS TO DISCUSS ISSUES WITH THE  
SOVIET UNION ON THAT BASIS WHAT HE CALLED THE POLICY OF  
THE EXTENDED HAND. HE WELCOMED MR SHULTZ'S REFERENCES TO  
ECONOMIC ISSUES: ONLY IF WE ACHIEVED ECONOMIC STABILITY COULD  
WE ACHIEVE ALSO POLITICAL STABILITY AND MAINTAIN OUR DEFENCE  
EFFORT AT THE NECESSARY LEVEL. AS A FOLLOW-UP TO LA SAPINIERE,  
WE SHOULD UNDERTAKE THE NECESSARY STUDIES SO AS TO ARRIVE  
AT A COMMON ECONOMIC POLICY, WHICH WAS ESSENTIAL IF WE WERE TO  
AVOID DIFFERENCES IN THE ALLIANCE. THERE SHOULD BE NO ECONOMIC  
WAR WITH THE EAST BUT POLICIES SHOULD BE BASED ON MUTUAL  
BENEFIT.

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/7. STRAY

13. YOU AGREED THAT THE STATE OF OUR ECONOMIES AFFECTED THE WHOLE CLIMATE. YOU WERE ENCOURAGED BY MR SHULTZ'S REMARK ABOUT EXPANSION, BUT ANY UPTURN WOULD BE SLOW AND GRADUAL. WE NEEDED TO CLEAR OUR MINDS ABOUT HOW TO DEAL WITH THE WORLD ECONOMY. IT WAS RIGHT ALSO TO PAY ATTENTION TO THE SECURITY ASPECTS OF ECONOMIC RELATIONS WITH THE EAST. STUDIES WERE ALREADY IN HAND IN NATO, OECD AND ELSEWHERE. WE SHOULD PRESS ON WITH THESE, GIVING THEM HIGH PRIORITY AND SUPPORT, WITH EXTRA RESOURCES IF NECESSARY. JAPAN MUST BE INVOLVED.

14. M CHEYSSON, EXPRESSING PLEASURE AT THE WAY THE ALLIANCE WORKED THROUGH A RANGE OF FORMAL AND INFORMAL MEETINGS, AGREED THAT 1983 WOULD BE DIFFICULT. THE CAPACITY FOR ANALYSING THE POLICIES OF THE SOVIET UNION AND ITS SATELLITES HAD TO BE ENHANCED. THE DECISIONS ON POLAND WOULD NEED TO BE STUDIED. ANY ANALYSIS UNDER THE SECRETARY GENERAL'S AEGIS COULD ONLY BE WELCOMED. FRANCE WAS NOT DIRECTLY INVOLVED BUT THE SECOND PART OF THE TWO TRACK DECISION MUST BE IMPLEMENTED. HE HAD BEEN ENCOURAGED BY THE ASSURANCES OF DR GENSCHER AND OTHER OF THIS WHERE FRANCE FELT GREAT SOLIDARITY WITH THE REST OF THE ALLIANCE. FRANCE HAD TAKEN DECISIONS ON NEW EQUIPMENT IN THE NUCLEAR FIELD, FOR EXAMPLE THE M4 MISSILE, THE NEW GENERATION OF NUCLEAR BALLISTIC MISSILE SUBMARINES, EARLY WARNING, THE REPLACEMENT OF PLUTON BY HADES AND THE SX MISSILE IN SUPER HARDENED SURVIVABLE SILOS AT GREAT DEPTH. THEY WERE ENGAGED IN ASSURING CREDIBILITY AT A MINIMUM THRESHOLD WITH THE CERTAINTY THAT THEY COULD INFLICT DAMAGE, EVEN AS A SECOND STRIKE, IN DEFENCE OF THE INTERESTS, AND NOT JUST THE TERRITORY, OF FRANCE. IT WAS NECESSARY TO PRESENT THE DEFENCE POSTURE NOT AS AN EFFORT TO CONTAIN WAR, TO MAKE IT POSSIBLE, BUT TO MAKE IT UNTHINKABLE. WE MUST REAFFIRM WITH FIRM PUBLIC SUPPORT THAT THE ABSOLUTE WEAPON OF DETERRENCE, FOR PREVENTING WAR, WAS NUCLEAR. THOSE WHO ARGUED THAT NUCLEAR WEAPONS WERE NOT NECESSARY MIGHT BE RESPONSIBLE FOR WAR.

15. HUMAN RIGHTS, WERE IMPORTANT; THE UNITY OF THE ALLIANCE WAS BASED ON OUR COMMON UNDERSTANDING OF THEM. ECONOMICS WAS NOT A NATURAL SUBJECT FOR THE ALLIANCE BUT ECONOMIC RELATIONS COULD HAVE DIRECT INFLUENCE ON SECURITY. THEY MUST BE ANALYSED IN THE SAME WAY AS DEFENCE ISSUES. COCOM WAS THE NATURAL FORUM AND FRANCE WOULD SUPPORT THE CONTINUATION OF STUDIES THERE. ANALYSIS OF THE ECONOMIC POTENTIAL OF THE SOVIET UNION AND EAST EUROPE WAS UNDER WAY AND SHOULD BE COMPLETED SO THAT NECESSARY CONCLUSIONS COULD BE DRAWN. GOVERNMENTS NEEDED TO BE INFORMED OF WORK IN OECD ETC ON TECHNICAL ISSUES OF EAST/WEST TRADE, CREDIT ETC. THERE WAS A NEED FOR STUDIES OF ENERGY RESOURCES. FRANCE WOULD CONTRIBUTE FULLY AND HOPED FOR EARLY RESULTS. THE TREATY PROVIDED FOR COORDINATION BUT COCOM COULD DO THAT. COMMERCIAL QUESTIONS WERE MATTERS OF INDIVIDUAL SOVEREIGNTY UNLESS DIRECTLY RELEVANT TO THE SECURITY STRENGTH OF THE SOVIET UNION, THOUGH HE AGREED THERE WAS A NEED TO AVOID INCONSISTENCY BETWEEN ALLIES. NO FORUM WAS PERFECT, THE SEVEN, THE SIXTEEN (WITHOUT JAPAN) OR ANY OTHER. THERE NEED NOT BE TOO MUCH DIVERGENCE

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/ PROVIDED

21. YOU STRESSED THAT THE BATTLE FOR HEARTS AND MINDS MUST BE NATIONAL RESPONSIBILITY, NOT A NATO CRUSADE, THOUGH NATIS MIGHT BE ABLE TO HELP. YOU THEN TOOK UP MME FLESCH'S PROPOSAL THAT NATO SHOULD MONITOR PROGRESS, SUBCONTRACTING WORK TO OTHER BODIES. THE SECRETARY GENERAL AGREED AND APPEARED TO BE PASSING ON, BUT MR SHULTZ INTERVENED. IN AN ATTEMPT TO SUM UP, HE SAID THAT IT SEEMED TO BE THE SENSE OF THE MEETING THAT ASPECTS OF ECONOMIC

ISSUES THAT HAD THEIR CENTRE OF GRAVITY IN SECURITY WERE A MATTER OF CONCERN TO THE ALLIANCE. VARIOUS ISSUES WERE HANDLED IN COCOM AND SIMILAR HIGH TECHNOLOGY ISSUES MIGHT BE DEALT WITH THERE TOO: CREDIT, TRADE AND FINANCIAL ISSUES MIGHT BE QUOTE ENERGISED UNQUOTE IN OECD. THE NATURAL HOME FOR THE ENERGY STUDY WAS ALSO IN OECD AND IN THE IAEA. HOWEVER, IT WAS IMPORTANT THAT NATO QUOTE SHOULD STAY AT THE HELM UNQUOTE, LUXEMBOURG'S POINT, WHILE QUOTE SUB-CONTRACTING UNQUOTE WORK TO OECD AS A WAY OF BRINGING IN JAPAN AND TAKING ADVANTAGE OF OECD'S EXPERTISE. M CHEYSSON REMARKED THAT MANY WERE GLAD THAT THESE STUDIES WERE GOING AHEAD IN OECD AND ELSEWHERE. FRANCE SAW NO POINT IN SETTING UP A SPECIAL ARRANGEMENT FOR NATO TO INTERVENE. GOVERNMENTS COULD INSTRUCT THEIR DELEGATIONS AT THE OECD TO GET ON WITH IT AND TO REPORT PERHAPS BY THE END OF THE SPRING SO THAT MINISTERS COULD CONSIDER THE FINDINGS AT THE MEETING OF THE NAC IN JUNE IN PARIS, THOUGH THOSE FINDINGS WOULD NOT COMMIT GOVERNMENTS. HE COULD NOT AGREE THAT ANY GUIDELINES SHOULD COME FROM NATO BECAUSE MANY STUDIES HAD ALREADY STARTED AND BECAUSE AN OUTSIDE BODY COULD NOT GIVE INSTRUCTIONS TO OTHER INSTITUTIONS.

22. HARAMBOPOULOS REPEATED THAT GREECE WOULD NOT BE BOUND BY THE OUTCOME OF THE STUDIES. MME FLESCH ASKED FOR CLARIFICATION.

AS SHE UNDERSTOOD IT:

- (A) GOVERNMENTS WOULD INSTRUCT THEIR DELEGATIONS TO THE OECD ETC;
  - (B) THERE WOULD BE ANOTHER MEETING TO CONSIDER HOW TO OVERSEE PROGRESS: AND
  - (C) MEANWHILE NO OTHER CONSULTATIONS SHOULD TAKE PLACE.
- THE SECRETARY GENERAL CONFIRMED THIS AND ADDED THAT THE MEETING IN (B) COULD BE AT WHATEVER LEVEL GOVERNMENTS CHOSE.

FCO PASS SAVING ANKARA ATHENS COPENHAGEN THE HAGUE LISBON  
LUXEMBOURG OSLO OTTAWA REYKJAVIK ROME MADRID UKDEL OECD

(REPEATED AS REQUESTED)

GRAHAM

LIMITED	INFORMATION D
DEFENCED	PS
PLANNING.S.	PS/MR. HURD
WED	PS/PUS
EESD	MR WRIGHT
PUSD	SIR J BULLARD
NAD	MR. EVANS
ERD	MR. GILLMORE
ECD (E)	MR. GOODISON
TRED	MR. THOMAS
NEWS D	CABINET OFFICE
ACDD	

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WASHINGTON DISCUSSIONS ON EAST/WEST ECONOMIC RELATIONS (PIPELINE)

SUMMARY OF CONCLUSIONS

During conversations in Washington between the Secretary of State of the United States of America and representatives of Canada, the Federal Republic of Germany, France, Italy, Japan and the United Kingdom on the subject of East/West relations, in which representatives of the EC participated, a certain number of conclusions have been reached on behalf of the governments represented. The summary of these follows.

1. They recognise the necessity of conducting their relations with the USSR and Eastern Europe on the basis of a global and comprehensive policy designed to serve their common fundamental security interests. They are particularly conscious of the need that action in the economic field be consistent with that global and comprehensive policy and thus be based on a common approach. They are resolved together to take the necessary steps to remove differences and to ensure that future decisions by their Governments on these issues are taken on the basis of an analysis of the East/West relationship as a whole, with due regard for their respective interests and in a spirit of mutual trust and confidence.

2. The following criteria should govern the economic dealings of their countries with the Soviet Union and Eastern European countries:-

- that they will not undertake trade arrangements, or take steps, which contribute to the military or strategic advantage and capabilities of the USSR,
- that it is not in their interest to subsidize the Soviet economy; trade should be conducted in a prudent manner without preferential treatment.
- that it is not their purpose to engage in economic warfare against the Soviet Union. To be consistent with our broad security interests, trade with the USSR must proceed, inter alia, on the basis of a strict balance of advantages.

It is agreed to examine thoroughly in the appropriate bodies how to apply these criteria, taking into account the various economic and political problems involved, with the view to agreeing on a common line of action in the spirit of paragraph one and the above criteria. They will pay due attention in the course of this work to the question of how best to tailor their economic relations with Eastern European countries to the specific situation of each of them, recognizing the different political and economic conditions that prevail in each of these Eastern European countries.

The overall analysis of economic relations with the USSR and the Eastern European countries will touch in particular on the following areas:-

- strategic goods and technology of military significance (COCOM);
- other high technology items;
- credit policy;

- energy;
- agricultural products.

In their analysis of other high technology items, it is agreed to examine immediately whether their security interests require controls, to be implemented in an agreed and appropriate manner, on the export to the Soviet Union and Eastern Europe of advanced technology and equipment to be jointly determined. This immediate examination of whether their security interests require controls, to be implemented in an agreed and appropriate manner, on the export to the Soviet Union and Eastern Europe of advanced technology and equipment will include technology and equipment with direct applications to the oil and gas sector.

In the field of energy, they will initiate a study of their projected energy requirements and dependence upon imports over the next decade and beyond and possible means of meeting these requirements, with particular attention being given to the European energy situation. The study will be conducted under the auspices of the OECD.

3. As an immediate decision and following decisions already made, they have further agreed on the following:-

(a) Building on the conclusions of the High Level Meeting, they will work together within the framework of the Coordinating Committee (COCOM) to protect their contemporary security interests: the list of strategic items will be evaluated and, if necessary, adjusted. This objective will be pursued at the COCOM Review now under way. They will take the necessary measures to strengthen the effectiveness and responsiveness of COCOM and to enhance their national mechanisms as necessary to enforce COCOM decisions.

(b) It was agreed at Versailles that the development of economic and financial relations with the Soviet Union and Eastern Europe would be subject to periodic ex-post review. The necessary procedures for this purpose will be established without delay. Having in mind the criteria in paragraph two above, they will work urgently further to harmonize export credit policies.

(c) They have informed each other that during the course of the study on energy requirements, they will not sign, or approve the signing by their companies of, new contracts with the Soviet Union for the purchase of natural gas.

16 November 1982  
Foreign and Commonwealth Office

VISIT OF MR SHULTZ, 16-17 DECEMBER 1982

BRIEF ON DEFENCE/ARMS CONTROL

INF

Line to Take

1. 1983 a difficult year. Alliance solidarity at a premium. HMG resolute over cruise missile deployments, as well as serious negotiations in Geneva, but not complacent.
2. Need further discussion at technical level about dates of arrival of cruise missile equipment, with both US and FRG. Important to get timetable right before we go public.
3. Essential to keep in front in public debate on INF, and to keep the negotiations and Allied consultations highly visible to the public.
4. Soviet initiatives require careful handling - at times unconvincing simply to dismiss them out of hand. Should not be afraid to recognise, publicly, Soviet concessions if they are genuine. But we need to make it clear in public that the concessions which the Soviet Union seem to have in mind at the moment and any further concessions short of complete dismantling of SS20s (4s or 5s) would be insufficient to affect first INF deployments in December 1983.

VISIT OF MR SHULTZ, 16 - 17 DECEMBER 1982

BRIEF ON DEFENCE/ARMS CONTROL

INF

ESSENTIAL FACTS

The Pentagon are considering the practical possibilities of revising the timetable for the arrival of cruise missile equipment to take account of UK and FRG concerns and will discuss their conclusions with us in January.

2. The Americans were unnecessarily reluctant to concede that the recent tentative Soviet offer of reduction in SS20 numbers in Europe amounted to a concession. The juxtaposition of headlines about the US rejecting the Soviet offer, (which they did not in fact do but which was the impression they gave), and the women's protest at Greenham Common was damaging to HMG's position in the nuclear debate.

Defence Department  
Foreign and Commonwealth Office  
14 December 1982

VISIT OF THE AMERICAN SECRETARY OF STATE TO LONDON: 16-19 DECEMBER  
MIDDLE EASTPoints to Make1. Peace Process

- Concerned at loss of momentum. Wrong to place onus for next move on King Hussein. He is doing well but is not strong enough to move alone (if he is prudent). So to wait for him is to give negative Arab elements a veto. Result: stalemate, seen by Arab side as Israeli success in blocking US initiative.
- Hussein/Arafat talks encouraging, but with PLO split Arafat cannot give Hussein clear mandate for Washington. Our ability to help temporarily reduced by fracas over Arab League visit: but efforts to repair damage now under way.
- US initiative handicapped by failure to endorse self-determination. US policy close to Europeans in all but name. We have stressed a state is not a realistic target. But self-determination a touchstone for Arabs; and the UK formula (choose but be realistic) breaks the link between self-determination and an independent state.

2. West Bank issues

- Settlements freeze a key issue. US must act if initiative is to survive. Delay till Begin visit to Washington (if this slips to February) could be too long. Is mood in congress shifting back towards Israel (aid decisions)?
- West Bank opinion a useful lever on PLO. Worth looking for gestures to increase their confidence. Possibilities: more US aid through private channels to West Bank (eg education, in view of recent problems). Gestures to Palestinian refugees in S Lebanon.

3. Lebanon

- Foreign Minister gave impressive account of dangers of lack of progress on withdrawal, US ideas for breaking deadlock? Looking again at possibility of symbolic and limited contribution to MNF.

## Background

1. The Secretary of State last discussed the Middle East with Shultz at Brezhnev's funeral on 15 November.
  
2. Since then, momentum of the follow-up to Reagan initiative has slowed further. Habib and team are now back in Washington to discuss next steps. Fairbanks (Habib's deputy) briefed Mr Hurd privately on 2 December. US will not move to put serious pressure on Israel until Arabs show they are ready to negotiate. US are hoping King Hussein will come to Washington (21 December) with position agreed with PLO on Palestinian representation in negotiating team. This is over-optimistic at a time when PLO remains split (still no Palestine National Council meeting). To create conditions for progress, US must respond to continuing Israeli defiance. The Congressional decision to increase aid to Israel by \$125 m in FY1983 and to convert \$350m military loans into grant will further undermine Arab confidence.
  
3. Shultz told the Secretary of State in Moscow that the President was not prepared to withhold aid funds in response to Israeli rejection of a settlements freeze. But we have since had other indications (including Fairbanks to Mr Hurd) that State Department accept that the time may come when aid to Israel would have to be reduced to offset spending on settlements. The pace of settlement is increasing, highlighted by the recent announcement by settlement agency in Israel of plans to double number of settlers within next six months. The Americans have to be very careful in using economic weapon that they do not want to allow Begin to mobilise Israeli opinion against American interference. For this reason action on military sales is effectively ruled out. President Reagan probably wants one more go at Begin face to face before resorting to economic pressure. But latest reports suggest Begin's visit to Washington may slip into February.

4. Shultz recently met two West Bank mayors (Milhem and Qawasmeh) in a move which was interpreted in the press as an indirect dialogue with the PLO. West Bank opinion, which generally favours association with Jordan as quickest possible route to Israeli withdrawal, has an impact on the PLO leadership. Anything which the US can do to increase confidence among West Bankers will help to pull the PLO towards more sensible policies. Aid to educational establishments in the West Bank, and continuing help for Palestinian refugees in South Lebanon, are two obvious areas.

Lebanon

5. The Lebanese Foreign Minister is due back in London on 16 December for a meeting with Shultz. By then we may have agreement on a symbolic British contribution to the multinational force (90 men for 3 months?), along the lines discussed by the Prime Minister during Dr Salem's call on 10 December. Of others approached for a contribution, only the Belgians have so far responded favourably, subject to financing arrangements. The US and French have not yet decided whether and by how much their own MNF contingents will be increased. The Italians have offered an extra 1,100 men. The aim is to at least double the existing 4,200 force.

6. There will be no role for an expanded MNF until there is some movement on withdrawal of foreign forces. Habib made no progress during his recent visit to the area and the Americans appear to have no ideas for overcoming Israeli insistence that the negotiations be held alternately in Jerusalem and Beirut. This is clearly a delaying tactic by the Israeli government which is prepared to leave its forces (18,000) in Lebanon for several months if necessary to extract concessions, and is meanwhile happy to have US attention concentrated on Lebanon.

Near East and North Africa Department  
Foreign and Commonwealth Office  
14 December 1982

MEETINGS WITH MR SCHULTZ: 16-19 DECEMBER 1982

AGRICULTURE

Line to take

1. Glad that the discussions with the Commission were satisfactory from US point of view.
2. Sure that the right approach is to discuss particular issues. Global attacks on the CAP as a whole are counter-productive: they enable those Member States who resist change to claim that the US is trying to destroy a "cornerstone of the Community". And it is wrong to imply that the CAP is the sole cause of the problems currently facing US agriculture.
3. We have tried hard to curb EC farm surpluses, and under this Government CAP prices have risen far less than inflation, while farm incomes have dropped. But unrealistic to look for sudden or dramatic changes.
4. Must remember that Commission only make proposals. Important that US should also make its views clear to EC Member Governments, who take decisions.
5. Highly undesirable if the US and Community began to compete with each other in subsidising exports. No-one would benefit, except perhaps the Russians. Illusory to think confrontation of this sort would force a reform of the CAP. Therefore hope US will put all its efforts into securing a successful outcome of the talks now planned. We will do our best from the EC side.

Background

1. US farmers are currently facing low commodity prices in dollar terms, a sharp fall in real incomes and very high stocks of certain



commodities. There is strong pressure on the administration to take action. The difficulties spring from a number of causes, eg the strengthening of the dollar (which has tended to make US exports uncompetitive), high interest rates, high crop yields due to favourable weather, and lower grain purchases by the USSR (both in total and, particularly, from the US). However, farmers and the administration have, not without justification, strongly criticised the EC's increasing agricultural surpluses for depriving the US of part of its market.

2. Farm production is supported in the US but, for the commodities of which the US is a major exporter, the support levels are much lower than those provided under the CAP and the US does not employ direct export subsidies (see Annex for a comparison of the two systems). The US thus looks on the EC as an uncompetitive producer which is unfairly competing on the world market through massive export subsidies and taking away markets from US producers.

3. The steps previously taken by the US have been:

(1) They have brought several cases under the GATT against the EC, for using subsidies to secure an unfair share of world trade: but they have been disappointed at the lack of progress on these cases and the probability that the outcome will not clearly rule against the CAP.

(2) At last month's GATT Ministerial Meeting, they tried hard to secure a separate investigation into export subsidies: and they only reluctantly agreed to the outcome whereby all aspects of countries' agricultural policies, in so far as they affect trade, are to be studied.

(3) Both before and after the GATT meeting, they threatened to introduce their own export subsidies and/or to dispose of their accumulated stocks of dairy products on the world market. The motive was said to be simply to allow US exports to compete: but it was also implied that, by pushing down world prices, this would make the CAP so expensive as to force it to reform.

4. Part of Mr Schultz's meeting with the Commission last week was devoted to agriculture. The Commission defended the CAP on the usual grounds that it is a "cornerstone of the Community", maintained that the EC had a right to a fair share of world trade, but acknowledged that adjustments were needed to oblige farmers to take more account of market conditions. They urged the US to adopt a common approach to problems arising in world trade, rather than confrontation.

5. It was agreed that a US/EC working group should undertake a series of meetings, beginning in the first half of January and finishing by the end of March, to discuss particular issues. The US side, while disclaiming any intention to engage in a "trade war", did not undertake to refrain from changing their export policies while these talks proceeded.

AGRICULTURAL SUPPORT IN THE EC AND IN THE USA

The main differences between agricultural support under the EC's Common Agricultural Policy and under US arrangements are as follows:

1. Under the CAP, production is in most cases supported by keeping internal market prices at levels which are normally well above world prices, through intervention buying and variable levies on imports. In the US, for those commodities of which the US is a major exporter (eg grain, rice, cotton, oilseeds), internal market prices are in most cases identical with world prices. For a number of those commodities, US producers' returns are, when necessary, boosted to a target level through deficiency payments: however, these target levels are in all cases well below the corresponding CAP support levels.
2. In the case of two major commodities (milk and sugar) which the US does not normally export, support is provided through high internal market prices by the same mechanisms (import restrictions and intervention buying) as the CAP employs: and the levels at which these products are supported in the US are, at current exchange rates, higher than CAP support levels. In the case of milk, this has led to the US Government accumulating large surplus stocks of milk products, despite big use of free butter and cheese for domestic welfare programmes. Except for a single sale in 1981, however, none of these surplus stocks has yet been disposed of on the world market - in marked distinction from the policy followed under the CAP.

3. Almost all agricultural commodities are supported under the CAP. Many fewer are supported in the US: in particular there is no support at all for meat (except for some import restrictions) and very little for oilseeds.

4. Except in the case of sugar, there are no limits on the quantities of output for which support under the CAP is made available. In the US, support for the major arable crops is normally conditional upon the farmer restricting his output.

5. The CAP has generated large surpluses of milk products, cereals, sugar, beef and wine: and export subsidies are the mechanism normally employed for disposing of these surpluses onto the world market. In the US, there are no export subsidies as such. The US does make some exports on highly favourable terms (30 or 40 years credit at very low interest rates) under the so-called "Food for Peace" programme: but these sales now account for a relatively small proportion of total exports. Credit for all other exports was until recently available only at market rates of interest, but the US have just introduced a 20% subsidy on interest rates for certain selected deals.



MEETING WITH MR SHULTZ

TRADE

LINE TO TAKE

1 Outcome of the GATT Ministerial was satisfactory in difficult circumstances. Important now to cooperate in resisting protectionist pressures which will flourish in persistently difficult economic climate. Need to avoid trans-Atlantic confrontations. We should like to collaborate with you in the GATT work programmes on services and on the <sup>place</sup>~~peace~~ of the NICs in GATT.

2 Talks in Brussels seem to have gone well. Particularly welcome agreement to talks on agriculture and informal armistice on rhetoric. UK very much hopes differences can be resolved.

3 Japan remains a major trade problem, EC position is holding together well. Hope US will make common cause and join Article XXIII case. Concerted effort is best way to bring home to Japan the seriousness of the problem.

4 Very grateful for your personal contribution to lifting of pipeline sanctions. But we remain very concerned about general problem of extraterritoriality. Unless we can reach a common view on this, we risk further damaging disputes.

ESSENTIAL FACTS

The EC/US Ministerial meeting in Brussels on 10 December seems to have gone quite well. There is a clear understanding on both sides of the need to avoid confrontation.



The outcome of the GATT Ministerial meeting was generally acceptable, particularly given the circumstances in which it took place. It was agreed that studies of special interest to both the USA and the UK (on trade in services and on trade between developed and developing countries) should take place. However, the outcome has not satisfied some vociferous US lobbies, notably agriculture. Unless there is some progress in reaching an EC/US understanding on agriculture, a trade war remains a high risk.

At the Foreign Affairs Council on 13/14 December, the EC agreed to move to the second stage of its Article XXIII case against Japan. It would be very helpful if the US could be persuaded to join the EC's complaint. Concerted action seems to weigh with the Japanese, who have reacted uncomfortably to the EC's complaint under Article XXIII.

When the Secretary of State for Trade visited Washington in November, both Mr Baldrige and Mr Brock agreed with him that serious discussions were needed on the general question of extra-territoriality, and preparatory work is understood to be under way already in Washington on an inter agency basis. We have formally asked the US authorities to resume bilateral discussions which were interrupted by the pipeline affair. We shall also be watching very carefully the legislative process for the renewal of the US Export Administration Act (under which sanctions were introduced in the pipeline case) and will almost certainly wish to lobby for restrictive amendments to the Act which would make a repeat of the pipeline affair less likely.

Department of Trade

15 December 1982

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B/K **SECRET**

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Copied to  
Defence PtG  
Nuclear Secretariat  
cc FCO  
CO

de  
6



**10 DOWNING STREET**

From the Private Secretary

15 December 1982

Dear Richard,

INF Deployment

As I told you on the telephone today, the Prime Minister has just asked for a brief for her talks with Mr. George Shultz on Friday covering INF deployments and the INF negotiations.

We have talked separately about the Prime Minister's wish to look again at the dual key question and I note from Mr. Nott's minute of today to the Prime Minister that he will be offering further advice. In advance of further discussion of this question, the Prime Minister has asked for advice on whether she should raise this issue with Mr. Shultz and if so in what terms.

on  
reference  
Pt 6  
Nuclear Secretariat

It would be helpful if your briefing on these matters could be agreed with the Foreign and Commonwealth Office.

RM  
providing

I am copying this letter to Brian Fall (FCO) and Richard Hatfield (Cabinet Office).

Yours ever

John Gales

Richard Mottram, Esq.,  
Ministry of Defence.

**SECRET**

USA

PRIME MINISTER

MR. SHULTZ

He is in some difficulty because he has to return to the United States rather earlier than he had planned. A number of US Ambassadors in Europe have been summoned to meet him in London and the only time he can fit them in is in the late afternoon of Friday.

The Americans have therefore asked whether he could come to No. 10 a bit later than we envisaged. This would mean your tête-a-tête beginning at 7 pm and the dinner beginning at 8.15 pm.

May we proceed on this basis?

Yes *ms*

A.S.C.

1) Caroline noted

2) Sheffield

I have informed the F./C.O. who will tell the American.

Dinner will be 8.00 to 8.15 p.m.

pl. amend invitation as necessary. *done*

15 December 1982

A.S.C. <sup>15.</sup>/<sub>12</sub>





Sir Antony Acland KCMG KCVO  
Permanent Under-Secretary of State

Foreign and Commonwealth Office

London SW1A 2AH

9 December 1982

Sir Robert Armstrong KCB CVO  
CABINET OFFICE

AM 9/12

r-a-

*My dear Robert,*

VISIT OF THE AMERICAN SECRETARY OF STATE, 16- 19 DECEMBER

1. I am writing to confirm the arrangements for Mr Shultz's visit as they now stand.
2. Mr Shultz will be in London from 16 to 19 December, at the end of a European tour which takes in the North Atlantic Council, talks with the European Commission in Brussels and consultations with the Governments in Bonn, Brussels, Rome, The Hague, Paris and Madrid. The last two days of his stay in London will be taken up by a meeting of American Heads of Mission in Europe organised by the US Embassy. He plans to be accompanied by the Assistant Secretary for European Affairs in the State Department (Mr Richard Burt) and two other officials from the European Bureau.
3. Mr Shultz is due to see the Chancellor of the Exchequer on the afternoon of 16 December, and later the Foreign and Commonwealth Secretary will host a private supper for him. Official talks will be held at the FCO on the morning of 17 December and in the evening the Prime Minister has agreed to give Mr Shultz a small working dinner.
4. Mr Shultz's visit results from an American initiative. This will be his first time in England as Secretary of State and our first objective is clearly to make him welcome and to encourage him in the practice of close consultation with us. Our second general objective will be to put across HMG's views on the topics selected for discussion. Since the more important of these themes are likely to be discussed at or in the margins of the NATO Ministerial meeting from 8 to 10 December, it is not possible at this stage to be precise about our specific objectives on individual topics.

/5.



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2.

5. The Americans have proposed four topics for discussion:
- i) the international economic situation, including the outcome of the GATT negotiations and the general state of Western economies (which we have been told by Washington Mr Shultz will particularly wish to discuss during the dinner at No 10);
  - ii) the follow-up to the 'Summary of Conclusions' on East/West economic relations which accompanied the lifting of pipeline sanctions (on which Mr Shultz has now sent a message to Mr Pym);
  - iii) INF/START, particularly how the Alliance should handle the problems associated with the INF deployment;
  - iv) the Middle East.

As regards the first of the subjects, you will be holding a meeting early next week to discuss what should be said to Shultz. Perhaps that meeting could also decide who should prepare briefing for Ministers, and of what kind.

6. If you agree, the FCO will prepare suitable briefing on the other 3 subjects, together with any others which it may be decided to add, consulting other Departments as necessary.

7. Copies go to John Coles, Douglas Wass, Michael Franklin, Peter Carey and Frank Cooper.

*Yours ever*

*Antony*

Antony Acland

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BTC.

MRS. GOODCHILD

DINNER FOR MR. SHULTZ

Would you please invite:

Foreign and Commonwealth Secretary  
Chancellor of the Exchequer  
Sir Robert Armstrong  
Sir Antony Acland  
Sir Oliver Wright  
Me

-----

Mr. Shultz  
US Ambassador  
Three other Americans of their choice  
(FCO will be able to advise in due  
course)

AJR

6 December 1982

PRIME MINISTER

DINNER FOR GEORGE SHULTZ

As you wished, I am arranging for Mr. Shultz to call on you for a tête-a-tête discussion for one hour before the dinner.

Can I suggest the following guest list for the working dinner:-

*p.n.*

*Sir Geoffrey Howe*

Foreign and Commonwealth Secretary

Mr. Shultz

Sir Anthony Acland ✶

+US Ambassador

Sir Oliver Wright ✶

two other members of Mr. Shultz's party

Private Secretary

Private Secretary

*Sir R. Armstrong*

*[Handwritten signature]*

*A. J. C.*

1 December 1982

*[Handwritten initials]*

PERSONAL AND  
CONFIDENTIAL

USA 



10 DOWNING STREET

*From the Private Secretary*

30 November, 1982.

A.J. COLES

f.c.

Visit of Mr. Shultz

I have written separately to Roger Bone to inform him, with regard to his letter of 26 November, that the Prime Minister proposes to give a working supper for Mr. Shultz on Friday, 17 December.

As the Foreign and Commonwealth Secretary knows, Mrs. Thatcher would like to take the opportunity of Mr. Shultz's visit to have some discussion with him about US economic policy in the hope that he will convey to President Reagan the Prime Minister's preoccupations about this matter. Mrs. Thatcher believes (and I understand that Mr. Pym agrees) that this message is best conveyed in a tête-à-tête discussion. I should accordingly be grateful if you could invite Mr. Shultz to call on the Prime Minister at 6.15 on 17 December, with the explanation that Mrs. Thatcher would like a tête-à-tête discussion of economic policy before the working supper. We hope that Mr. Shultz will agree to come alone. (For your own information, we would prefer that no American officials are present.)

Since this matter is of some delicacy, I should be grateful if you and John Kerr, to whom I am copying this letter, could ensure that the fact and purpose of Mr. Shultz's private call on the Prime Minister is not made known beyond Private Offices.

A. J. COLES

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

PERSONAL AND CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

30 November, 1982.

Visit of the US Secretary of State to London

Thank you for your letter of 26 November.

The Prime Minister would like to give a small working supper for Mr. Shultz at 7.15 for 7.30 p.m. on 17 December. She would be pleased if the Foreign Secretary and Sir Anthony Acland could attend. We also propose to invite the US Ambassador.

The Prime Minister would like to use the working supper to discuss, in the main, foreign policy issues. I am writing to Brian Fall separately about another aspect of Mr. Shultz's visit.

I am sending copies of this letter to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

R.H. Bone, Esq.,  
Foreign and Commonwealth Office.

PRIME MINISTER

GEORGE SHULTZ

Please see the FCO letter attached. <sup>-26/11</sup>

You are with British Aerospace for most of the day on 17 December, which is a Friday.

There will be a lot to discuss with Mr. Shultz: Soviet leadership, arms talks, Middle East, Latin America and, most important, U.S. economic policy.

May I suggest that you give a small working supper at 7.00 for 7.30 p.m. (attended by the Foreign Secretary, Sir Antony Acland, the U.S. Ambassador and a Private Secretary). Then at 9.15 p.m. or so (when I know Mr. Pym would like to leave for his weekend), you could have an entirely private talk with Mr. Shultz about U.S. economic policy. The best way of ensuring that the American Ambassador or some other American does not try to insert himself is for us to make it clear in advance that you want this to be private.

Agree that we may make arrangements on the above lines?

I would rather A.S.C.  
 stand with a like-a-like 1 hr ch  
 before choice and then 2 cont.  
not  
 be joined by the others.  
not

29 November 1982



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CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

26 November, 1982

*John Kerr*

Visit of the US Secretary of State to London: 16-19 December 1982

As you know, the United States Secretary of State will be in London from 16-19 December when he hopes to see Mr Pym and the Prime Minister.

Mr Pym plans to offer Mr Shultz some private entertainment, probably a theatre/supper party on the evening of 16 December and to hold official talks with him on the morning of 17 December. I should be grateful to know whether the Prime Minister would also be able to see him on the 17th.

The State Department have told our Embassy in Washington that Mr Shultz is likely to wish to talk to the Prime Minister about the international economic situation, including the GATT negotiations and the general state of Western economies. The talks with Mr Pym will probably also include the follow-up to the non-paper on East/West relations following the lifting of pipeline sanctions, as well as INF and START and the Middle East.

During his visit Mr Shultz will also be involved in a private meeting of US Ambassadors from American embassies in Europe. He will be staying with the American Ambassador.

I am copying this letter to John Kerr at the Treasury and to Richard Hatfield in Robert Armstrong's office.

*Yours ever*  
*Robert Bone*

(R B Bone)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street

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London and Commonwealth Office

London SW 1A 2AH



26 NOV 1982

