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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND PRESIDENT REAGAN AT CAMP DAVID ON 22 DECEMBER 1984 AT 1120 HOURS

Present:

Prime Minister
HM Ambassador, Washington
Mr. F.E.R. Butler
Mr. C.D. Powell

President Reagan
Vice President Bush
Secretary of State Shultz
Ambassador Price
Mr. Macfarlane
Mr. Burt
Mr. Sommer

Strategic Defence Initiative

President Reagan reported briefly on his tête-à-tête with the Prime Minister. He had explained to her the reasons why he had decided that the United States should pursue research on the Strategic Defence Initiative (SDI). We owed it to the present generation to rid the world of weapons of such destructive possibilities as the existing nuclear arsenals of both the Soviet Union and the United States. He quoted from a letter from President Eisenhower: when we have weapons of such destructive power that they threaten to destroy mankind, itself, we have to find a better way to settle disputes.

The Prime Minister gave an account of her report to President Reagan on her discussions with Mr. Gorbachev. She continued that she agreed with President Reagan that it was essential to pursue research on a Ballistic Missile Defence (BMD) system. But if this research reached the point where a decision had to be made whether to produce and deploy weapons in space, very difficult problems would arise. Deployment would not be consistent either with the 1972 ABM Treaty, which was not limited in time, nor with the 1967 Outer Space Treaty.

The former in particular was a keystone of the doctrine of deterrence and of existing arms control arrangements. Deployment of BMD would mean that both Treaties would have to be re-negotiated. The issue of SDI was likely to present itself at an early stage in the US/Soviet talks in Geneva. Her fear was that if the Soviet Union perceived that the United States were intending to acquire a BMD capability, they would insist on acquiring far more offensive nuclear weapons to counter it. This would mean that arms control negotiations were doomed to failure. It would be tragic if a concept whose objective was the reduction of nuclear weapons were to result in an increase of them.

The Prime Minister continued that another consideration was the effect of BMD on the doctrine of deterrence. The fact was that the existence of nuclear weapons had prevented both nuclear and conventional war and had brought Europe an unprecedented period of peace. There was a risk that deployment of a BMD system, particularly a partial one, would be destabilising, would undermine the existing doctrine of deterrence and would increase the risk of conventional, chemical or biological war. The period of transition from deterrence to defence would be particularly risky. Beyond this there were a host of technical ways in which a BMD system could be countered, overwhelmed or knocked out. A pre-emptive first strike against BMD systems would become an attractive option. Moreover any system would have to rely on automatic triggering. This would make crisis management even more difficult.

The Prime Minister acknowledged that we might not be fully informed of all the technical aspects of BMD. She would be happy to learn more. She did not want to find herself in a position at odds with that of the United States. Press stories to this effect were wide of the mark. Equally, it would be a mistake to pre-empt decisions on the SDI until the results of research showed what was actually possible. Otherwise there was a serious risk that arms control negotiations would reach deadlock rapidly and the West would find itself wrong-footed with public opinion.

President Reagan said that the scientists who were working on the SDI had deemed it worth going forward. He acknowledged that the answers to many of the points which the Prime Minister had raised would depend on what the scientists eventually came up with. He recognised that decisions on production and deployment would need to take into account many of the difficulties which the Prime Minister had mentioned. In addition to the arguments in favour of the SDI which he had earlier put forward there was another consideration in his mind: that was the strain which keeping up with the United States would impose on the Soviet Union. There had to be a practical limit to how far the Soviet Government could push their people down the road of austerity. The Russians would face difficult choices. Were they ready to face defence expenditure far greater than the massive effort which they were already making? Or would they prefer to join the United States in substituting Ballistic Missile Defence for offensive nuclear weapons? The United States was not seeking superiority. But equally it would not allow the Soviet Union to have it. The fact was that in recent years the United States had been unilaterally disarming. For instance, President Carter had agreed to cancel the B1 bomber without seeking any counter concession from the Soviet Union. President Reagan continued that Russian scientists had joined the international community in recognising the risk of nuclear winter from the use of offensive nuclear weapons. He believed that realisation of the consequences of such use would bring them to see the SDI in a more favourable light. It would be possible to achieve adequate deterrence with only one third of the nuclear weapons currently available to each side.

The Prime Minister said that she wanted to work out a position on the SDI which she could use publicly to make clear that suggestions of a split between Britain and the United States on the issue were unfounded. There seemed to be several points on which she and President Reagan were agreed: the West was not seeking superiority but balance: that in the light of Soviet research into BMD, it was necessary for the United States similarly to pursue research to preserve

balance: but it was only research which was involved and this did not contravene any treaty: if the stage were reached when BMD appeared feasible there would have, in view of treaty obligations, to be negotiations: in the meantime talks should be renewed with the Soviet Union on the reduction of offensive nuclear weapons.

Secretary Shultz said that the problem went rather wider than the Prime Minister suggested. The conditions assumed at the time of the ABM Treaty and SALT I were not being fulfilled. Instead of the major reductions expected, the Russians had acquired many more offensive weapons than had been foreseen. While the United States had dropped the notion of defence even though it was permitted by the ABM Treaty, the Soviet Union had deployed a defensive system round Moscow and subsequently modernised it. They were now moving to the construction of a large phased array radar which would be in violation of the ABM Treaty. The Soviet Union had invested heavily in defence while the United States had relied on equal offensive strength. There was a real risk that the United States would be left behind on defence. The Prime Minister had pointed out that a BMD system would not necessarily be water tight. He did not dispute this. But even so, if such a system existed, the Soviet Union could not be sure how many of their offensive missiles would be intercepted and destroyed and would not know therefore what retaliatory strength the United States would retain. There was thus a good argument that BMD would enhance deterrence.

The Prime Minister acknowledged this argument but pointed out that deployment of BMD would also put a premium on a pre-emptive strike to eliminate BMD weapons. Despite recent statements casting doubt on the doctrine, she believed that deterrence remained vital. Her fear was that BMD would undermine it.

Mr. Macfarlane said that the Prime Minister had made some well-reasoned criticisms of the SDI concept. But her position rested upon presumption that offensive deterrence could

endure. Analysis of this proposition led one to ask whether it was true. We simply did not have full details of what the Soviet Union was up to, for instance in the development of mobile strategic weapons. There was a risk that the West might be taken by surprise and find the strategic balance upset to its disadvantage well before the end of the century. There were various options in the face of this risk. The United States could build more offensive systems. But this was difficult morally and hard to sell to public opinion. Alternatively, offensive systems on each side could be reduced. This was the preferred option. But the Soviet Union had shown no willingness to negotiate seriously about this during the last four years. The third option was for the United States to defend itself and its allies. The purpose of research into SDI was to discover whether this was possible. The Prime Minister interjected that the question to be answered was whether there was any absolute defence against nuclear weapons. Mr. Macfarlane acknowledged that no perfect defence existed. Nonetheless, he agreed with Secretary Shultz that acquisition of BMD could change the strategic calculus by increasing the risk and uncertainties of a first strike. It could thus add to deterrence. The Prime Minister had suggested that a BMD system could easily be overwhelmed. He had to say that remarkable strides had been made in the technology of space-based non-nuclear systems, including their survivability some of which had become known only in recent months. One had also to consider the costs of trade-offs. It might be cheaper for the United States to put up partial defence systems than for the Soviet Union to acquire the capability to overwhelm them. The Prime Minister said that the implication of this was that the United States was trying to acquire superiority. Any such suggestion would greatly weaken the Alliance's public image. Mr. Macfarlane continued that he did not think that the differences between the British and American positions were very extensive. The United States believed that a space-based defence system could contribute to enhancing deterrence. Equally they recognised that deployment of a BMD system would be a matter for negotiation with the Soviet Union. He also acknowledged that re-orientation of the

United States' strategy towards space-based defence risked de-stabilising the strategic balance, unless it was done in negotiation with the Soviet Union. But he hoped that the Prime Minister shared the view that defence could contribute to stable deterrence.

Secretary Shultz said the point which he had been trying to make was that, by enhancing the survivability of American nuclear systems, BMD could contribute to deterrence. It could leave both sides with a capability to defend themselves if offensive forces were reduced. The Prime Minister asked whether BMD would be operative against Cruise missiles. Mr. Macfarlane said that the short answer was that it would.

The Prime Minister emphasised again that she was anxious to avoid any impression of a split in the Alliance on this issue. She would ask her officials to draw up a statement which she could use at her subsequent press conference which she hoped the President would approve. The text subsequently approved and used by the Prime Minister is attached to this record.

Civil Aviation

The Prime Minister said that she had been immensely grateful for the President's courageous decision to drop the indictments over Laker and was very relieved that the press reception of his decision had been favourable. But she wanted to explain the problems which remained for the British Government. We had been negotiating with the US Administration in October new arrangements for competition and deregulation, which both sides wanted, in return for legislation to remove liability to private triple damage suits against our airlines. Following the President's decision, the US side had ended these discussions and the British Government was faced with two major difficulties. One was that we had been hoping to implement the denationalisation of British Airways early in the coming year. All the preparations had been made, and our financial projections contained provision for substantial receipts. Because of the liability to triple damages there was no possibility of proceeding within the timescale originally proposed. Second, the prices which were the subject of the anti-trust actions had been approved by both the CAB and CAA under the Bermuda Agreement. We thought that, in circumstances where there was a conflict of domestic laws, the Bermuda Agreement ousted liability to triple damages. But she understood that the Agreement did not have treaty status and that the US authorities did not regard it as overriding liability to triple damages. As a consequence, British airlines, who had no right to provide services within the United States, were faced with substantial difficulties on transatlantic services and there was no satisfactory framework for discussing competition and liberalisation.

President Reagan said that there had been a procedure in place for fifteen years which had effectively prevented anti-trust suits. Unfortunately, it had not been followed in the current cases. In present circumstances, he saw no realistic prospect that Congress would pass legislation to remove liability to anti-trust actions. The Prime Minister commented that the arrangements for avoiding anti-trust

actions had been followed in the case of the recent negotiation of winter fares and had taken three months. They would not result in less regulation and greater competition: indeed they would make them more difficult.

Continuing the discussion over pre-lunch drinks, Ambassador Price said that, during the negotiations of Bermuda 2, the British had asked for a specific provision for exemption of tariff discussions between airlines from the anti-trust laws and this had been rejected: indeed Article 12.4 of the Agreement contained a specific reference to anti-trust legislation. He also suggested that the UK Government could overcome the difficulties in the way of denationalising British Airways by granting an indemnity in respect of the triple damage suit.

The Prime Minister, concluding this part of the discussion at the working lunch, said that she hoped that there could be further discussion of these matters. In her view the present arrangements left the British airlines in an unacceptable position and obstructed the cause of competition and deregulation, as the British Government's difficulties over the denationalisation of British Airways illustrated.

United States Economy

President Reagan pointed out to the Prime Minister that the United States discount rate had just been reduced to 8%, the lowest in six years, and the prime rate was bound to come down in consequence. The US Administration would be announcing an austerity spending plan under which it hoped to hold cash outlays in FY86 at the same level as those for FY85. This was expected to bring the budget deficit down to 4% of GDP. In the two subsequent years the Administration hoped to reduce this percentage to 3% and then to 2%. At this point, when account was taken of the States' local surpluses currently running at \$58 billion, the budget should be approximately in balance.

The Prime Minister welcomed the fall in US interest rates and expressed her admiration for Mr. Volcker. She also welcomed the Administration's efforts to reduce the deficit. She recalled the Budget deficit in Britain had risen to an alarmingly high proportion of GDP in the mid-70s. In consequence, the proportion of the UK budget which had to be devoted to debt interest was very high when her Government had taken office. This was one of the reasons why it had been essential for the British Government to reduce the deficit. There was always a danger that, if a socialist government were elected again in Britain, the deficit would increase. This vulnerability to socialist policies was one of the reasons why Europe did not attract the same financial confidence as the United States. At present the majority of countries on the southern flank of the European Community had socialist governments, although not all of them were pursuing unsound budgetary policies. President Reagan agreed. Between 1965 and 1980 the US budget had increased 4½ times but the deficit had increased 38 times. There had been deficit spending over the last 50 years in the United States and for almost all of them Congress had had Democratic majorities. When he had been Governor of California, he had succeeded in reducing welfare payments by mobilising the private sector to find jobs for the unemployed. There were plenty of alternatives to

unemployment. He quoted Milton Friedman's remark: "if you pay people to be poor, you will get a lot of poor people". He always watched carefully the pages of job advertisements: in Washington he had recently counted 43 pages of such advertisements in one edition of the newspapers and in Los Angeles 69 pages.

Middle East

The Prime Minister said that she had recently seen King Hussein. He had been pleased with the outcome of the Palestinian National Council (PNC) meeting in Amman. The new PNC was more moderate and included two West Bank Mayors. King Hussein's objective appeared to be to get the PNC to accept Security Council Resolution 242 as the basis for a settlement. She had made clear to King Hussein that his idea of an international conference on the Middle East was not helpful. The Prime Minister continued that King Hussein and the Saudis would ask her whether the President intended to take a new Middle East initiative. Time was short and it was important that such an initiative should be taken rapidly before electoral considerations again came into play and while Peres was still Prime Minister of Israel.

President Reagan said that it was his firm intention to press ahead with his initiative. He was anxious to see progress in the Middle East. He regretted the problems which had arisen between the United States and King Hussein: the fact was that the Congress would not approve supply of the sort of weapons which the King wanted. He recognised the importance of securing the co-operation of moderate Arab states for any peace moves. There had been encouraging developments and he expected Iraq to restore diplomatic relations with Egypt. He would be seeing King Fahd soon. He did not wish to impose any plan. American ideas were based firmly on Security Council Resolution 242. He agreed with the Prime Minister that the prospects of progress were better with Peres than they had been with Shamir.

The Prime Minister commented that it was a positive development that the moderate Arab countries were now more united while the extremists were at odds with each other. Secretary Shultz agreed with this. But the fact was that Peres had many problems of which the most pressing were to extract Israel from the Lebanon and to restore the Israeli economy. He would have to achieve these two objectives first if he was to rally sufficient support in the country for progress towards a peace settlement. This should be based on Security Council Resolution 242 modified to take account of Israel's security needs. Meanwhile, Peres was committed to working with the United States on a programme to improve the quality of life on the West Bank. The Prime Minister said that this seemed to imply that progress towards a peace settlement was in suspense. Secretary Shultz said that this was not so. It was apparent from the discussions which Mr. Murphy was holding in the Middle East that the centre of gravity remained the President's September 1982 initiative. The United States was reassuring its friends that it would stand by that initiative and work with moderate Arab governments to make progress. The Prime Minister commented that the situation on the West Bank was very bad. The Israelis had done nothing to improve conditions. She hoped that the US Administration would keep up the pressure on them. Secretary Shultz admitted that the American programme for improving the quality of life had not yet had much success. But they hoped shortly to establish an Arab Bank on the West Bank. More generally the prospects were better under Peres than with the previous government. President Reagan said that Peres did not believe in the policy of settlement on the West Bank. Secretary Shultz continued that the Palestinians were not, in relative terms, badly off. But as their well-being increased their capacity to control their lives had deteriorated, and this was the main source of their dissatisfaction.

Secretary Shultz continued that the Americans were very active in trying to help Israel leave Lebanon. The Israelis had shown flexibility but the Syrians seemed not to want negotiations to take place. The Naqura talks had not achieved very much. The Israelis wanted to leave Lebanon on a

negotiated basis if possible. But if they could not do so they would withdraw unilaterally and take their own security measures in South Lebanon. This would probably include keeping a salient of territory, continuing to sponsor^a Lebanese militia in South Lebanon and conducting their own patrolling. The result of Israeli withdrawal under these conditions was likely to be a renewed violence between Lebanese. UNIFIL could make a useful contribution to avoiding this. President Reagan added that the Soviet Union was to blame for restrictions imposed on UNIFIL.

President Reagan expressed gratitude for the UK's prompt response to his request to position an assault force in Cyprus during the recent hijacking of a Kuwaiti aircraft. It was a pity that there had not been a chance to use it.

Famine in Africa

The Prime Minister gave President Reagan a brief account fo the United Kingdom's contribution to famine relief in Ethiopia. President Reagan said that he had recently had a graphic account of the appalling conditions in that country. The United States had also made great efforts to help both as a government and through the private sector. They were now seeking authority for a military airlift. It was important to expose publicly the very limited contribution made by the Russians. The Prime Minister agreed. She added that it was important to let it be known publicly that she and President Reagan were taking a close interest in the dreadful problem of famine in Africa.

Central America.

The Prime Minister referred to the recent elections in Belize. She expected the new Prime Minister to maintain the policies of his predecessor. He clearly wanted Britain to help its forces in Belize and we would do so. President Reagan said that the United States remained greatly concerned by the situation in Nicaragua. A former member of the

Sandinista Government had described Nicaragua as an occupied country. The size of Nicaragua's armed forces was extraordinary. If one applied the same ratio to the population of the United States, the figure would be some 25 million. Similarly, the number of Cuban military advisers would, proportionately be 300,000, with several hundred thousands advisers from other Soviet bloc countries. The Prime Minister commented that the Soviet Union appeared to becoming bolder. She understood that previously Soviet ships had not delivered weapons to Nicaragua but now they were doing so. President Reagan said that the Americans honestly did not know whether Nicaragua had received Soviet MIGs or not, although they remained suspicious.

Anglo-Irish Relations

The Prime Minister said that she just wished to let the President know that she and Dr FitzGerald were on very friendly terms and would continue their discussions on Northern Ireland early in the New Year. President Reagan commented that what the Prime Minister had said would be very helpful to him. He had received a letter from Mr. Tip O'Neill asking him to appeal to the Prime Minister to be reasonable. From what she had just said it was apparent that she was being reasonable.

Terrorism

The Prime Minister said that she was very grateful for the excellent co-operation between Britain and the United States in this area. She understood that the declaration which had been agreed at the Economic Summit was still not fully operative and that the French were proving difficult. Secretary Shultz said that a technical group was to meet shortly in Bonn. He hoped that this would provide the basis for a fuller discussion by Foreign Ministers at the Bonn Economic Summit. President Reagan said that it was important to keep a careful eye on Iran's handling of the forthcoming trial of the hijackers of the Kuwaiti aircraft, to make sure

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that they did not get out by the backdoor. The Prime Minister commented that she suspected there had been a degree of Iranian connivance with the hijackers.

Prime Minister's Visit to Washington next year

President Reagan said that his people were working on plans for the Prime Minister's visit to Washington in February and that he was looking forward to seeing her then.

C.D.P.

23 December 1984

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND PRESIDENT
REAGAN AT CAMP DAVID ON 22 DECEMBER 1984 AT 1030 HOURS

Present:

Prime Minister
Mr. C.D. Powell

President Reagan
Mr. P. Sommer

The Prime Minister congratulated President Reagan on his famous election victory and expressed her pleasure that he had kept most of the team from his first Administration. This would ensure continuity. President Reagan agreed that it had been a good idea, although some people had thought differently.

President Reagan commented that the Prime Minister had had an exciting time over the past few days. He would be grateful for an account, particularly of her meeting with Mr. Gorbachev. The Prime Minister said that Gorbachev was an unusual kind of Russian. He was less constrained in what he said than other Soviet leaders whom she had met. He had a considerable amount of charm. He spoke with authority. He did not stick to prepared statements but was able to discuss and debate easily. He was prepared to have points raised with him which, in her experience, would offend other Soviet leaders. He had a delightful wife.

The Prime Minister continued that she had tackled Gorbachev over lunch on the subject of emigration from the Soviet Union. Gorbachev had claimed that 89 per cent of those who had applied to leave had received permission to do so. The Prime Minister said that she did not believe this. President Reagan did not either. The Prime Minister continued that she had made clear to Gorbachev that in her view it was a sign of the weakness of the Soviet system to have to keep

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people in. She had also raised with him the fact that the Soviet Union had been supplying assistance to striking miners. President Reagan commented that this was a case of the sort of interference in internal affairs which the Soviet Union was always very quick to complain about. The Prime Minister said that she had also tackled Gorbachev on Soviet support for Communists in British trade unions. Gorbachev had replied in effect "your Communists are nothing to do with us". Their discussion had moved on to the Soviet economic system. Gorbachev had made plain that he was in favour of some decentralisation of government powers and was interested in the economic reforms being pursued in Hungary. The Prime Minister said that she had replied that the essence of a free society was not delegation of central government powers but limitation of government itself. She thought that no-one had spoken to Gorbachev in this fashion before and it had been salutary for him. But he had taken it in good part.

The Prime Minister said that she had told Gorbachev explicitly that there was no point in the Soviet Union trying to divide Britain from the United States in any way. They would never succeed. It was not just that Britain was part of the Western Alliance. We also had very special ties with the United States. But she had gone on to suggest that the Soviet Union and the West shared a number of common interests, for instance the avoidance of conflict and the improvement of contacts in order to build confidence. Each side was entitled to security which meant that there must be a balance of forces and armaments and that balance must be verifiable. Her main task had been to persuade Gorbachev that the United States was sincere in wanting arms reductions. The Prime Minister gave the President a detailed account of her remarks to Gorbachev on this point.

President Reagan said that what the Prime Minister had said to Gorbachev was very much on the same lines as he had followed in talking to Mr. Gromyko. He had pointed out to Gromyko that the Soviet Union and the United States each perceived themselves to be under threat from the other and

therefore needed to establish mutual confidence. He had referred to Chernenko's statement that the world would be better off with no nuclear weapons and challenged Gromyko to discuss how to give effect to this goal. President Reagan continued that his fear was that the Soviet Union, having lost the propaganda battle on arms control the first time round, was now trying to exploit the issue of weapons in space to gain a propaganda advantage. They might be planning to walk out of the Geneva negotiations on this point.

President Reagan, speaking with notable intensity, said that he wished to explain personally to the Prime Minister his thinking on the Strategic Defence Initiative (SDI). At present the only defence against nuclear weapons was retaliation with nuclear weapons which meant killing millions of people. He had therefore asked the question whether it was possible to find a weapon that would destroy other weapons rather than people. The Joint Chiefs of Staff had agreed that this question ought to be studied. As a result research into Ballistic Missile Defence was now being conducted. This would be a defensive system. If it was successful it could lead to the elimination of nuclear weapons. It would also offer protection if some mad man such as Gadaffi were to acquire nuclear weapons. It was not his intention to obtain for the United States some unilateral advantage. If the SDI concept succeeded, he would be ready to internationalise it so that it was at the service of all countries. He had told Gromyko this. Research to date had indicated that his goal was attainable. He wished to emphasise that the United States was not violating the ABM Treaty through its research programme. He saw negotiations on reduction in offensive nuclear weapons proceeding in parallel with this research. These should start with equal and verifiable reductions. But it was his long-term goal to get rid of nuclear weapons entirely.

The Prime Minister said that she agreed that the President had been right to go ahead with research on the SDI. She had told Gorbachev this. She had pointed out to him that the Russians had been the first to acquire an ASAT capability

and that they must expect the Americans to match it. She also believed that the Russians had been doing extensive research on lasers and directed energy weapons. If they were to get ahead in this area, the strategic balance would be put at risk. However, looking further ahead, she foresaw grave difficulties with the deployment of Ballistic Missile Defence. In practice she believed that it would be too easy to neutralise or overwhelm such a system. President Reagan suggested that they should continue their discussion on this point in a wider circle.

The meeting ended at 1115 hours.

C.D.P.

22 December 1984