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SUBJECT
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SUMMARY OF RECORD OF PRIME MINISTER'S MEETING WITH SENATOR DOLE AND OTHER US SENATORS: 20 FEBRUARY, 1985 AT 3.45 PM

Present:

Senator Dole (R- Kansas)	Prime Minister
Senator Simpson (R-Wyoming)	Foreign and Commonwealth Secretary
Senator Goldwater (R-Arizona)	HM Ambassador
Senator Danforth (R-Missouri)	Mr. Alison
Senator Lugar (R-Indiana)	Mr. Powell
Senator Hatfield (R-Oregon)	Mr. Ingham
Senator Wallop (R-Wyoming)	Mr. Hannay
Senator Warner (R-Virginia)	Mr. Pellew
Senator Byrd (D-West Virginia)	Mr. Sheinwald
Senator Cranston (D-California)	
Senator Nunn (D-Georgia)	
Senator Long (D-Louisiana)	
Senator Pell (D-Rhode Island)	
Senator Hollings (D-South Carolina)	

1. After being welcomed by Senators Dole and Byrd, the Prime Minister said that in her speech to the Joint Meeting she had wanted to thank America for keeping freedom alive in the world. Britain too was living up to her responsibilities, including out of area, and there was fundamental approval in Britain for what the Americans were doing. On East/West relations and arms control, we believed that research was essential in order to maintain deterrence. We strongly supported SDI research - and indeed hoped that our own industries would share in it. But there was an immense gap between research and deployment. The latter could only take place by negotiation. Meanwhile Cruise and Pershing deployments in Europe must go ahead, and Britain was committed to updating Polaris with Trident. The Alliance was facing a

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difficult public relations battle with the Soviet Union, who found it hard to understand that we genuinely wanted reductions in nuclear weapons. If talks were to succeed, it was important that we should get to know the Soviet leaders better.

2. On the international economic situation, the Prime Minister said that all democratic governments were facing similar problems. In the UK we were keeping our budget deficit within bounds by orthodox financial management. She shared the Administration's view that a vigorous society could not be built on higher taxation. But the size of the US deficit and the strength of the dollar were causing us problems.

3. Senator Goldwater agreed that we needed to get to know the Russians better. They were not historically a warlike people. Many of the younger generation of Russians were unhappy with their economic plight. The Prime Minister commented that the Soviet system was rigid and unadaptable. Their standard of living could only be raised by relaxing the grip of Communism. The Chinese, on the other hand, were adapting. The UK was trying to get to know both countries. We had had a successful negotiation with the Chinese over Hong Kong. Senator Pell asked for the Prime Minister's views on how to improve communication with the Soviet bloc. The Prime Minister said that she had gone to Hungary first, and Sir Geoffrey Howe had been busy visiting other East European countries. There was a new generation of Soviet leaders coming forward, and we had found Gorbachev surprisingly open to dialogue during his visit to London in December. We were hoping to build on this with further ministerial visits in both directions.

4. Senator Nunn said that the US was well aware of Britain's contribution to defence, including out of area. Unfortunately not all the European allies were doing as well. The Prime Minister pointed out that there was no provision in the North Atlantic Treaty for the allies to act out of area. Germany,

for example, was precluded from doing so. Yet she was a staunch Alliance member, and her soil would be fought on in any war in Europe. Senator Hatfield thanked the Prime Minister for her remarks about the European contribution to defence. We should get away from the idea of a bi-polar US/Soviet world. The Prime Minister commented that Europe was part of the Western Alliance. It was important for the future of democracy to bring Spain and Portugal into the European Community. Senator Hollings referred to the frustration in Congress that some Western Allies (he mentioned the Netherlands and Belgium) were not playing their full part. The Prime Minister said that European heads of government were in very close touch with each other. The Dutch had moved in the right direction on INF deployment, and she was confident that the Belgians would do so too. Prime Minister Martens had a difficult coalition to manage, but he was doing everything he could.

5. Senator Lugar asked about the problems of unemployment in the UK. The Prime Minister said that we had created 350,000 new jobs last year. But unemployment still had risen. There were many factors involved, such as the number of married women coming on to the job market, more school-leavers, and the impact of new technology on industries which had long suffered from restrictive trade union practices. We had not yet recaptured the spirit of enterprise which was prevalent in America. Senator Long asked about UK experience of corporation tax reform. The Prime Minister said that there had been too many reliefs in our tax structure. We had tightened our depreciation provisions and reduced corporate tax rates.

6. Senator Danforth referred to the US's \$123 billion trade deficit. How could the US resist protectionist pressures, especially as regards trade with Japan? He also wondered what action could be taken on exchange rates. The Prime Minister said that there was a cultural problem with Japan. We had to persuade them voluntarily to limit their exports, while keeping up the pressure on them to open their own markets. It

was important to avoid protectionist solutions: that was why she supported President Reagan's call for another GATT round. As regards exchange rates, UK industries had been forced to be competitive when exchange rates were unfavourable to them. If intervention was required, it should be done by the G5 countries acting together.

7. Other Senators spoke only to congratulate the Prime Minister on her speech. Senator Dole closed the meeting at 4.50 pm.

6 March, 1985.