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10 DOWNING STREET

THE PRIME MINISTER

11 June 1985

Dear George,

I was very pleased to see you on Friday and as always found our talk of the greatest interest and use. It was most kind of you to send me the bookends which are most handsome: thank you very much.

With best wishes.

Yours

Raymond

The Honorable George Shultz

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10 DOWNING STREET

From the Private Secretary

7 June 1985

Dear Len,

PRIME MINISTER'S MEETING WITH SECRETARY SHULTZ ON 7 JUNE

The Prime Minister saw Secretary Shultz this evening for one and a half hours. Secretary Shultz was accompanied by the United States Ambassador and by Mr. Burt.

MIDDLE EAST

The Prime Minister said that she had been grateful for President Reagan's message about his meeting with King Hussein (of which I enclose a copy). She had found the tone of the message rather optimistic. She had also found the King much encouraged by his visit. She then gave Secretary Shultz an account of her meetings with Mr. Shamir and with King Hussein. The Prime Minister said that King Hussein had pressed her to accept a visit to the UK by a Jordanian/PLO delegation in advance of Ambassador Murphy's meeting with a Jordanian/Palestinian delegation in Amman. She had told him that this would require careful thought. Those who took part would have to be ready publicly to accept UN Security Council Resolutions 242 and 338. They must also have publicly rejected terrorism. She was particularly concerned about the timing of any visit. It seemed to her a second step rather than a first; and taking it now might jeopardise the first step, Ambassador Murphy's meeting with a Jordanian/Palestinian delegation in Amman.

Secretary Shultz said that he thought that the Prime Minister was absolutely right. King Hussein had never mentioned this particular step during his discussions in Washington. His Foreign Minister had subsequently given a press interview alleging that there had been agreement on a whole series of meetings which would in fact be totally unacceptable to Israel and to the United States. One had to consider carefully the political realities. Before there could be a meeting between a Jordanian/Palestinian delegation and Israel, there would probably have to be an election in Israel. If the issue in that election was: who is prepared to meet the PLO and who not, the nays would have it. As far as Israeli opinion was concerned, the PLO was still deeply implicated in violence and terrorism; and indeed there was good evidence for this. If the issue was instead: who will make peace with King Hussein, it was quite possible that those advocating this step would win. It was

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JB.

important also to see the process not as one leading to US recognition of the PLO but as a series of steps towards direct negotiations with Israel.

Secretary Shultz continued that it was essential to move King Hussein away from his insistence on an international conference. We needed to think of other ways to provide an umbrella for direct negotiations between a Jordanian/Palestinian delegation and Israel. There would be widespread support for what the King was doing, both in Europe and elsewhere. The only question was how to provide a formal structure for that support. There were a number of ideas already in the air such as holding the opening session of negotiations on United Nations premises in Geneva. What King Hussein needed basically was risk assurance, something to convince him that he had the solid support of a large number of friends. The United States Administration, for its part, would do its best to get an arms package for Jordan through Congress although it would be a hard fight.

The Prime Minister said that the support which King Hussein was seeking from the United Kingdom was to receive the PLO. Secretary Shultz said that such a meeting would fuel Israeli fears that once the PLO had achieved legitimacy it would lose interest in direct negotiations. He accepted that the PLO would have to be involved eventually in peace negotiations. The Israeli imperative was that the PLO should not be present at the beginning of negotiations; King Hussein's imperative that the PLO should be there at the end. It should be possible to find a formula which would meet the needs of both. Secretary Shultz continued that, when he had seen King Hussein in Aqaba, he had persuaded him of the merits of setting up a working group below Ministerial level comprising two Israeli representatives, two Jordanian/Palestinian representatives and participants from Egypt and the United States. The group's purpose would be to develop the agenda and modalities for direct negotiations. There were attractions in it for both Jordan and Israel. Unfortunately, Zaid Rifa'i had argued the King out of it.

Secretary Shultz said that he was pleased to find that Britain and the United States agreed in rejecting King's Hussein's concept of an international conference. He thought there was also agreement that it was too soon to be thinking of direct meetings with the PLO. In his view, such an event might jeopardise both the proposed US meeting with a Jordanian/Palestinian delegation and the chances of Peres' re-election. The Prime Minister said that she would need to think through very carefully how to reply to King Hussein. She would send the President a message giving an account of her talk with the King and seeking his views.

SALT II

The Prime Minister said that she knew that President Reagan faced a difficult decision on whether to continue to observe SALT II constraints. Her strong and instinctive

view was that it was vital for the most important country in the world to be seen to adhere to treaties. She recognised the difficulties created for the President by Soviet breaches of SALT II, though there was some dispute as to how significant these were. She understood that one solution being considered was to mothball a Poseidon submarine rather than dismantle or destroy it altogether. Even this would risk setting off a chain reaction whereby the Soviet Union also failed to dismantle submarines or silos, though she could understand that the President might well come to the conclusion that this was the least he could do. But she came back to the point that it was best for the United States to retain the moral high ground and preserve the West's reputation for keeping the agreements which it signed. Secretary Shultz said that the United States took a serious view of Soviet breaches of its arms control agreements, in particular the development of the mobile SS25, the encryption of telemetry and the construction of the Krasnoyarsk Radar, which in the United States' view was a step towards an ABM system giving national coverage. He would report the Prime Minister's views but they would have even more effect were she to send a personal message to President Reagan. To influence his decision, it would have to be despatched the same evening. The Prime Minister undertook to do this.

EAST-WEST RELATIONS

The Prime Minister gave Secretary Shultz an account of her discussions with Premier Zhao Ziyang. The Premier had given the clear impression that, while trade between China and the Soviet Union would increase, there was no question of normalising relations.

Secretary Shultz said that he was impressed by the speed with which Mr. Gorbachev had moved to consolidate his position and place his own nominees in the Politburo. He thought that there had been a genuine change of generation in the Soviet leadership.

Secretary Shultz continued that the arms control discussions in Geneva had not so far been a serious negotiating process. They would continue not just at Geneva but whenever he and Gromyko met. Gromyko would be coming to the United Nations in September and had been offered a meeting with the President in Washington. It remained to be seen when and where a summit meeting would be held. It was by no means out of the question that it would take place by the end of the year. The Soviet side seemed to be more concerned about the where than the whether. The Soviet Union would undoubtedly mount a considerable propaganda effort before such a summit. The United States must have the coolness and willpower to brush off unsatisfactory proposals.

ECONOMIC QUESTIONS

Secretary Shultz said that the US economy was going through a soft period but was not stagnating. The money

supply figures were good. Interest rates were dropping, indeed the Treasury Bill Rate had gone below seven per cent. Markets were convinced that inflation would remain low. He remained concerned about the international debt problem. An evolution of attitudes was needed which maintained IMF conditions on austerity while insisting on measures which promoted growth. It might be argued that the two were not consistent but in fact they were. For instance Mexico could achieve much higher growth by reducing the extent of state ownership. The necessary remedies had been set out in various Economic Summit conclusions.

The Prime Minister and Secretary Shultz had a brief discussion of the prospects for the United Kingdom economy.

I am copying this letter to Richard Mottram in the Ministry of Defence and to Richard Hatfield in the Cabinet Office.

Yours sincerely
C. D. Powell

(C.D. POWELL)

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

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PRIME MINISTER

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MEETING WITH MR. SHULTZ

The attached briefs are rather turgid. The main issues which I think you will want to raise are the following:

(i) SALT II Constraints

The President will decide this weekend how the United States should respond to what it perceives as Soviet breaches of SALT II. The line taken by European Foreign Ministers (including ours) in Lisbon is that the United States should stick to the letter of SALT II. At most it might increase funding for areas of United States defence spending which match areas where the Soviet Union is in breach of SALT II constraints. I doubt that this is realistic: there will be little support in Washington for a holier-than-thou attitude. The most realistic of the options seems to me the one where, as they deploy a new Trident submarine, the Americans mothball a Poseidon submarine. This would put them in breach of the strict letter of SALT II, but in practice could hardly be regarded as a breach so long as the Poseidon submarine stayed mothballed. But it would be sufficient to give a clear signal to the Soviet Union that they could not mess about with the United States and get away with it. One has to recognise, however, that even this will be only a temporary measure. The real test comes when the United States has to decide, probably in 1987, whether to deploy a new ICBM (the Midgetman).

(ii) The W79 Nuclear Artillery Shell

The more one looks at this the less advantage there seems to be in making a great fuss. So far as I can see, we think that deploying the shells is a good idea. And we expect our own short-range nuclear

weapons to be modernised with them in due course. It all depends on whether one thinks that the Americans are bound to get Alliance permission to deploy the shells in each country: or whether the permission of the country itself is enough. There may have been some misunderstanding on this, as a result of which MOD Ministers have got themselves into a false position. But it is not worth a great row. The best thing would probably be to get the Americans to agree that a collective decision confirming deployment of the W79 shells in West Germany should be taken as soon as possible.

(iii) Middle East

You will want to tell Shultz about your talks with Shamir and King Hussein, express pleasure at the President's determination to press ahead along the path outlined in his talks with King Hussein and urge the Americans to keep up the momentum.

(iv) South Africa

You will want to get his direct assessment of what the US Administration can do to block or delay Congressional pressure for economic restrictions/sanctions.

If there is time you may also want to raise the SDI, though I am not sure that there is a great deal new to say just at this stage; and EC/US trade issues.

C.D.P.

6 June 1985

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Foreign and Commonwealth Office

London SW1A 2AH

6 June 1985

For Charles,

Prime Minister's meeting with Mr Shultz: 7 June

I enclose a steering brief for the Prime Minister's meeting with Mr Shultz at 1845 tomorrow, 7 June. Mr Shultz will be accompanied only by the US Ambassador. We shall ensure that you see promptly the telegrams reporting the outcome of the North Atlantic Council meeting.

Annexed to the steering brief is a background note on compliance and SALT constraints. You will also have seen Lisbon telegrams 288 and 291 on the Foreign Secretary's various discussions with Mr Shultz on arms control in Lisbon yesterday. The White House has now announced that President Reagan will be considering the SALT II question this weekend and that he might take a decision on 10 June. The Foreign Secretary has made it clear to Mr Shultz that the Prime Minister would want to make her views on SALT constraints known to Mr Shultz tomorrow before any final decision was taken in Washington.

Mr Shultz is visiting London from 7-8 June to attend a US Heads of European Mission Conference. Before returning to Washington he will pay an informal visit to Bermuda on 8-9 June where he expects to call on the Governor and Prime Minister. A number of leading US arms control figures will also attend the US Heads of Mission Conference here, including Mr Kampelman and General Abrahamson. General Abrahamson will meet Mr Heseltine on 7 June.

The Foreign Secretary's lunch with Mr Shultz in Lisbon focused on aspects of SDI, Alliance handling of arms control, SALT II constraints, W 79 nuclear shells, Middle East, Southern Africa and, at Mr Shultz's request, an outline briefing on the progress of negotiations with the Irish Government. The enclosed brief reflects the outcome of this meeting where appropriate.

I am sending a copy of this letter and enclosures to Richard Hatfield in the Cabinet Office.

Yours ever,

(P F Ricketts)
Private Secretary

P F Ricketts

C D Powell Esq
10 Downing Street

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PRIME MINISTER'S MEETING WITH MR SHULTZ : 7 JUNE

OUR OBJECTIVESArms Control/Alliance

- (a) To caution against exceeding SALT constraints or damaging ABM Treaty;
- (b) To reaffirm HMG's approach to SDI as based on Camp David Four Points;
- (c) To emphasise need for full consultation and allied cohesion on SDI research, Geneva negotiations and nuclear modernisation.

East/West

- (d) To stress the need for Alliance to stick consistently with its present policies, and to minimize opportunities for Soviet wedge-driving.

Trade Issues

- (e) To persuade Shultz to bring home to Cabinet colleagues danger of intrinsically minor trade disputes escalating into major political problems;
- (f) To stress the need to preserve climate in which EC and US work together in preparation for new GATT round, eg by co-ordinating line on problem of Japanese trade surpluses;
- (g) Reiterate concern that adequate measures taken on Federal Budget deficit; re-emphasise international implications.

Southern Africa

- (h) To stiffen the Administration's opposition to sanctions;
- (i) To urge importance of progress on Namibia in advance of CHOGM.

Middle East

- (j) To brief Mr Shultz on meeting with King Hussein;
- (k) To convince US of need to do more to support the King;
- (l) To stress UK wish to work with US.

YOUR ARGUMENTSArms Control/Alliance

(a) SALT II constraints: Our joint objective must be to maintain of Alliance cohesion over Geneva. Need to minimise Soviet scope for wedge driving between European opinion and Governments, and latter and US.

In wider political and strategic terms, the decision now facing President Reagan could be watershed for arms control. Important not to undermine arms control process, unravel existing regime.

US strategic modernisation necessary. But are not qualitative improvements more important than numbers or retention of older systems? Not clear what would be gained from abandoning constraints in terms of US and Western security. And political penalties could be great.

Recognise concern within US Administration that Russians may be exploiting ambiguities in SALT II and ABM Treaty viz Krasnoyarsk. Foreign Secretary has raised this with Gromyko.

Dangers of answering one breach with another. Right response would be to strengthen Western position and public support for it, by an unimpeachable record on respecting arms control obligations and commitments. We should retain moral high ground.

At the very least, Administration's decision should be as close to strict US adherence to SALT II constraints as possible. Interested in option of increased funding of US programmes relevant to Soviet violations. A realistic approach? Attractive if seen as means of avoiding US violation.

"observe the present constraints"



(b) SDI: In longer term equal importance attached to maintenance of ABM Treaty regime. Hence earlier suggestions, which still favour, for high-level US-Soviet reaffirmation of commitment and clarification of ambiguities.

No change in UK basic position on SDI (as made clear in my letter of 21 March to President Reagan): Camp David Four Points remain sound basis for future policy.

[If time permits] (i) Superiority in nuclear age unattainable, balance agreed and sound objective.

(ii) Should not prejudge decisions about deployment. Welcome President Reagan's commitment in Strasbourg that these (if/when needed) should be discussed and negotiated with Allies/Russians.

(iii) Enhancement of deterrence key aim. For foreseeable future, will be synonymous with effective offensive capability.

(iv) Offensive force reductions first priority at Geneva. But logical interrelationship (as noted in January communique and earlier US statements) with space/defensive systems underlines need for strong and coherent Allied position on which we can all unite.

Meanwhile, US research essential counterbalance to Soviet efforts. Anxious for UK to enjoy full and fair share in this; will respond formally to Weinberger offer as soon as details clarified.

(c) Geneva: Alliance Consultation: Our aim is to give maximum backing to US and show Soviets that a wedge-driving approach will not work. Meanwhile we should consider among ourselves how best to get them to start talking seriously, and ideas to deploy when they do.



All these things hang together as central challenge of Alliance management - Geneva - compliance/restraints - SDI - modernisation (especially proposals in SACEUR's report on Alliance shorter range INF). Consistency and genuine consultation on whole range necessary vis a vis Russians and public opinion. If each is treated piecemeal, task will be very difficult. W79 a good example - decision is right; handling unhelpful. If support for further modernisation is to be created, must do better.

(d) East/West

Gorbachev seems strong leader. But focus on internal problems. Gromyko still manager of foreign policy? Certainly strong sense of continuity so far. Few signs of major initiatives. Emphasis on propaganda; Russians working hard to create cracks in Alliance; West must show consistency, patience, firm resolve. Council to maintain closest co-ordination in NATO.

(e) Trade Issues

Know that US Administration want to resist protectionist pressures. But confrontations with EC on major areas (steel, agriculture) will damage Western solidarity generally and jeopardise our ability to work together in preparing for new GATT round.

US Administration and industry see each problem as separate: but Europe sees US action as a whole - hence possibly disproportionate political effect and need to manage carefully.

(f) Can still achieve desired objective of early launch of new GATT round if we persuade all concerned they have an interest. We and Commission now lobbying key NIC/LDC GATT Contracting Parties. Understand US are too: useful for officials to exchange notes.

Must all sustain political pressures on Japanese to reduce trade surpluses. Recognise that US trading interests are distinct from EC's. But Japanese problems affect viability of open trading system: important part of new GATT round. EC and US need to co-ordinate approaches in multilateral fora (without 'ganging up').



(g) Welcome recent lowering US interest rates, but outlook still uncertain given large Federal Budget deficit and current account deficit. Dollar has weakened but still too high.

US growth so far this year slowed sharply, with still buoyant demand met largely by imports, strengthening protectionist pressures. Shultz view of prospects?

All issues - interest rates, dollar exchange rate, trade deficit - hinge on action on Federal deficit. Encouraged by Administration's determination for real reduction; must maintain.

Interested in plans to reform US tax system. Endorse objective of more efficient, less distorting system, but hope does not produce loss of revenue as Federal deficit first priority.

Despite general improvements in world economy, position of major debtors still fragile (Brazil, Argentina) and concern that new Peruvian Government may take radical line. Need for continued internal adjustment but also external results - again inextricably linked with US economic policies and performance.

(h) Southern Africa

Sanctions ineffective and against Western interests. Economic destabilisation only in Soviet interest.

(i) Cabinda serious set-back.

Early progress in US-Angola-SA negotiations on Namibia would restore credibility of Western approach, strengthen our hand in UN and CHOGM. Therefore very helpful if Crocker were active in run up to CHOGM.

(k) Middle East

King needs support. Wish to contribute to his efforts and help move peace process forward. Know US shares this objective.



Need for early action: believe reception of joint Jordanian/Palestinian delegation composed of opponents of violence would be helpful.

TACTICAL ARGUMENTS

Arms Control

Continue to reflect on US arguments about deterrence based on defences, not threat of retaliation. But as I said in Parliament in another context on 3 June, see three ways to combat threat of violence: persuasion, prevention and punishment. History and common-sense suggests first two insufficient deterrent, threat of third essential addition.

Trade Issues

US appears to be pressing for confrontation on agriculture, with recent announcement of subsidised agricultural sales under export bonus scheme, targeted to traditional EC markets. All the more vital therefore to avoid confrontations elsewhere (eg for forcing the pace on renegotiations of Carbon Steel Arrangement).

Middle East

UK/Ten moves can help sustain momentum. Risk to Western interests if moderates fail (radicals, Soviets).

HIS OBJECTIVES

Arms Control/Alliance/East-West

(a) To explain US thinking on SALT constraints and explore UK views; to confirm UK support for SDI research; and to urge need for Allied consensus behind US position at Geneva.

Trade Issues

(b) To indicate US impatience with EC failure to reform CAP, scepticism of some Member States on new round (particularly inclusion of agriculture).



To put case for increased demand in European and Japanese economies.

Southern Africa

(d) To explain domestic political difficulties for Administration over sanctions; to seek reassurance of our continued opposition to sanctions.

(e) Ensure our continuing support for US-led negotiations on Namibia.

Middle East

(f) To stress need not to weaken position of Peres.

(g) To urge UK not to get ahead of US.

(h) To discourage support for International Conference.

YOUR RESPONSE

Arms Control/Alliance

(a) W79 (if Shultz claims consultation only necessary with allies directly concerned) expected Defence Ministers to have another opportunity to look at Montebello package as a whole, possibly this autumn. Our public posture formulated accordingly. Accept that specific agreement on elements of package should be with allies directly concerned. But in this case UK is. These shells will presumably be issued to UK forces in due course.

Agree vital Russians should not get misleading signals from US's European Allies. Need close consultations and co-ordination over policies and over public presentation.

Trade Issues

(b) US impatience understandable. But 1984 and 1985 price-fixing and budget discipline agreement serious beginning to CAP reform. US action against EC export markets only gives arguments to those who wish to resist genuine CAP reform or serious discussion of agriculture in new round. US could help CAP reform by stressing to FRG consequences for EC/US relations of their continuing to resist significant cut in cereals prices. Scepticism about new round in (and outside) EC reinforced by US protectionist actions.

As agreed in Bonn need for all to continue with disinflationary monetary policy; are taking steps to increase flexibility and reduce structural rigidities. Narrowing of growth differential between Europe and US.

Southern Africa

(d) Must stand firm together. US sanctions would leave UK exposed in UN. Can Administration resist disinvestment campaign?

US economic measures, even if delayed, would increase pressure for further measures in UN, CHOGM.

(e) Support US negotiations on Namibia. Progress vital. Your assessment?

Middle East

(f) Agree that we must take Peres' position into account, but this should not paralyse policy. Without movement on peace process Peres will not win a majority. Need also not to weaken Hussein and other Arab moderates.

(h) Agree risks in international conference; are looking at possible variations to meet Hussein's requirement for international cover.

BACKGROUND

1. The Prime Minister last met Mr Shultz in Bonn in May.

Arms Control

2. Background note on compliance and SALT constraints at Annex A.

East/West

3. During Craxi visit to Moscow (28-30 May) Gorbachev hinted at Soviet readiness for close political co-operation with Ten. Ten Political Directors agreed to treat with great caution.

EC/US Trade Disputes

4. Steel: US call for EC restraint on 17 'consultation' products not covered by 1982 export restraint. Arrangement (including semi-finished products, of concern to BSC's joint venture with Tuscaloosa Steel, Alabama involving US imports of 1,250,000 tonnes of semis over 5 years). Linking this to demands for early renegotiations of Arrangement (due to expire end 1985) and EC requests for admission of pipes and tubes (mainly French) in short supply in US. US now offering to admit short supply products in return for EC Agreement on early negotiations (to strict deadlines) in other areas. Satisfactory to UK provided that adequate safeguards on semis (which seems likely). But still US threat to impose unilateral restraints if EC does not agree to offer by end of week.
5. Agriculture: \$2 billion US Export Commodity bonus scheme announced on 15 May. Allows for export payment-in-kind (eg sales of poultry to be subsidised by gift of wheat from current stocks). Designed to secure additional US sales on world market. Targeted to markets identified as those taken over by competing nations trading 'unfairly'. EC prime target. First sale announced 4 June: up to 1 million tonnes of wheat to Algeria (traditional French market) - likely to be provocative to France.



6. Shultz known to be angry at agricultural export schemes (on which he was not consulted). Also unhappy at Department of Commerce's tough line on steel.

US/South Africa: Sanctions Legislation

7. In his bilateral meeting with the Secretary of State on 5 June, Mr Shultz implied that the President might be unwilling to veto limited sanctions adopted by Congress.

8. On 4 June the Senate Foreign Relations Committee passed a strengthened version of the Lugar/Dole/Mathias Bill by 16 to 1. The Bill would impose an immediate ban on:

- (a) bank loans to the South African Government
- (b) sale of computers to South Africa agencies involved in apartheid
- (c) the export to South Africa of nuclear goods and technology.

9. If after 18 months the President determined that 'significant progress' towards ending apartheid has not been made, stronger sanctions would be imposed. The Bill also includes mandatory application of the Sullivan Principles and a 15 million dollar scholarship fund for Black South Africans.

10. In the House of Representatives the Kennedy/Gray Bill was passed by 295 votes to 127 on 5 June. This would immediately prohibit, in addition to the measures in the Lugar/Dole/Mathia Bill:

- (a) all new investment and bank loans
- (b) the import of Krugerrands
- (c) the ^Pexport of all computers, software, and technology to South Africa. /

11. It is still not clear whether both Houses of Congress will be able to agree on a Bill and, if so, what its content will be.



Western Position on Sanctions/Disinvestment

12. Despite the possibility that some limited economic measures will be accepted by the Administration, the latter are clearly hoping for strong support from major Western partners in resisting international pressure for sanctions. But they must realise that the international situation is extremely difficult, and that Australia definitely, and New Zealand probably, would support sanctions; Canada's position is uncertain, and the Community divided. Conversely, we are looking to the US Administration to take a tough stand against domestic pressures in order to help stem the wider pressures which we and they face from the Third World.

Namibia

13. The critical problem is the absence of convincing results to justify present Western policies on Namibia. Cabinda has been a particularly serious setback. Dr Crocker believes the negotiations between South Africa, Angloa and the US will continue despite recent events. Angolans have avoided breaking off negotiations, and Cabinda may enable the Americans to put more pressure on the South Africans for a positive response to their proposal. But early progress is unlikely and Dr Crocker is prepared for a lull in the negotiations.

Security Council Meeting on Namibia

14. Security Council meeting on Namibia, now formally requested by the Non-Aligned Movement, is due to start, 10 June.

Arab/Israel

15. When Sir G Howe saw Mr Shultz in Lisbon on 5 June, Mr Shultz said that he saw definite signs of movement: King Hussein's objective of negotiations in 1985 between a Jordanian/Palestinian delegation and Israel and his statement that he was speaking for the PLO who were ready to negotiate peace on the basis of UN SCR's 242 and 338. He was greatly encouraged and ready to engage more in the process provided that others would help to carry it forward. Of the remaining difficulties the choice of suitable Palestinians was soluble but the Americans were opposed to an International



Conference even though they acknowledged that Israeli insistence that Hussein should go to Israel for direct talks was ridiculous.

16. Sir G Howe said that we did not like the idea of a conference and were exploring whether King Hussein's needs for international cover could be met by other means. He explained that if King Hussein asked us to receive a joint delegation we thought it would be helpful to see them. We would handle the visit with utmost care and would only see people committed to repudiate violence. Mr Shultz did not demur but asked that the Prime Minister should discourage King Hussein from the idea of an International Conference.

PRESS LINE

Prime Minister was happy that Mr Shultz's visit to London provided a further opportunity for informal talks.

There was naturally some discussion of, and a very full measure of agreement on, arms control subjects. The Prime Minister took the opportunity to reaffirm her support for SDI research and for US efforts to achieve progress at the Geneva talks.

They agreed on the importance of both EC and US working to manage Trans-Atlantic trade relations so as not to allow disputes to damage prospects for a new GATT Round, which we wish to see launched as soon as possible.

Arab/Israel was discussed. The Prime Minister and Mr Shultz agreed on the need for action in support of moderate Arab initiatives.

They discussed the situation in Southern Africa including recent developments within South Africa and the negotiations for Namibian independence.

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[If raised: The Foreign Secretary was not able to see Mr Shultz on this occasion because of his absence overseas, but they had detailed discussions when in Lisbon for the North Atlantic Council meeting earlier in the week.]

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BACKGROUND NOTE: COMPLIANCE AND SALT CONSTRAINTS

1. The issues of compliance and SALT constraints are closely linked. The Administration believe the Soviet Union to have breached both the legal obligations of the ABM Treaty and the political obligations arising from the SALT I and SALT II agreements (respectively time expired and unratified). An annotated list of the US allegations is attached. If arms control agreements are to be either useful or credible, compliance with them is important. The Soviet Union has consistently exploited grey areas and ambiguities in such agreements. The Assessment of British experts (who have access to the intelligence on which US allegations are based but not to the US/Soviet negotiating record) is however that the US allegations are of variable credibility. The Soviet Union has continued to observe the main provisions of the agreements concerned.

2. The event to which the US attaches greatest significance is the construction by the Soviet Union of a large phased array radar at Krasnoyarsk. They allege that this is in breach of the ABM Treaty provision banning ballistic early warning radars save on the periphery of US and Soviet territory facing outwards. If the radar has an early warning role when commissioned (1987) it will be a breach. Despite Soviet denials, it is implausible that a facility of this size would have been erected with no early warning function. We have been more cautious than the US about asserting flatly now that the radar is a breach, but have agreed to a public line saying that it raises serious concerns. The Foreign Secretary spoke to Mr Gromyko in these terms in Vienna in May. Underlying the American position on Krasnoyarsk is the view held by some that, together with other programmes including development of the SA-X-10 and SAX 12 interceptors with improved capability against ICBM warheads, the Soviet Union

/could

could be putting itself in a position where it could develop a nationwide ground based ABM system rapidly if it so decided. The JIC has an assessment of the range of evidence on this issue in its work programme. Soviet capabilities in air and ballistic missile defences are developing all the time, but a clear-cut judgement on their intentions appears difficult.

3. The most serious US allegation in respect of SALT is that Soviet development of the SS-X-24 and SS-X-25 represents a breach of the limit restricting each side to one new ICBM. The Soviets allege that the SS-X-24 is their permitted new type and that the SS-X-25 represents a modification, within permitted limits, of the SS13. The arguments are technical and complex. Pending receipt of some promised additional material about the negotiating record, our experts do not regard the US evidence as conclusive. Similarly, whilst the Soviets are clearly seeking to make matters as difficult as possible for the Americans on the encryption of telemetry of missile test data, there are some doubts whether they can equivocally be said to be in breach of SALT language whose practical implications are very much open to interpretation.

4. The general thrust of the Administration's conclusions enjoys a good deal of bipartisan support in Washington. They are also at the heart of a much more controversial debate as to the direction which US policy should now take. This is centered on the future US attitude to the political commitment to continue to observe the agreed limits of SALT II. Decisions are needed shortly because the beginning of sea trials of the fifth Trident carrying Ohio class submarine (the Alaska), due in the autumn, would take the US over the agreed limit of 1200 mirrored ICBM's and SLBM's. In addition the SALT II Treaty, if ratified, would have expired at the end of 1985, facing the Administration with a need at least to review the desirability of continuing to observe its provisions. Those, led by

/Mr Perle,

Mr Perle, who believe that the SALT process was fatally flawed from the start, are arguing that the failure to fulfil the 1972 expectations that significant reductions would follow, subsequent Soviet modernisation programmes, and the Soviet compliance record, justify termination of the US commitment to observe SALT constraints. Others favour a 'tit for tat' approach under which the US would no longer be constrained in areas where the Soviets are considered to be non-compliant. Others again argue that US action should be limited to measures designed to permit the Alaska to be commissioned such as dry-docking but not dismantling or destroying a Poseidon submarine; they accept that this would still be a technical breach of the present US commitment to observe the SALT limits. There seems to be no constituency within the Administration (though there is outside) arguing that the US should maintain the moral high ground by continuing to observe the constraint in full, although the penalty on the US in strategic terms from doing so would be small in the foreseeable future. To dismantle a Poseidon carrying submarine and (later) bomb carrying B52's as Trident carrying submarines and ALCM carrying B52s are introduced would still represent qualitative improvement of US strategic forces. But the first really major decision required will be when the "Midgetman" (small single warhead ICBM) reaches the development stage thereby raising the issue of US compliance with the "single new type" limit. This point is however unlikely to be reached before 1987 at the earliest. The present debate is therefore an essentially political one as to whether and how far the arms control regime of the 1970s should be unwound.

5. The Alliance management aspects, and the implications for the Geneva process, are not a major concern to Mr Perle and those who think like him. Though they are careful not to say so in public,

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their priority is to correct what they see as a continuing process of growing Soviet strategic advantage at the expense if necessary of arms control. It is far from clear that the US would in fact be at an advantage if SALT constraints ceased to apply, not least because Congress would be unlikely to be more willing to fund additional US programmes. (The military advice of the Joint Chiefs of Staff is reported to be that complete renunciation would not be in US interests.) It is however clear that the creation of a climate in which serious negotiations could begin in Geneva would be made still more complicated. This in turn would have very serious implications for Alliance cohesion. A situation in which the US appeared to be turning its back on the arms control process would be undesirable in itself, would alarm public opinions, give the Soviet Union major opportunities to seek to divide Western publics from their governments and European governments from the US, and make it very difficult to provide Alliance support for the US position at Geneva.

6. European Allies have a brief opportunity, at and in the margins of the Lisbon North Atlantic Council, and in other bilateral contacts this week to seek to influence the President's decision on SALT compliance. He is expected to announce at least interim decisions to Congress on 10 June. Records of private discussions yesterday with Mr Shultz were reported in Lisbon tels nos 288 and 291 (copied to No 10). In these the Foreign Secretary urged him to keep at the very least as close as possible to observing the present limits; other European colleagues took the same line. Mr Shultz disclosed a further US option which may repay further discussion: to put more money into funding relevant US programmes in response to Soviet violations. If anti-SALT can be bought off in this way, this could be the best way out.

7. From a European and Alliance perspective continuing full observance would be the best outcome and should be the objective. There is however little chance that even strong European pressure could lead to this option being adopted. European views have

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perhaps a better chance of contributing to a decision to reject the radical options and go for something like putting a Poseidon submarine in dry dock rather than dismantling it, presenting this as an interim move designed to offer the Soviet Union an incentive to improve their own compliance record.

8. The implications of the Administration's view on Soviet ABM Treaty compliance may be slower to emerge, but could be similar in their significance. On the one hand proponents of the SDI Programme may use the Soviet record to justify testing or other activities which would put the US in breach. (It is however the Administration's present declared policy that the programme should be consistent with all US obligations.) On the other hand those like Mr Perle who have been opposed for many years to the ABM Treaty may, particularly if their view on SALT has in good measure prevailed, argue that erosion of the ABM Treaty on the Soviet side should be met by American counter-actions rather than by an attempt to halt the erosion of the Treaty.

9. The UK has a particular flank to watch in respect of the arguments about Krasnoyarsk. The proposed modernisation of the BMEWs radar at Fylingdales, on which a paper will be put to OD shortly, also raises question of ABM Treaty compliance. Although we are satisfied that it would be compliant, the Soviets are likely to contest this, particularly if the US keep up the pressure on them over Krasnoyarsk. It will be important to ensure that the Western arguments being used in the two situations are compatible, and that we feel able to give them our full support.