

file DG2B2C  
bc PC

PRIME MINISTER

BILATERAL WITH PRESIDENT REAGAN

The meeting with President Reagan will be short and conducted partly in transit. You will want to deal with the issues in staccato fashion, to get as much done as possible. I have set them out in order of priority.

Start by reassuring him on his success in shaking off the Iran/Contras problem and getting public attention back on to the real issues.

The main task for Venice is to give a positive message about world economic prospects. Acknowledge US doing well. But worldwide lack of confidence is holding back growth elsewhere. Size of the US fiscal deficit at the root of the problem. Recognise some progress being made to reduce it. But spending cuts seem hard to achieve. Only a package with some tax cuts will carry conviction. We increased taxes in 1981 and this paved way for subsequent tax cuts. Hope you can agree to state that the US is committed to reducing its deficit as quickly as possible, one way or another, and not foreclosing a tax increase. This would put great pressure on Germans to take additional early action to expand. Summit must also extract really solid commitments from Japan.

Share your preoccupation with developments in the Gulf. Sympathy over attack on USS Stark. We are on the scene with the Armilla Patrol. Ready to discuss closer co-ordination with US naval forces, although we do not envisage joint operations. What do you want from the Summit in terms of a declaration? We are ready to underline importance of freedom of navigation, welcome efforts by US and others to maintain it and call for closer co-ordination between the countries concerned.

See no real need for a Summit declaration on East/West relations. Nothing very new to say; and it will only

encourage Mulroney to press for one on South Africa (which we strongly oppose). If there has to be one, we prefer your text. But there must be a sentence recognising the continuing role of nuclear weapons in preserving peace. This is a very firm condition for us.

Support firm declarations on terrorism and agriculture.

Do not think the moment is right to relax restrictive measures against Syria. We must have clear public evidence of change in Syrian policy on terrorism, e.g. real evidence that Abu Nidal has been expelled and Syria no longer provides support for it; and that those responsible for the Hindawi affair have been moved from positions of influence.

On Arab/Israel we should help Peres keep up momentum for international conference.

Might be helpful, after election, to make a short working visit to Washington. Have in mind mid-to-late July. We will discuss dates with White House staff if President willing in principle.

Charles Powell

4 June 1987

DG2BZC