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~~PRIME MINISTER~~

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22/6
MEETING WITH MR. MULRONEY

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You are to have a bilateral with Mr. Mulroney in Ottawa. By that time, and after three undiluted days of Mr. Mulroney, you probably won't have much more to say. Nonetheless, the protocol of a bilateral visit demands it.

Before the talk, you will sign two Agreements with Mr. Mulroney: one to trace, freeze and confiscate the proceeds of drug trafficking; the other, the new United Kingdom/Canada Air Services Agreement.

The main purpose of the talk will be to make a last major attempt to get the Canadians to buy British SSNs. You will approach the discussion in a strong position: you will have made a thoroughly supportive speech in the Canadian Parliament, and we have disposed of the issue of fur-marking. He will have a lot to thank you for. Nonetheless, you will need to go quite hard on the SSNs, because the indications are that the order is slipping away from us. It is likely that the negotiations between the Canadians and Americans on the necessary amendments to their Nuclear Co-operation Agreement will have been completed by the time of your visit. But the Canadians remain worried that Congressional approval may still prove difficult, and anyway they do not like being beholden to the Americans for anything. You will want to talk him through the main arguments for buying the Trafalgar class: its proven capability for safety and survivability under ice: its superior performance and stealth: and the fact that the design will be in service well into the next century. There is an additional argument which will not have been deployed before, which has a hint of menace to it, but could be important: if the Canadians choose the French version, then we would find real problems over conducting

The same applies to the Americans. This is not a threat, just a statement of the

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military realities. You might suggest that Mr. Mulroney ensures that this point is well understood by his military advisers.

There are two further points which could prove tricky.

The first concerns UK pensioners in Canada. There is growing agitation in Canada about the 76,000 British pensioners whose pensions are frozen and not index-linked. We have done nothing about it, because of the expense. But it is being looked at again by DHSS Ministers. You can say that the matter is kept under review, but you are not in a position to make any commitments at the moment.

The second is our decision not to continue with RADARSAT. If he raises this you will want to say that the decision not to increase expenditure on civil space programmes made hard choices necessary. If the Canadians complete the project we would be interested in obtaining data from RADARSAT on a commercial basis.

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C. D. POWELL

16 June 1988

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