



A.P.C. 27/7.

PM/83/52

PRIME MINISTER

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1. My visit to Washington last week provided an opportunity for some very useful talks on bilateral and wider issues. The details have been separately reported and I will not go over the ground again.
2. The atmosphere, as Oliver Wright's round-up telegrams make clear (Washington telegrams nos 2026 and 2027 enclosed), was good. President Reagan seemed concerned to emphasise the special importance he attaches to his relations with you and with HM Government. He will, I am sure, make this even clearer during your own visit to Washington in September. There is no doubt that our stock - and that of Oliver Wright and his embassy - is high in Washington at the moment. We must keep it that way, not least because the road ahead is a bumpy one.
3. On the economic front, there is no sign that the Administration has the policies, or the determination, to deal with the budget deficit and its implications for interest rates. Don Regan was, as often before, unconvincingly optimistic about this. But Paul Volcker more convincingly reflected our anxieties and plainly expected rising interest rates to pose real problems ahead of next year's election.
4. At a lower level, but obtrusively nonetheless, the new Export Administration Act, the continuing problem over Laker and those on steel, agricultural trade and unitary taxation will combine to ensure that the day-to-day agenda remains interesting.

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5. Politically, there are now welcome signs of a closer understanding between the Americans and their principal European allies on the approach to East/West relations and to the main issues of defence and disarmament, but it will take continuing hard work to keep things that way. Meanwhile, there is little sign that the Americans have anything new to offer in the Middle East or that policy in Central America will lead to early success. Both areas, in their different ways, are potential causes of transatlantic tension which we shall have to work hard - with the Americans and with our partners in Europe - to contain.

6. In addition, there are the Falkland Islands and Gibraltar: two subjects where the American Administration, for all their understanding of the principles for which we stand, may come to see us as an uncomfortable obstacle to the policies they would like to pursue with a new civilian government in Argentina and to their objective of getting Spain firmly into NATO. We heard too many comments to the effect that we could surely make some gesture to the Argentines to help stabilise the political situation in that country. The Americans are very worried about a left-wing take-over.

7. This note inevitably has high-lighted the problems. But I am confident that we shall be able to tackle them successfully. The fund of goodwill which was so evident during my visit will help. It is not inexhaustible, of course. We shall have to be careful not to draw on it unnecessarily and to supplement it when occasion arises. Belize, where there is no doubt that the Americans want us to stay (and are by no means committed to any sort of training presence) is relevant in this context. So too is Northern Ireland,

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where the tone of our relationship with Dublin can do much to ease the political task of our supporters in Washington. And so I suspect will be the Lebanon if the Americans conclude that there is no alternative to expanding the MNF.

8. I am giving further thought to all these points. Perhaps we could have a preliminary word when we meet on Wednesday.

A handwritten signature in dark ink, consisting of stylized initials and a surname.

Foreign and Commonwealth Office

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