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From the Private Secretary

5 July, 1985.

PRIME MINISTER'S MEETING WITH THE US SENATE ARMS CONTROL GROUP

The Prime Minister met the members of the US Senate's Arms Control Group this evening. Senators Ted Stevens, Charles Mathias, Gary Hart, Dan Moynihan, Sam Nunn and Albert Gore were present, together with the US Ambassador. Sir Oliver Wright also took part.

The following summarises the discussion in headline form:-

On ARMS CONTROL, the Prime Minister did not expect much progress to be made in the Geneva negotiations ahead of the US/Soviet Summit. We should have to be wary of Soviet attempts to divide Europe from the United States. It would be important to preserve the existing Agreements, particularly SALT II and the ABM Treaty. Senator Mathias asked whether the Senate should give attention to the Threshold Test Ban Treaty and the Peaceful Nuclear Explosions Treaty. The Prime Minister thought this could be useful. She underlined the importance of the Non-Proliferation Treaty Review Conference.

On the US/SOVIET SUMMIT, The Prime Minister said that it would be a mistake to build up expectations, although inevitably many hopes would be pinned on the Summit. She thought that President Reagan's main task would be to convince Mr. Gorbachev that the US had no aggressive designs on the Soviet Union, and was not seeking a first strike capability. We should be letting President Reagan have our considered views about the Summit. She hoped that the subject of chemical weapons might be raised there.

On EAST/WEST RELATIONS, Senator Nunn said that he and his colleagues believed that important changes were taking place in the Soviet Union. The Prime Minister said that there was undoubtedly a different style under Mr. Gorbachev, but one had to remember that he had only ever known Communism. Any economic reform would be modest, although he must succeed in increasing the productivity of Soviet agriculture. This would limit the scope for disposing of American and European surpluses.

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There was no discussion of the ALLIANCE as such. But Senator Hart developed an argument to the effect that unless the industrial democracies could re-build the productivity of their manufacturing industry the West's ability to sustain conventional defence would be lost. The Prime Minister thought this an unnecessarily gloomy view, and pointed to the success of the high technology sector in the US economy.

On TERRORISM, the Prime Minister said that she agreed with President Reagan on the need to take firm action against hijacking and to ensure the security of aircraft and airports. Many international commitments had been accepted on these subjects, but were not being implemented.

On the MIDDLE EAST, the Prime Minister spoke of the importance of supporting King Hussein's initiative. She also referred approvingly to Mr. Peres's speech in the Knesset on 11 June.

On the EUROPEAN COMMUNITY, the Prime Minister urged the Senators not to be perturbed by the failure to reach agreement at the recent European Council. It was just the way the Community worked.

Senator Mathias raised UNITARY TAXATION. The Prime Minister emphasised the importance of this issue, and the likelihood that the Grylls amendment would pass the House of Commons.

The Prime Minister extolled the PTARMIGAN Mobile Subscriber Exchange System, and pointed out that the UK was already a major purchaser of defence equipment in the US, referring in particular to Trident. Senator Nunn referred to his efforts to promote technological cooperation in the military field. In his view, the West was disarming inadvertently because each country tried to maintain a separate manufacturing base.

On JAPAN the Prime Minister urged the importance of cooperation between Europe and the US in putting pressure on Japan and upon its markets, and letting the Yen rise.

Finally, the Prime Minister asked for the Senators assessment of the prospects for the US ECONOMY. Senator Gore expected that growth would be somewhat under the 4.4 per cent projected by the Administration. He thought that there would be agreement to reduce the budget deficit by some \$50 billion. He was dubious as to how long international confidence in the dollar would hold. The Prime Minister gave an account of developments in the UK's economy. She regretted that the US now seemed to be borrowing capital to pay interest. This was not a situation

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in which the US should have found itself.

I am sending copies of this letter to Richard Mottram (Ministry of Defence), Rachel Lomax (HM Treasury), and Richard Hatfield (Cabinet Office).

(C.D. Powell)

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Foreign and Commonwealth Office.

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