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THE SECRETARY OF STATE
WASHINGTON

MAY 14 1984 12:47

MEMORANDUM FOR: THE PRESIDENT
FROM: George P. Shultz *GPS*
SUBJECT: Your Trip to the United Kingdom:
Setting and Issues

I. THE SETTING

Your bilateral meetings in London prior to the Economic Summit provide an excellent opportunity to reinforce our strong links with the British. You last met with Prime Minister Thatcher on September 29, 1983, when she visited Washington.

Since that meeting the "special relationship" has come under severe strain from several sources. Because of a perceived lack of consultations, the joint action in Grenada elicited a strong reaction in British Parliamentary circles. Although HMG was critical of USG activities, both governments acted to avoid the creation of further bilateral strains.

In regard to the Middle East, there is a constant element of tension in the relationship because of HMG's opinion that the USG gives too much attention and weight to Israeli interests. Mrs. Thatcher cooperated with the USG on the MNF for Lebanon, but was relieved to withdraw British troops as soon as the opportunity arose. Despite consultations, differences persist over Britain's decision to continue arms sales to Iran and over possible use of force in contingency plans for the Persian Gulf. Although HMG views sympathetically our objectives in Central America, the government did express concern to us and publicly about the danger to international shipping caused by the mining of Nicaraguan ports.

Bilateral economic issues constitute the most chronic irritant in the relationship. The British lump most of these economic differences under the general rubric of "extra-territoriality," to wit, whether U.S. law and regulation constrain the activities of U.K. firms.

We have been actively working to overcome the bilateral frictions. Following Grenada, the Prime Minister called for more frequent, political-level consultations between us in as informal an atmosphere as possible. We have responded with an array of senior Administration representatives going to London this winter, viz., the Vice President, Secretary Weinberger, Secretary Regan, Counselor Meese and myself, plus numerous subcabinet officials. Members of the British Cabinet have been

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frequent visitors in Washington discussing everything from monetary policy to the Middle East. This consultation has produced positive results in the form of progress on some of the economic differences and defusing of potential sources of acrimony such as the human rights certification permitting arms sales to Argentina.

During your one-hour restricted session with Mrs. Thatcher and the subsequent 90-minute working dinner you will be able to have an exchange of views on East-West relations, particularly the arms control aspects, on the Middle East, with emphasis on the Gulf situation, and on terrorism. Mrs. Thatcher will undoubtedly want to discuss the Summit meeting, the American domestic political and economic scene, and may inquire about your trips to the People's Republic of China and to Ireland.

At your lunch with the Queen and Prince Philip (90 minutes), in addition to personal conversation, you might wish to raise the Middle East since the Queen recently visited Jordan. A review of East-West relations would also be of interest to the royal couple. The Queen may raise the topic of Grenada.

II. ISSUES

1. Economic Summit. There may be some specific summit-related issues which you should raise with the Prime Minister. Since we will not know which these are until just before your trip, I will make any specific suggestions at that time.

2. East-West Relations and Arms Control. Softening her rhetoric, Thatcher now emphasizes the need for more contact and broader dialogue over the long term so that arms control talks do not have to carry the whole load of the relationship. This posture derives from internal HMG reviews and her trips to Budapest and Moscow, and it has put her in step with your January 16 address. The Prime Minister will want to compare notes. The British agree with our START/INF approach, MBFR, and have publicly endorsed our chemical weapons ban initiative, although they privately indicated doubts about its sweeping verification measures. They also are concerned that your Strategic Defense Initiative could lead to a situation in which Soviet defenses are strong enough to render Britain's deterrent ineffective.

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3. Middle East. While HMG is worried about the Gulf and has agreed, in principle only, to US-UK naval cooperation in a crisis, it wants a "long cool look" prior to any possible use of force to keep the Strait of Hormuz open. You may wish to stress our desire for close consultations and the need for effective, timely efforts in both the diplomatic and military areas. You may also wish to note our desire to limit the flow of all arms to Iran; the U.K. has refused to sell "lethal items," but agreed to sales of items to which we have objected, such as noncombatant naval vessels.

4. Terrorism. HMG has not shown an interest equal to ours in a multilateral condemnation of international terrorism or in the development of multilateral policies or procedures to improve the Western response to terrorist acts. The recent siege of the Libyan Embassy modified the British point of view so they now want groundwork for a collective Western campaign against state terrorism discussed at the Summit. You may wish to state your personal belief that successful countering of state-sponsored terrorism will require a high degree of multilateral cooperation and coordination.

5. Northern Ireland. While the issue of Northern Ireland is relatively quiet at the moment, the Prime Minister may have to give it greater attention in the months ahead, in light of the just-issued report of FitzGerald's New Ireland Forum. She may inquire about your impressions after your trip to Ireland. Making clear that the U.S. does not wish to intrude into a problem which should be resolved by Anglo-Irish cooperation, you might ask for her assessment of prospects for progress.

6. Your Trip to the People's Republic of China. For the British, Hong Kong is the key issue in Asia at the present. With Parliament likely to be increasingly concerned with UK/PRC negotiations this fall, the Prime Minister will be interested in your views of the Chinese leadership and its attitudes especially regarding Hong Kong, in light of your trip. The USG is reluctant to become directly involved in an issue which the Chinese have closely linked to the Taiwan question. We ground our expressions of concern firmly on specific U.S. commercial and investment interests.

7. American Economic Scene. Contingent on what is happening to U.S. interest rates, Mrs. Thatcher will probably express her concerns about the link between the U.S. deficit, interest rates, and the world economic recovery. She may make a passing reference to unitary taxation if that issue is not resolved to HMG's satisfaction. It would be useful to reiterate our position that the U.S. deficit does not determine world interest rates and outline our reasons for optimism about the U.S. economy.

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TUESDAY, JUNE 5

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Private Lunch with Queen Elizabeth and Prince Philip

-- Apart from personal discussion, the President could review East-West relations and outlook for the Middle East. The Queen will value a frank discussion of the American elections and plans for a second term. She may raise the topic of Grenada.

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Dept. of State Conference, July 21, 1997
BY LS DATE 8/30/17

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BY CW DATE 8/30/17

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SUGGESTED TALKING POINTS FOR THE PRESIDENT
WITH THE QUEEN AND PRINCE PHILIP

MIDDLE
EAST

-- Peace between Israel and the Arab states is our top priority. We do not see much opportunity for active U.S. diplomacy or new initiatives over next few months. Key parties are looking to results of July 23 elections in Israel. This is time for a low-profile posture and improving ties with states in the region, as we prepare to capitalize on what should be a better environment for moving peace process forward later this year.

-- There can be no progress toward peace without negotiations. Key to progress remains Jordanian entry into talks with Israel. U.S. has been and will remain an honest broker. We stand ready to play constructive peace process role when there is opportunity for diplomacy.

-- We are worried about threat of Iran-Iraq war to stability of region and access to Persian Gulf. We have had very useful consultations with your government on how we might work together in the diplomatic, energy and military areas to respond to a closure of the Gulf.

EAST-WEST
RELATIONS

-- Soviets still very much on defensive in their approach to West. Chernenko's response to U.S. and NATO initiatives disappointing, but not surprising. Soviets may be unwilling to move on big issues for some time.

-- In letters to Chernenko, I have stressed my commitment to improved relations and offered specific ideas for moving forward. If no progress results, record will show that it is Soviets who bear sole responsibility.

GRENADA

-- Since the October, 1983 rescue mission, Grenada under the leadership of Sir Paul Scoon has made good progress in returning to a free and open society. We believe the radical remnants of the Bishop regime command little or no respect.

-- The Interim Advisory Council is dealing with a number of very difficult issues such as preparing for elections as well as coping with serious economics problems. The Council needs, we believe deserves, our fullest support.

-- We have committed economic assistance funds (a total of about \$60 million) for a variety of projects, which we hope will encourage foreign investment and enhance the island's tourism industry.

-- Your government is making a very important contribution to reconstructing the Grenada police force. We believe it essential that the Grenadian Government be in a position, as soon as possible, to take full responsibility for protecting itself.

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Bilateral with Prime Minister Thatcher

-- Thatcher will likely raise the Summit, East-West relations, and the American domestic political scene.

-- Regarding East-West relations, Thatcher's own instinct is to encourage resumption of a serious East-West dialogue as reflected in her recent visit to Hungary and her attendance at Andropov's funeral. The President will want to underline his commitment to improve relations with the Soviets and the specific ideas for moving forward contained in his letters to Chernenko.

-- The Prime Minister will be interested in prospects for a US-Soviet summit and in ways to pursue arms control. The President should thank Mrs. Thatcher for past support and restate our belief that maintenance of a credible deterrent and firm principles will cause the Soviets to bargain seriously.

-- On the Summit, Mrs. Thatcher will want to spotlight prospects for growth, and will be touting the UK budget adopted this year, which has strong emphasis on the supply side, including significant tax reductions. She will be supportive of our broad Summit objectives, but the President may wish to emphasize some of his specific initiatives to make sure of her backing.

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SUGGESTED TALKING POINTS FOR THE PRESIDENT'S MEETING
WITH PRIME MINISTER MARGARET THATCHER

SUMMIT

-- To be supplied later.

EAST-WEST
RELATIONS

-- Soviets are still on defensive in their approach to West. Chernenko's response to U.S. and NATO initiatives disappointing, but not surprising. Soviets may be unwilling to move on big issues for some time.

-- In letters to Chernenko, I stressed my commitment to improved relations and offered specific ideas for moving forward. If no progress results, Soviets bear sole responsibility.

ARMS
CONTROL

-- I appreciate your support on these issues. If the Alliance maintains a credible deterrent and firm principles, the Soviets will bargain seriously.

-- (if raised) SDI research is essential given ongoing Soviet efforts. I hope results will prove defensive technologies can enhance deterrence and Alliance security, but we will not know for years.

MIDDLE
EAST

-- Our talks on plans to deal with a Gulf crisis have been useful. We must work together to be ready with timely diplomatic and military measures that respond effectively to a crisis.

-- One of most effective ways to persuade Iran to negotiate an end to the war is to stop sales of all arms to Iran. I would appreciate your taking another look at your policy in this regard.

TERRORISM

-- Western allies must reach a consensus on rising danger of international terrorism, especially involvement of some states in such acts. We must use all legal means available, including UN Charter's right of self-defense, to get states to stop using or promoting low-level warfare.

NORTHERN
IRELAND

-- I was impressed with depth of the Irish concern about what they see as a lack of progress toward a political solution in Northern Ireland. Are you optimistic on this issue?

CHINA

-- My visit to China resulted in a substantial strengthening of US-China relations. I held wide-ranging substantive discussions with Chinese leaders in a friendly atmosphere.

-- We have recently reiterated to Beijing our hope that any agreement reached with your government on the future of Hong Kong will preserve the system which makes Hong Kong such an attractive investment and business center for Americans.

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Working Dinner Hosted by Prime Minister Thatcher

-- This small working dinner reflects Mrs. Thatcher's publicly stated desire for more frequent, high-level, exchanges of view with the USG in as informal a setting as possible.

-- Mrs. Thatcher will want to cover as many of the major foreign policy questions as possible. Probable topics include: East-West relations, particularly arms control aspects; the Middle East, especially the need for a balanced U.S. position vis-a-vis Israel and the Arab States; the President's trip to the People's Republic of China; and the President's impressions of Ireland.

-- The President may wish to raise the issue of multilateral cooperation to counter terrorism and the Persian Gulf situation, especially the need for close bilateral consultations and the necessity of stemming the flow of arms to Iran.

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Presentation of Letter to the President by
Conservative Members of Parliament

A delegation of approximately 25 Conservative members of Parliament will meet with you on June 6 at : a.m. to present you with a letter of welcome and appreciation for your strong support of NATO. This presentation is being arranged and led by Peter Viggers, who has just taken over from Winston Churchill as head of the Tory "Campaign for Defense and Multilateral Disarmament". He also coordinates Conservative back bench public affairs efforts to combat the campaign for nuclear disarmament. Foreign Secretary Howe gave his strong personal endorsement to the Conservative politicians' request for this meeting. We expect that this meeting will evoke considerable media coverage in Britian and help offset the effort of anti-nuclear demonstrations which may take place during the visit. At the same time you can have an impact on a group of younger politicians who are important to the Conservative Party's future.

After thanking the group for its warm welcome, you may want to use this opportunity to stress your strong commitment to NATO and to point out its accomplishments. Also you may wish to reiterate our aims of maintaining a strong deterrent while we seek to engage the Soviets in meaningful arms negotiation. In closing you might commend the group on its important work in maintaining public support for the vital role of NATO.

(Rohrabacher/BE)

May 31, 1984

3:00 p.m.

PRESIDENTIAL TALKING POINTS: MEETING WITH BRITISH M.P.'s
WEDNESDAY, JUNE 6, 1984

-- Thank you for your kind words of welcome and your letter of appreciation. Gestures of solidarity like this are not just a matter of courtesy, they reflect the spirit that binds the Alliance of the Western democracies.

-- NATO has succeeded in preserving peace for nearly 40 years. We can be exceptionally proud of this accomplishment. These four decades of peace are a tribute to the unity of free people and to the effectiveness of deterrence.

-- I hope all who are committed to the preservation of peace will note that this policy has worked; that peace through strength is not a slogan; it is a fact of life. People who say the debate taking place in the Western democracies is between those who want war and those who want peace are committing a serious injustice.

-- I'm proud today to be with you, elected representatives of the British people who reflect the high ideals, the courage, and the common sense of the this great nation. Your commitment to NATO has helped maintain a national recognition and appreciation of this time-tested method of preserving the peace.

-- As I told the NATO foreign ministers in Washington last week, I am confident that the Alliance will continue to be the cornerstone of American foreign policy. Its deterrent strength is something we can rely upon to preserve the peace, even while

we seek fair, equitable, and verifiable arms reduction agreements with the Soviet Union.

-- Continued public support for collective security in all NATO countries is absolutely essential. I want to thank you for all you're doing to foster that support. You can be proud that you are part of a small fraternity within the free nations on this planet who have taken upon yourselves the heavy burden of working for both peace and individual liberty.

Thank you very much.

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NORMANDY

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THE SECRETARY OF STATE
WASHINGTON

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May 14, 1984

MEMORANDUM FOR: THE PRESIDENT
From: George P. Shultz *gus*
Subject: D-Day Celebrations at Normandy

I. THE SETTING

The public relations highlight of your trip to Europe will undoubtedly be the celebrations in Normandy commemorating the fortieth anniversary of the Allied landings. In a reversal of long-standing French government non-participation, President Mitterrand has indicated a desire to establish a new tradition of French national celebration of the D-Day anniversary so that the younger generation will remember the sacrifices of their elders. The French have put together an impressive schedule of events to mark this historic occasion. Heads of state or government from seven allied nations (France, the United States, Britain, Canada, Norway, the Netherlands and Belgium) will gather at various allied memorials and cemeteries to pay tribute to wartime sacrifices of our dead and to celebrate the continued solidarity of our alliance.

Your personal participation in the Normandy events will have particular significance for the French, many of whom vividly remember the American liberators. For the post-war generation Normandy marked the beginning of a firm and continuing commitment by the United States to the security of Europe. The intense media interest provides an opportunity for you personally, and allied leaders as a group, to reach an unprecedented audience on both sides of the Atlantic. The lessons of Normandy remain valid: the ultimate invincibility of a democratic alliance, the necessity for transatlantic unity, and the vital importance of military strength, even for nations intent on peace. The unprecedented span of forty years of peace in Europe testifies to the validity of these principles. At a time when some Europeans are questioning the reliability of the United States as a security partner, your presence and remarks at Normandy will serve as a tangible reminder that our peacetime commitments are no less reliable than was our wartime resolve.

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The enormous number of participants (both official and unofficial) as well as the multitude of events have presented French authorities with daunting logistical problems. Crowds at all events will be large, though we are satisfied by French assurances that at official events those close to the principal participants will be there by invitation only -- and will largely be veterans. The only practical option is for you to move from event to event by helicopter, though the distances are not large. Because there are so many planned events and schedules will be tight, it is not likely that you will have the opportunity to speak much with Mitterrand or other heads of state or government beyond an exchange of courtesies.

II. THE EVENTS

You are participating in three separate commemorative ceremonies -- at Pointe du Hoc, Omaha Beach and Utah Beach.

1. Pointe du Hoc

As this will be strictly an American commemoration, you will be the only allied leader attending the ceremonies at Pointe du Hoc, a salient west of Omaha Beach at the top of steep cliffs. The land at Pointe du Hoc (like the land at the American Cemetery at Omaha Beach a short distance away) has been ceded by the Government of France to the United States. It was here on June 6, 1944 that the US Army Rangers scaled the cliffs under heavy fire and secured the area to protect the landings at Omaha and Utah Beaches. You are scheduled to unveil a plaque commemorating this event. American veterans, many of whom took part in this assault, and their families are expected to make up the bulk of the event's participants. Here you will make your principal statement of the day -- a 15 minute speech stressing the bravery of the fallen and the survivors of this battle and emphasizing that Normandy marked the beginning of a continuous U.S commitment to the security of Europe.

2. Omaha Beach

At Omaha Beach, the site of the costliest battle in terms of American casualties, you will be joined by President Mitterrand and other French officials in paying tribute to the American commitment to the liberation of France. You are scheduled to visit the chapel for silent prayer, lay a wreath at the gravesite of the Roosevelt brothers, and greet President

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Mitterrand on his arrival at the cemetery's Visitors' Center. You will then proceed to the impressive Omaha Beach memorial, located just above the beach, for a joint ceremony. Both you and President Mitterrand will make brief remarks at this event. Yours will stress the theme of a broadened western solidarity evolving from the wartime alliance. Mitterrand is likely to pay tribute to the American liberators. At the French request, statements have been limited to approximately three minutes so as not to detract from the principal allied ceremony to follow.

3. Utah Beach

The last official event of the day will occur at Utah Beach. The French have planned to assemble all the Allied leaders at this site and President Mitterrand, as host, will make the only address here. Following his speech, you will depart Normandy and return to England to complete the remainder of your program.

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Utah Beach Ceremony

At the conclusion of the June 6 Normandy events, the President will participate in a ceremony at Utah Beach involving leaders of all of the countries represented in the June 1944 landing. The schedule at Utah Beach will be extremely tight and the President will probably do no more than exchange greetings. However, short contingency talking points are included for those participants (except for the Polish and Czechoslovak Defense Ministers) whom he will not meet at the Summit.

Greek Prime Minister Andreas Papandreou. Papandreou's recent public statements have been generally hostile toward the U.S.

-- I am disappointed with recent statements you have made praising the Soviet Union and calling the US an "imperialist" power. We in the US cannot understand how a traditionally close friend can make such a remark.

Danish Defense Minister Hans Engell. The Danish government continues to encounter difficulties in carrying out NATO programs in the face of Social Democratic opposition.

-- We recognize the strenuous efforts your government has made to limit the damage from recent opposition resolutions on security issues, but we look to all Allies, including Denmark, to meet their NATO commitments.

Kind Olav V of Norway. The King called at the White House in October 1982.

-- We admire Norway's commitment to the Alliance. The security of NATO's northern flank depends on the maintenance of strong defenses in Norway.

Grand Duke Jean of Luxembourg. Grand Duke Jean has accepted an invitation to pay a state visit to the US in November.

-- I am looking forward to meeting with you and the Grand Duchess in November.

King Baudouin of Belgium. The King's son (studying at Stanford) called at the White House last September.

-- It was a pleasure to meet Prince Philippe when he visited the White House last September.

Queen Beatrix of the Netherlands. Queen Beatrix paid a highly successful state visit to the US in 1982.

-- I recall with pleasure your state visit two years ago.

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THURSDAY, JUNE 7



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THE SECRETARY OF STATE

WASHINGTON

May 14, 1984

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MEMORANDUM FOR: THE PRESIDENT
 From: George P. Shultz
 Subject: Your Meeting with Japanese Prime Minister Nakasone at London, June 7

Your meeting with Japanese Prime Minister Nakasone will be the fourth time you have met with him since January 1983. During the past 18 months, you have laid the foundation for a new relationship between the U.S. and Japan, marked by increased cooperation on international issues and a determination to resolve outstanding bilateral issues in a spirit of friendship and cooperation. This new era in U.S.-Japan relations is symbolized by your successful trip to Japan in November 1983 and the themes that you struck there, and by the close personal working relationship that you have developed with Nakasone. This probably will be your last meeting with Nakasone before the "twin" elections in November -- your own, and Nakasone's as Party President (and therefore Prime Minister).

During your meeting with Nakasone, you will want to focus on three objectives:

1. Coordinating our positions on Summit issues and seeking Nakasone's cooperation during the Summit meetings.
2. Working with Nakasone to promote the development of an international partnership that includes the U.S., Japan, Canada and Europe.
3. Taking stock of our bilateral relationship.

At Williamsburg, Nakasone deftly played catcher to the pitches that you threw, and he is prepared to cooperate with you at London. However, this year's Summit is in Europe, and many Europeans are cautious of what they see as a shift in U.S. foreign policy interests towards the Pacific. Accordingly, they will be watching your relationship with Nakasone closely. This concern is compounded by the economic aspects of the so-called "Europessimism" issue: Western Europe's economic recovery and movement towards high technology have not kept pace with ours and Japan's. As one demonstration of this, some Europeans have been reluctant to move towards a new international trade round, which Nakasone has been in the forefront of pushing.

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The Summit is an excellent place to work with Nakasone to demonstrate to our European allies that the United States and Japan are not interested in a global economic condominium at Europe's expense. Rather, we can use the Summit to demonstrate that our vision of international partnership with Japan does not exclude Europe. The U.S., Japan and Western Europe share common interests and values, and it is in Europe's interest as well as ours to strengthen cooperation with the Japanese on international political, security, and economic issues and promote a more active Japanese international role. More than any other forum, the Summit symbolizes that we all are in this boat together.

Nakasone may use this meeting with you to request support for certain of his other interests at the Summit. We expect him to propose a meeting of Summit science ministers to consider closer science and technology cooperation. (We can support him on this as long as it does not become a permanent summit-related exercise.) He may also seek endorsement of his conference last March on life sciences.

You will want to use your meeting with Nakasone also to review where we stand in our bilateral relationship. The Summit marks the formal termination of the Vice President's follow-up process, although our efforts to achieve further progress on trade issues will continue. Thanks to Nakasone's efforts, Japan's April 27 trade package was broadly responsive to our interests, although there are some areas where we were disappointed, such as tariff reductions. Treasury is encountering some tough sailing with the Japanese in our effort to promote a greater international role for the yen, but the Japanese have said that a financial package will be issued on May 21, prior to the Summit. In the other areas of our relationship -- defense, science and technology, cooperation on foreign policy issues, and educational and cultural affairs -- our relationship has never been stronger.

Finally, you will want to discuss with Nakasone the need to continue to strengthen our relationship in the months ahead. We have demonstrated clearly since your trip to Japan that our relationship is too important to each other, and to the world, to allow it to be injured by trade or other problems. The follow-up showed that we have the political determination to remove irritants in our relationship. You will want to reinforce the message of the Vice President's trip to Japan -- that we need to renew our determination to remove those remaining obstacles to the vision of U.S.-Japan relations that we both share.

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Talking Points for the President's Meeting
with Japanese Prime Minister Nakasone

BILATERAL
RELATIONS

-- Our fourth meeting following 18 months of working closely together, during which we have made impressive progress in our bilateral relations and global cooperation.

-- Appreciate your special efforts to achieve results announced in your April 27 package, and also in May agreement on financial/capital market issues. When fully implemented, these measures should have a positive impact on our economic relationship.

-- Must now move to implement agreements. Place hopes on, for example, sales under your new telecommunication legislation and sales of US satellites.

-- Must continue to work together in months ahead to resolve remaining issues, especially trade issues, such as forestry product tariffs, and consolidate gains of past 18 months.

-- U.S.-Japan energy trade also remains high priority, particularly increasing steam coal trade.

-- Our political relationship has never been better; Secretary Weinberger assures me we agree with direction on defense issues.

-- Must also develop together agenda for future. Share vision that in partnership Japan and America can accomplish any goal. We should look to cooperation and competition in high technology, space, science, and education, for our nations and world.

SUMMIT
COOPERATION

-- I am looking forward to working closely together with you again at the Summit.

-- We continue to support your call for a new international trading round. Should aim for decision to launch in 1985.

-- (If raised) We support your call for a meeting of Science Ministers on a one-time basis, but do not believe that it should become a regular feature of the Summit.

GLOBAL
ISSUES

-- We must work to prevent escalation of the Iran-Iraq conflict and prevent danger to shipping. IEA work on energy emergency preparedness very important. Japan can help by increasing its strategic oil stocks.

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-- Despite Soviet efforts to chill our relationship, I continue to work for relaxation of tensions with Soviet Union and encourage their return to nuclear arms control talks.

Craxi

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THE SECRETARY OF STATE

WASHINGTON

May 14, 1984 ⁸⁴ MAY 14 12:43

MEMORANDUM FOR: THE PRESIDENT

FROM: George P. Shultz *WPS*

SUBJECT: Your Bilateral Meeting at London with
Italian Prime Minister Craxi

I. THE SETTING

Your meeting with Craxi will present an opportunity, with one of our key security partners, for an important exchange of views on East-West relations and the Alliance arms control strategy. You established a basic intellectual rapport with Craxi last October 20 on the need for allied unity and toughness in dealing with the Soviets. Since then Craxi confidently presided over the beginning of GLCM deployment at Comiso in Sicily, but more recently has put forward a troublesome suggestion for a moratorium, on which you have written him.

From the standpoint of U.S. interests, Craxi is in many respects the best Italian Prime Minister we could hope for at the present. He may remain in office for some time. The key to Craxi's already impressive longevity is the lack of a viable alternative. The Christian Democrats remain demoralized following their sharp electoral setback a year ago; they fear a further loss in the European Parliament elections next month, and need time to rebuild their party.

Craxi has also succeeded in projecting an unusually assertive image for an Italian Prime Minister, mostly through a willingness to confront the Communists. Though the Communists and their parliamentary allies have succeeded in trimming back the government's austerity program, Craxi hopes his vigorous leadership style and strong anti-communist stand will reap electoral benefits next month, giving his government new momentum.

There are no unique economic problems between the U.S. and Italy. Italian Summit positions on economic and trade issues will probably parallel those of the other EC countries present. Craxi may note uneasiness over high U.S. interest rates and the perceived overvaluation of the dollar. In view of his own gaping budget deficit (15% of Italy's GDP), Craxi is unlikely to try to make an issue of the U.S. deficit.

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The Italians -- and Craxi personally -- have expressed enthusiasm about cooperation on the space station. Craxi wrote you to highlight Italy's interest in offering a high-quality technical contribution to the project, and he warmly received NASA Administrator Beggs in Rome.

Should the terrorism issue arise at the Summit, Italy will listen sympathetically, but will be reluctant to move beyond a general European consensus regarding multilateral cooperation. (Italy has a good track record on bilateral cooperation against Libyan and other terrorist threats.)

II. ISSUES

1. INF

Craxi has put a definite Western imprint on his Socialist Party, an important reflection of which was Socialist support for the Italian decision in 1979 to allow new INF deployment in Italy. Craxi emerged highly impressed and enthusiastic from his meeting with you last October, and feels that he enjoys an important personal relationship with you. He may, however, have lingering doubts about the Administration's commitment to constructive negotiations with the Soviets.

Craxi wants to build an image of activist and peacemaker, and genuinely worries that the present East-West deadlock is unacceptable. Consistent with this, Foreign Minister Andreotti stood firm when visiting Moscow last month on the key arms control issues, but sought to define some potential middle ground in the CDE talks in which the Soviets would consider Western proposals if the West would play ball on non-use of force (we see no sign of such Soviet flexibility). Shortly after Andreotti's return, Craxi strayed from the agreed Alliance position on INF in early May with his unfortunate public suggestion in Lisbon about a possible pause or moratorium on deployments if the Soviets would return to the negotiating table. You wrote him directly to explain why this would be a tactical disaster, leaving the Soviets to negotiate endlessly with 40 U.S. missiles outbalanced by over 1300 Soviet INF warheads. The other Allies, including the Dutch, have shown no sympathy with Craxi for this public breaking of ranks. Craxi is sensitive about the firm Allied rejection of his idea, and about what he perceives as the public criticism of it in Washington. You will want to make clear that we continue to value Craxi's support and counsel, but believe that Alliance solidarity, based upon intimate private consultations, is the only way to bring the Soviets back to the bargaining table.

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2. East-West Relations

In his White House meeting Craxi laid out his view that Soviet Communism was now Russian despotism in Marxist covering. Stressing that without the existence of military balance peace was a fragile thing, Craxi noted that an adversary which gained superiority would use it to its own advantage.

Such candid views remain vintage Craxi and are one reason why Italy's Communist party cannot abide him. Notwithstanding, Craxi believes it is essential to keep lines of communication with Moscow open. The Italians were gratified by the courteous treatment Andreotti received in Moscow, but discouraged by Gromyko's uncompromising attitude toward NATO and the U.S. Craxi would undoubtedly be impressed to hear directly from you about our many substantive proposals and probes for a renewed dialogue, since the extent of our efforts are often not fully appreciated in Europe.

3. The Middle East

Italy continues to aspire to an active Mediterranean and Middle East role, a desire we generally consider helpful. A word of appreciation for the Italian MNF performance in Lebanon would be appropriate (the MNF was withdrawn subsequently to your last meeting). The Italian commercial relationship with Libya remains important (and lucrative), though we have succeeded in getting Rome to cut off new arms sales. Italy has no illusions about Qadhafi, but believes a complete break with the West could create a worse situation. It would be useful for you to stress our desire for collective action since our unilateral measures alone will not bring Qadhafi into line. Regarding the Gulf, Italy has reluctantly agreed to halt arms sales to Iran. Andreotti deserves the major credit, but your support for this move with Craxi could strengthen the government's resolve to hold the line on this costly commitment.

4. China

While Italian interests in the Far East are minimal, Craxi would be flattered if you would share with him the results of your China trip, along with your thinking about the strategic U.S.-Soviet-Chinese triangle.

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TALKING POINTS FOR THE PRESIDENT'S MEETING AT LONDON
WITH ITALIAN PRIME MINISTER CRAZI

INF

--I appreciate that you and your party were key to Italy's INF commitment. We continue to value your support and counsel.

--NATO's INF objectives, as we discussed at the White House last October, remain valid: to reestablish a military balance at the lowest possible level through negotiations.

--Alliance solidarity, based on private consultations, is the only way to bring the Soviets back to the bargaining table.

--NATO is of course prepared to stop, or reverse, deployment, or remove missiles altogether, but only as the result of an equitable agreement which results in substantial reduction of Soviet systems.

--The Soviets coldly calculate their security interests. We must hope that NATO's continuing resolve will induce meaningful negotiations.

EAST-WEST RELATIONS

--I admired your insights with me last October about the Soviets: "A Russian despotism in Marxist covering."

--We are sincerely committed to a better East-West relationship based on military balance and realistic negotiations. Our many arms control proposals and efforts to renew dialogue in recent months testify to this.

--Italy's consultations with us before and just after Foreign Minister Andreotti's April trip to Moscow were a model.

MIDDLE EAST

--Italy's role in the Lebanon MNF was splendid. We will never forget your help to our Marines.

--You know our concerns about Qadhafi. We should seriously consider collective measures against Qadhafi since our multilateral actions alone cannot work.

--I appreciate Italy's decision to halt arms sales to Iran.

CHINA

-- (Grace note) I would like to provide you impressions of my trip to China.

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THE SECRETARY OF STATE
WASHINGTON

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May 14, 1984

MEMORANDUM FOR: THE PRESIDENT
From: George P. Shultz *GPS*
Subject: London Summit: Bilateral with FRG
Chancellor Kohl *MM 14 P12:52*

I. SETTING

Helmut Kohl will join us in viewing the Summit as a means of demonstrating confidence in economic recovery and calling for that recovery to be broadened and sustained. He supports measures to cut budget deficits and control inflation. He is a firm supporter of free trade and an opponent of protectionist measures. Beyond the Summit's economic message, Kohl sees the meeting -- together with this spring's high-level Western consultations in NATO and the OECD -- as an important opportunity to show the closeness and thoroughness of our policy coordination process.

Kohl feels growing confidence in the recovery of the FRG economy. After three years of recession, real GNP growth there will probably exceed 3% this year, inflation has been brought down to 3%, and although unemployment remains a serious problem at over 9% it appears domestically tolerable. Despite complaints from some West German sophisticates about Kohl's uninspiring leadership image, he seems to retain voter support. The SPD opposition has its own more serious leadership problems, and it remains uncertain about whether to abandon at least tacitly its emphasis on INF and concentrate instead on bread-and-butter economic issues of interest to its traditional supporters. Kohl's coalition partner, Genscher's FDP, is becoming progressively weaker and faces an uncertain future.

II. ISSUES

1. East-West Relations

Kohl believes that the Soviets miscalculated the effect of their unsuccessful INF challenge in the FRG. At the same time, in the wake of that Soviet failure, he thinks that the

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West must retain the initiative in offering constructive cooperation with the USSR, and he believes that a dynamic Western move could improve East-West political dialogue and lead to arms control progress. Kohl was very pleased, during his Washington meeting with you in March, to hear your views on this issue. But with nuclear arms control negotiations still stalled and the Soviet posture becoming increasingly hard-line, he may urge again that we offer new arms control initiatives in order to persuade the Soviets that it is in their interest to resume the START and INF talks. You will want to make clear that our policy of openness to dialogue with the Soviets will remain steady despite Soviet efforts to poison the atmosphere, but that we should not reward Soviet intransigence with unilateral concessions.

2. High-Level Western Consultations

The ministerial meetings of NATO and the OECD, together with your trip to Europe and the London Summit, comprise an extraordinarily intensive round of high-level consultations. They help reaffirm our commitment to the security of Europe as the key to our own security, as well as the crucial importance of Western solidarity in addressing economic problems and finding more complementary approaches to Third World issues. Kohl will want to demonstrate publicly that there is a shared Western sense of purpose and commitment. He will want to point to a new spirit of dynamic optimism in our respective recoveries, as well as to a firm belief in the continued strength of NATO and to Western desires for improved East-West relations.

3. Economic Relations

Kohl, who is modest about his economic expertise, has been relatively restrained in making public statements which might be interpreted as critical of our economic policies. To the extent that he may share the view of some Europeans about a link between European economic problems and US interest rates, the strong dollar and budget deficits, you may wish to set him straight. He should be reminded of the positive trade benefits the Europeans derive from the US recovery, as well as of your efforts to bring about significant reductions in the budget deficit. Kohl does share your commitment to resist protectionist pressures. He also has a firm commitment to the EC, and he seems willing to

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go far in resolving the Community's current problems; we are very sympathetic to those problems, but we are unwilling to have them resolved at the expense of our trade interests.

4. Strategic Defense Initiative

This issue could come up in isolation or in the context of discussion about the separate issue of FRG commitment to the space station project. Kohl recognizes the need for SDI research -- given what the Soviets are already doing -- but he is concerned about the implications of SDI for arms control and nuclear deterrence, and particularly for the maintenance of US-European strategic coupling. Foreign Minister Genscher has said publicly that the US and Soviet Union should begin "preemptive" negotiations now on space weapons, and called for extremely close consultations within the Alliance on SDI. You will recall that, at his request, we briefed Genscher on SDI just before his meeting with you on May 7.

Attachment:

Biographic Information

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SUGGESTED TALKING POINTS FOR THE PRESIDENT'S
MEETING WITH FRG CHANCELLOR KOHL

EAST-WEST
RELATIONS

-- On relations with the Soviets, we believe our current posture is the right one: we are ready to talk but not so eager that we will make unilateral concessions on substance.

-- We understand the special relationship between the FRG and GDR, and we welcome increased cooperation in that relationship (within Alliance context).

HIGH-LEVEL
WESTERN
CONSULTATIONS

-- My visit to Europe and participation in this Summit, together with the recent NATO and OECD Ministerials, underscore the importance we place on high-level Western consultations.

-- We remain committed to the defense of Europe as the key to our own security, and to the importance of Western solidarity in addressing economic problems.

ECONOMIC
RELATIONS

-- We have succeeded in lowering inflation and promoting non-inflationary growth, and our recovery (and trade deficits) stimulates European growth.

-- Reduced deficit remains a key priority, but we see no strong causal link with interest rates, which should decline as market reacts to lower inflation.

-- We are sympathetic to EC problems, but we cannot accept efforts to resolve them at the expense of our exports (e.g. corn gluten).

STRATEGIC
DEFENSE
INITIATIVE

-- We have consulted closely with Allies since beginning of SDI, including special session for FM Genscher in May.

-- Given Soviet effort, we have no choice but to undertake similar research consistent with treaty obligations.

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-- These technologies have potential for enhancing deterrence and increasing alliance security. We will know more after research is completed.

-- We proposed to Soviets last year that we discuss defensive technologies in a government-to-government forum. They did not take us up, but offer still stands.

-- On anti-satellite weapons, we don't think it advisable to begin negotiations until we have identified a verifiable and equitable proposal that would be compatible with our national security. We haven't identified one yet, but we continue to look.

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THE SECRETARY OF STATE
WASHINGTON

MEMORANDUM FOR: THE PRESIDENT
From: George P. Shultz
Subject: Your Meeting with Francois Mitterrand
President of the French Republic

I. THE SETTING

Unlike earlier summits, we anticipate fewer differences with the French at the London Summit. The State Visit in March was a major success in underscoring our similarity in thinking on Alliance and defense issues. The French have also been less vocal in criticizing our economic policies of late, perhaps in part because the Socialist government has adopted a pragmatic austerity program similar to our own -- and it is beginning to show results. We continue to cooperate in the Middle East and Africa. We have differences on Central America, usually contained by the French willingness to acknowledge U.S. vital interests in that region.

Mitterrand is preoccupied with domestic issues. Rising unemployment (now slightly over 9 percent) and government cutbacks in failing nationalized industries have generated violent outbreaks of labor unrest in affected regions. Mitterrand's standing in the polls remains unprecedentedly low. Despite strong criticism and threats from his Communist allies to leave the government (the Socialists can govern without them), Mitterrand remains doggedly determined to pursue a long-term restructuring of France's older, Treasury-draining heavy industries in order to channel more resources into the high-technology new industries. Where the Socialists were once talking nationalization, reflation and subsidies, they are now emphasizing investment, careful management and private initiative. It is perhaps an historic shift.

Elections to the European parliament (June 14-17) will be seen as a test of Mitterrand's domestic standing, though they will have no practical effect on the government. A cabinet shakeup is widely expected after the election, and the Communists may go into the opposition at that time.

The French have been reticent to discuss their Summit intentions, but are likely to stress the need for greater investment in emerging technologies and industries. They will join other participants in calling for fiscal restraint; the French believe the U.S. deficit causes high interest rates and an overvalued dollar.

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Mitterrand has been universally credited with having conducted France's EC Presidency with skill, vigor and fairness. Much was accomplished, including a settlement of the complicated agricultural and revenues issues. The one remaining issue is the size of the British rebate, though it has been largely detached from other problems. Few expect a breakthrough on this at the final French-chaired summit in late June, but the EC has clearly weathered the crisis it faced six months ago. The threatened tax on soybean imports did not materialize, and the issue of corn gluten import restrictions has been relegated to negotiations in the GATT context.

II. ISSUES

1. East-West Relations

Mitterrand will travel to Moscow, possibly within several weeks of the summit, ending the freeze on the annual Franco-Soviet summits which had been the practice in previous administrations. This trip was announced just prior to his State visit here, perhaps to placate Gaullist sentiment which still favors more "balance" in East-West ties than Mitterrand has brought to French foreign policy. Mitterrand is reportedly prepared to discuss both multilateral issues and a modest improvement in bilateral relations. You might want to probe for a clearer idea of his goals and intentions. You might usefully detail our many attempts to put forward substantive arms control proposals and to renew the U.S.-Soviet dialogue; it would be helpful if Mitterrand would carry to the Soviets an impression of your personal commitment to better East-West relations, notwithstanding recent Soviet actions calculated to poison the political atmosphere.

2. U.S. - E.C. Relations

The French were the prime movers behind the EC decision to seek limits on imports of U.S. corn gluten. Bilateral GATT discussions should start by mid-summer. However, the EC has shelved for now the proposed tax on fats and oils (aimed at U.S. soybean imports). You made a forceful presentation to Mitterrand in March on the issue of agricultural protectionism, reminding him of your personal opposition to the Wine Equity Act. You may wish to recall our continued opposition to protectionist measures as a means of solving the Community's agricultural problems, while expressing satisfaction that Mitterrand shares your commitment (in principle) to free trade.

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3. Central America

The El Salvador election is tangible evidence of the developing democratic process which you told Mitterrand in March was moving that country on a moderate and positive path. Now is the time for the international democratic community to provide support to Jose Napoleon Duarte in the difficult challenges he faces. In contrast, there is little indication that Nicaragua wishes to move in a similar direction. The Sandinistas have rejected the Nicaraguan Catholic Church's call (in the Easter pastoral letter) for a national dialogue that would include anti-GRN guerrillas. The French continue to look through rose-colored glasses at Nicaragua, and are prepared to credit the election process underway there with more credibility than are we. The French professed to be shocked by the mining of Nicaraguan ports. In late March French Foreign Minister Cheysson wrote to Columbian President Betancur offering French assistance to help clear Nicaraguan ports if there was a general appeal from the countries of the region. The regional countries criticized the initiative and the French Government has not, to date, pressed it. Mitterrand may raise the mining issue with you.

4. Persian Gulf Security

The French share our deep concern that escalation of Persian Gulf hostilities could threaten shipping through the Straits of Hormuz. Our quiet military-to-military consultations with the French on Persian Gulf contingencies have been useful. The French are very sensitive, however, that these consultations be kept confidential and wish to avoid any appearance of joint planning or action. You may want to indicate our appreciation of French sensitivities and satisfaction with present consultations, while stressing that further cooperative steps will be necessary if hostilities escalate.

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TALKING POINTS FOR THE PRESIDENT'S
MEETING WITH FRENCH PRESIDENT FRANCOIS MITTERRANDCOURTESY POINT

-- Your visit was a tremendous success in reaffirming the closeness of French-American relations and underscoring our common commitment to a strong, healthy Alliance.

EAST-WEST DIALOGUE

-- Alliance unity on INF and implementation of deployments on schedule remain essential. Any moratorium would only encourage the Soviets to stall in the negotiations and perpetuate the present INF imbalance.

-- Soviet boycott of the Olympics is a disappointment and reflects obvious decision in Moscow to further poison the East-West atmosphere in response to INF. Your visit to Moscow will be of interest in gauging the mood there and the prospects for a Soviet resumption of a more serious dialogue with the West.

US - EC TRADE ISSUES

-- The American economic recovery has been sustained through the first two quarters of the year. Our recovery is having a positive impact on western Europe, and is helping to bring about an overall recovery.

-- The U.S. will continue to resist protectionist pressures; I have a deep commitment to free trade and will continue to work for further reductions in trade barriers.

-- We remain concerned about Community efforts to restrict American agricultural imports (corn gluten, fats and oils). We understand the need for reform of the Common Agricultural Policy, but not at the price of hurting U.S. farmers.

CENTRAL AMERICA

-- The process of democratization in Central America continues; the El Salvador elections show that democracy can prevail over intimidation and repression.

-- Nicaragua continues to act in a destabilizing manner in the region. We have told the Sandinistas privately and publicly that concrete measures they might take to address U.S. concerns would be met in kind.

-- We will continue to support the Contadora Group's efforts to seek a meaningful, verifiable accord on regional issues.

GULF SECURITY

-- We are prepared, if diplomatic means fail and Iran uses force to close the Gulf, to intervene to preserve western access to oil supplies. We appreciate our quiet military-to-military dialogue. We are not proposing joint action, but close cooperation will be essential if the conflict escalates.

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BACKGROUND PAPERS

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NORTHERN IRELAND

The Northern Ireland problem centers on the question of whether Catholic nationalists should continue to remain a minority (40 percent) in Northern Ireland, or the Protestant unionists, by coercion or consent, should become a minority in a federal or united Ireland. Resolution of the problem seems as distant as any time in the last decade. However, both the Irish and British Governments, and the principal parties in the Republic, generally agree that any change in the status of Northern Ireland should come about within a democratic context, taking into account the wishes of a majority of the people in the North.

In 1972, Britain suspended majority (Protestant) rule in the North and now governs through a Northern Ireland Secretary. Successive British governments have developed proposals for a return to self-rule combined with power-sharing between the two communities. Self-rule potentially could open up avenues toward Irish unity, but all recent efforts to implement self-rule have failed. Both nationalists and some unionists are boycotting the local Northern Ireland Assembly. The future of the Assembly is in doubt.

Little fundamental in Northern Ireland has changed in recent years, although the level of violence is declining. Within the nationalist community, there has been some shift of electoral support away from the democratic constitutional nationalists (SDLP) toward the violent nationalism of Provisional Sinn Fein (PSF)--the political wing of the Irish Republican Army (IRA).

Prime Minister FitzGerald is alarmed by the increasing alienation of the nationalist population in the North, the continuing constitutional deadlock, the stagnation of the Northern Ireland economy, and by the swing in electoral support in the North toward violent nationalism. The Irish see the IRA/PSF as an eventual threat to democratic institutions in the Republic itself. FitzGerald has been seeking to engage Mrs. Thatcher in a process by which Catholic nationalists in the North would be able to share power and to see some movement toward the eventual integration of the island.

FitzGerald enjoys harmonious relations with London. He well understands that a precipitous British withdrawal from the North could provoke sectarian chaos and threaten the stability of the whole island. Last year, he convened in Dublin the "New Ireland Forum," a congress of four democratic nationalist parties from both parts of Ireland to study problems and practical prospects for achieving Irish unity.

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FitzGerald's aim in the Forum was first, to create a consensus among democratic nationalist parties as to how the goal of eventual Irish unity should be pursued by his government; and secondly, to shore up the credibility of John Hume's beleaguered Social Democratic and Labor Party (SDLP) in the North--the principal representative of constitutional, democratic nationalists.

The just-issued Forum report is critical of British rule in the North and calls for unification of Northern Ireland with the Republic. The report condemns violence and has other helpful elements, including recognition of the Protestant/British identity of Northern unionists. But it recognizes also that, before there can be movement toward unity, nationalists must first win the consent of a majority of the people in the North. The British have not yet responded comprehensively to the report.

The Irish hope that the Forum report will receive serious study by the British and that the US will continue to encourage both governments to work toward a solution of the problem. Mrs. Thatcher and FitzGerald will have an opportunity to discuss Northern Ireland when they meet at the EC Summit in June. Without addressing the specifics in the report, we have said that the US hopes the Forum process and the Forum report will strengthen Anglo-Irish cooperation and aid in resolving the Northern Ireland problem and in reconciling the two communities.

The US has carefully avoided a direct role in the Northern Ireland question, convinced that the people concerned, and the Irish and British governments, should work together to promote a resolution of the problem within a democratic context. In successive St. Patrick's Day statements, the President has also emphasized our commitment to end any American links with the violence in the North by vigorously prosecuting those involved in gunrunning or other illegal activity. We have endorsed efforts by private groups, such as Cooperation Ireland, to promote reconciliation. We have encouraged US firms to consider job-creating investments in both parts of Ireland.

The bipartisan congressional "Friends of Ireland" generally supports the Administration on this issue, but explicitly endorses Irish unity. A proposal by Senator Moynihan, calling on the President to appoint a "special envoy" to Northern Ireland, is not widely supported by the Friends. None of the major parties concerned has asked that the US get in the middle of this contentious dispute.

May 9, 1984

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SUMMIT BACKGROUND PAPER

US-EC RELATIONS

Although the European Community is in "crisis," a resolution (CAP reform, UK financial contribution, Spanish and Portuguese membership) appears probable. The Ten recently agreed on an agricultural package, including higher 1984-85 support prices, measures to curtail milk production and reform of the system fixing prices in national currencies. The remaining stumbling block is EC finances. Mrs. Thatcher is blocking a needed increase in EC revenues until and unless the issue of budgetary contributions is resolved. (Both the UK and Germany contribute more to the EC than they receive.) The Europeans hope, but are not certain, that a solution can be reached no later than the next EC Summit (June 25-26 in Fontainebleau).

The final EC package, however, will almost certainly not solve key U.S.-EC differences over agriculture, including export subsidies and other policies affecting U.S. exports of grain, poultry, canned fruit, raisins and other agricultural products. While the latest price increases are below the European rate of inflation, farm prices were raised again for the major producing countries. Reform falls far short of what is needed to end the EC's artificial stimulus to ever-larger surpluses dumped on world markets with the aid of export subsidies. As part of the package, the EC also decided to seek, through procedures under Article XXVIII of the GATT, to restrict imports of U.S. corn gluten feed, now worth over \$500 million a year. Because of size of this trade and the precedent it might create for our \$4 billion trade in soybeans and other oilseed products, we have warned them that it will be virtually impossible to agree on adequate compensation. Unilateral limitations would certainly provoke U.S. retaliation. We see corn gluten as the major U.S.-EC trade problem for the rest of 1984. Our soybean exports would be directly affected by another EC proposal, a consumption tax on vegetable fats and oils. This proposal, however, has not been approved and is not likely to be in the near future.

The Europeans are concerned about U.S. Section 201 (escape clause) cases on carbon steel and shoes due for decision this autumn, the Wine Equity Act, which the Administration opposes, and the Section 232 (national security) action on machine tools (even though this would have its greatest impact on Japan). Other active economic issues between us and the EC countries include "extraterritoriality," focusing on the perceived tightening of U.S. export control procedures, our recent antitrust and subpoena actions against UK firms and unitary taxation by states.

Potential problems might also arise from what has been termed "Europessimism", a feeling of economic malaise that focuses on two issues. One of these is concern about losing competitiveness in

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high technology to the U.S. and Japan. This could lead to "infant high-tech industry" protectionism in Europe. The other focus of pessimism has derived from current low growth and high unemployment in Europe, and led to European criticisms of U.S. macroeconomic policies. However, our divergences over macroeconomic policy have diminished as European governments increasingly realize their economic problems are of domestic origin, and that increased flexibility, and reduced government spending, should be their objectives. Even the French have come to stress these points. The recent economic upturn in Europe has also helped.

Overall, the problems in U.S.-EC relations are serious, but not critical. The size of our two-way trade (about \$90 billion) and the strategic importance of the EC member states require that both sides work to resolve our problems. Careful management, including heavy involvement by cabinet-level officials, has kept U.S.-EC differences under control. Continued efforts will be needed over the next six months if this record is to stand.

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The Middle East

The peace process remains our first priority. However, the current situation is not promising for active diplomacy or new initiatives. The parties are waiting for the elections in Egypt, Israel and the U.S.; Hussein is not ready; the Palestinians, especially the PLO, have not acted decisively to support Hussein's entry into talks; Israel continues with its settlements policy in the West Bank, and Syria remains opposed to negotiations. Despite this gloomy outlook, we want to reassure our friends that we are still committed and will be alert to opportunities to make progress. We want them to know that when the time is right, the U.S. will resume an active role as an honest broker, but we cannot impose peace or force the process until the parties concerned are ready to move forward. Direct negotiations between Israel and the Arabs are the only practical approach; Hussein's entry into talks with Israel is the key.

In Lebanon, our goals remain the achievement of national reconciliation, restoration of the Government of Lebanon's authority, withdrawal of foreign forces and security for Israel's northern border. We regret the Government's decision to cancel the May 17 Agreement, and we are urging the Lebanese to enter into direct negotiations with Israel to find an alternative formula for Israeli withdrawal in a way that ensures the security of Israel's border. The ceasefire remains fragile and, as always in Lebanon, will depend on the extent of political progress. The situation in southern Lebanon continues to deteriorate. The Israelis have virtually severed the south from the rest of Lebanon and have centered their efforts to ensure the security of their border on the "Army of South Lebanon." Meanwhile, the Lebanese economy is on the verge of collapse. Only an improvement in the security situation will help. The recently announced Karami Cabinet appears to be a step toward formation of a more broadly based government and needed internal reforms. Although Karami is Syria's candidate, he is a pragmatic Lebanese politician who has previously served nine times as Prime Minister. We have worked with Karami in the past and expect we will be able to do so in the future.

The Iran-Iraq war still has a dangerous potential for widening in the Gulf, threatening the security of other Gulf states, international navigation, and access to oil. Given Iran's intransigence, we believe that ending arms sales to Iran is the most promising way of bringing that country to

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negotiate. We have urged all western governments to do so, with mixed success. We remain formally neutral in the war, but we have taken a number of steps to bolster Iraq's ability to resist. We do not believe direct U.S. military aid would be beneficial.

The threat to the Gulf is not immediate, but it is a real danger. We have made contingency plans to intervene militarily, if needed and if diplomacy fails, should Iran try to close the Strait or stop exports from the lower Gulf. Among our allies, the UK has agreed, in principle, to cooperate, but France remains opposed to multinational planning. We have consulted with the Gulf states and anticipate their cooperation in case of a crisis. However, they are wary of U.S. constancy and have not agreed to the kind of access and prestockage we need to meet our obligations most effectively. Keeping the Gulf open and minimizing damage to oil markets will also require western states and Japan to cooperate in ways they can. One need will be for a coordinated energy strategy to prevent panicky reactions. Besides our political/military exchanges with the UK and France, we have had energy consultations with the UK, France, the FRG, Italy and Japan.

Iran may be considering developing a chemical warfare capability in response to Iraq's CW attacks. We are encouraged that the UK and the Dutch have controlled exports of CW materiel to both countries, as we have, and that the EC Ten have agreed to join this effort. We hope the Ten will move forward to implement controls on chemical exports.

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