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10 DOWNING STREET

From the Private Secretary

3 May, 1985

Dear Len,

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN AT SCHLOSS GYMNICH

ON THURSDAY, 2 MAY, 1985 AT 1800 HRS

The Prime Minister held a meeting with President Reagan at Schloss Gymnich on the first evening of the Economic Summit. For the first half of the meeting the President was accompanied by Mr McFarlane only. Subsequently he was joined by Secretary Shultz, Mr Regan, Mr Wallis and Ambassador Price. The Foreign Secretary also joined the meeting at that point. This record conflates the two parts of the meeting.

Economic Summit

The Prime Minister asked President Reagan how he intended to tackle the various themes of the Summit. She wanted to work closely with him. The President said that he had held an earlier bilateral with President Mitterrand but had been unable to secure his agreement that the Summit should agree to a new trade round beginning early in 1986. President Mitterrand had remained determined to secure agreement in parallel on a conference on international monetary reform. President Reagan continued that he had pointed out that various meetings on monetary matters were already planned: G10 Finance Ministers in June and the Interim Committee of the IMF in Seoul in October.

The Prime Minister agreed that there was no point in adding another meeting. We had all the necessary mechanisms. In any case President Mitterrand's ideas about restoring fixed exchange rates between the dollar, the yen and European currencies were plainly impracticable: the underlying differences in economic conditions and policies were too great. However, Chancellor Kohl had earlier made clear to her that President Mitterrand was likely to insist on a special meeting, possibly in Paris in February 1986, shortly before the French elections. She thought it likely that the Summit would be faced with this demand by the French as the price of their agreement to setting a date for a new GATT round.

/President

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President Reagan commented that he had detected little or no evidence of willingness on President Mitterrand's part to have a trade round. But he agreed that the French were establishing a linkage. They seemed to want a new Bretton Woods conference. To try to break the deadlock he had suggested that there might be an additional G10 Finance Ministers meeting between that already planned for June and the meeting of the Interim Committee in October. The Prime Minister agreed that this made more sense than a special conference in February.

The Prime Minister asked whether President Mitterrand had expressed concern about discussion of agricultural trade in a new GATT round. President Reagan said that this appeared to be his main worry. He had seemed to fear that agriculture would become the focus of a new round and the US was trying to trap the European Community. The Prime Minister said that agriculture must certainly be discussed in the new round and made - fully subject to GATT rules.

The Prime Minister subsequently summarised her discussion with the President on this point when others joined the meeting. The key question was: if a special meeting on international monetary matters was the French price for a new round, should we pay it? Secretary Shultz said that there were two arguments against paying it. If there was a special conference on international monetary questions in Paris with the French in the chair, they would control the agenda. And it was in any case dangerous to concede the concept of a link between trade and monetary matters. The Prime Minister wondered whether Secretary Baker had not already conceded this. Shultz disagreed: all that Baker had suggested was a special G10 meeting before the next meeting of the Interim Committee in Seoul. President Reagan added that, if all the French wanted was prestige, perhaps the new GATT round could be held in Paris. The Prime Minister doubted whether this would have much attraction for the French.

Japan

The Prime Minister said that pressure must be brought on the Japanese at the Summit to do more to increase imports. Their huge trade surplus was causing distortions; and they were increasingly using subsidies to undercut Western countries in Third World markets. President Reagan said that Mr. Nakasone's recent pronouncement had been encouraging and had required political courage. Some progress was being made. The Prime Minister was sceptical. Japanese Governments tended to make pronouncements just before Economic Summits to deflect pressure. Subsequently nothing changed. President Reagan said that the US and Japan had set up two bilateral committees on trade issues in which some progress was being made, particularly in the field of telecommunications. The Japanese had finally agreed to buy an American satellite. Part of the blame for failure to penetrate Japanese markets rested with Western firms which did not tailor their products to Japanese tastes.

Political Declaration

President Reagan said that he would be grateful for the Prime Minister's help in securing a reference in the Political Declaration to support for US efforts in Geneva to make progress on arms control. He was not asking for support for the US negotiating position, simply for their efforts. The Prime Minister agreed and there was some discussion of possible language.

Strategic Defence Initiative

The Prime Minister asked how President Reagan intended to handle this at the Summit. The President said that he was trying to steer the public presentation of the SDI to take more account of European concerns. In his forthcoming speech in Strasbourg he would emphasise the need to preserve deterrence and speak approvingly of the continuing need for the British and French nuclear forces. He would stress his commitment to negotiate on any eventual deployment. He would also recognise the need to deal with the imbalance in conventional weapons in the event that an effective defence against nuclear weapons was achieved. He hoped that there would be a positive response from Europe to the US offer of participation in SDI research.

The Prime Minister said that the United Kingdom would certainly take part in research. Her preference was to do so on a bilateral basis. We had a long experience of working bilaterally with the Americans on such projects ever since the development of the atom bomb. It must of course be genuine co-operation in which there was sharing of information and results. However, there was some movement in Europe in favour of a co-ordinated European response. President Reagan said that the US preference was to deal on a bilateral basis: this would be easier to negotiate. Moreover President Mitterrand had made clear that France would not want to take up the US offer of participation. He seemed to have some alternative in mind. The Prime Minister commented that she was suspicious of the French initiative on Eureka. More generally she thought that the other European countries failed to appreciate how fast the research on SDI was moving ahead in the US.

United Nations 40th Anniversary

The Prime Minister asked whether the US Administration had a view on the desirability of a special meeting of the UN Security Council in September or October as part of the celebration of the UN's 40th Anniversary. Secretary Shultz said that they had only very recently heard of this proposal and had not yet taken a firm view. The Prime Minister said that it would depend in part on when Mr Gorbachev decided to go to New York. President Reagan commented that Mr Gorbachev had not yet replied to his invitation to a meeting: there had only been an indirect indication through a Soviet spokesman that he would come.

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Middle East

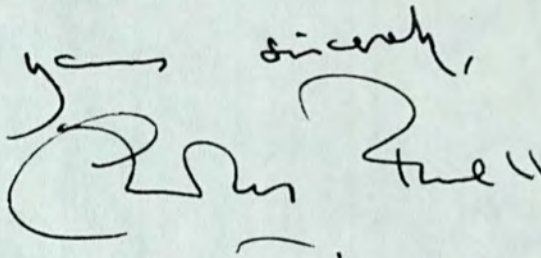
This was mentioned briefly. Secretary Shultz confirmed that he would shortly visit the area to follow up Mr Murphy's talks.

Prime Minister's Visit to South East Asia

President Reagan enquired about the Prime Minister's impressions from her visit to South East Asia. The Prime Minister gave an account of her visit, stressing the enormous potential of Indonesia. In most of the countries she had visited, China was seen as more of a threat than the Soviet Union. "Let her sleep, for if she ever wakes, we may never sleep again" quoted President Reagan.

As the meeting ended, President Reagan complimented the Prime Minister warmly on her interview in the Wall Street Journal.

I am copying this letter to Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), John Mogg (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

Yours sincerely,


(C D Powell)

L Appleyard Esq
Foreign and Commonwealth Office

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