



Foreign and Commonwealth Office

London SW1A 2AH

20 February 1981

Dear Michael,

I enclose two copies of briefs for the Prime Minister's visit, which we have just received from Washington, covering:

one copy destroyed

- a. her meeting on Capitol Hill on Thursday 26 February
- b. her visits to the Goddard Space Center and to Genex on Friday 27 February
- c. the Georgetown University Degree Ceremony on Friday 27 February, and
- d. the Donovan Award Dinner in New York on Saturday 28 February.

Personality notes for the Prime Minister's economic lunch on 26 February, her dinner for the President on 27 February, and for the Rockefeller lunch on 28 February will follow early next week.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

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Thursday
Foreign and Commonwealth Office

London SW1A 2AH

23 February 1981

plw brefs.

Dear Michael,

Briefing for Prime Minister's Visit

One of the enclosures to our letter of 20 February was the briefing on the Goddard Space Flight Centre which the Prime Minister is to visit on 27 February.

Washington telno 599 (copy attached) states that President Reagan's proposed budget cuts will have a considerable impact on US Space, Science and Applications Programmes. Some of these involve collaboration with the European Space Agency and/or the UK. Although the Prime Minister's programme does not at present call for discussion of the endangered programmes specifically (the focus is to be on the UK participation in the Solar Maximum Mission), we suggest that the Prime Minister should be made aware of the potential disruption to UK programmes.

I therefore attach two copies of an addendum to the Goddard Space Flight Centre Briefing.

Added

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing Street



PRIME MINISTER'S MEETINGS ON THE HILL
1520-1730 THURSDAY 26 FEBRUARY 1981

Programme

- 1520 Prime Minister, Lord Carrington and party arrive Senate. Met by Senate Sergeant at Arms
- 1525-1540 Private meeting with Senator Howard Baker (R Tennessee), House Majority Leader and colleagues
- 1545-1625 Meeting with members of the Senate Foreign Relations Committee and ranking minority members of other committees. Meeting will probably take the form of brief opening remarks by Senator Baker, Senator Robert Byrd (D West Virginia - Senate Minority Leader) and by Senator Charles Percy (R Illinois - Chairman of the Senate Foreign Relations Committee.) The Prime Minister will be asked to speak (5 minutes), followed by Questions and Answers.
- 1625 Depart for Rayburn House Office Building. Met by House Sergeant at Arms and by Congressman Clement J Zablocki (D Wisconsin - Chairman of the House Foreign Affairs Committee).
- 1630-1725 Meeting with members of the House leadership and House Foreign Affairs Committee together with Chairmen and ranking minority members of other committees. The Prime Minister will be introduced by the Speaker, Tip O'Neill, House Minority Leader, Robert Michel (R Illinois) and Chairman Zablocki. The format will be the same as in the Senate.



Background Note

Senate

The following is the composition of the new Senate with figures for the old Senate in brackets:

Republicans	53	(41)
Democrats	46	(58)
Independents	1	(1)

The new Senate contains the largest number of Republicans since the 71st Congress (1929-31). The Republicans have not controlled the Senate since Eisenhower's election victory of 1952. In the November elections, the Republicans held all of their 10 seats which were at stake (Arizona, Kansas, Maryland, Nevada, New York, North Dakota, Oklahoma, Oregon, Pennsylvania and Utah). The Democrats lost 12 of their 24 seats which were up for election (Alabama, Alaska, Florida, Georgia, Idaho, Indiana, Iowa, New Hampshire, North Carolina, South Dakota, Washington and Wisconsin).

Briefing notes on the Senate leadership, members of the Senate Foreign Relations Committee and Chairmen and ranking minority members of other committees are attached.

House

The composition of the House in the 97th Congress is:

Democrats	242	(276)
Republicans	192	(159)
Independents	1	

The Democrats now have a majority of 50, as against 117 before the election.

Thirty three incumbents were defeated on 4 November (29 Democrats and 4 Republicans). Defeated incumbents included one member of the Democratic leadership (Majority Whip John Brademas of Indiana) and one member of the Republican leadership (GOP Conference Chairman Samuel Devine of Ohio).



Democratic losses also included four Committee Chairmen (Al Ullman of Oregon - Chairman of Ways and Means; Harold Johnson of California - Chairman of Public Works; Frank Thompson of New Jersey - Chairman of House Administration; and John Murphy of New York - Chairman of Merchant Marine and Fisheries). The Democrats lost 10 open seats ie those vacated on the retirement of the incumbent - and retained 16 others. The Republicans lost one open seat (Andrews of North Dakota) and held 15 others. There are 76 new members in the House: 24 Democrats and 52 Republicans. There will be three new Congresswomen bringing the total number of women in the House to 19, equal to the previous record of the 94th Congress. This number compares with 13 women in the House of Commons.

Biographical notes attached.

Subjects for discussion

Both House and Senate will be deeply involved with the Administration's economic proposals and there will be interest in British economic performance since the Prime Minister's last visit. The Republicans will be looking for reassurance that the British Government's policies are working while some of the Democrats may be looking for opportunities to show, by our example, that President Reagan's policies will create hardship with no certainty of ultimate success.

There may be interest in the state of the Alliance; Britain's own cautioned willingness to meet the NATO 3% target and our view of the appropriate Allied response to Soviet intervention eg in Poland or in the Gulf.

There may be questions about the European Middle East initiative and suspicion of European undermining of the Camp David process.

RESTRICTED



Other possible subjects include: the Soviet/Cuban threat in the Caribbean and Latin America (especially El Salvador); Southern Africa; and Terrorism, possibly in the context of Northern Ireland.



PRIME MINISTER'S VISIT : VISIT TO GODDARD SPACE FLIGHT CENTER
08.40 FRIDAY 27 FEBRUARY 1981

Programme:

- 08.40 Prime Minister and party arrive at the Goddard Space Flight Center, Greenbelt, Maryland. Met by Mr A Thomas Young, Director GSFC. Dr Anthony J Calio, Associate Administrator for Space and Terrestrial Applications at NASA HQ will be in attendance.
- 08.45 - Brief description of Goddard mission. Description
09.05 of network operations control center with emphasis on the launch activities for the new spaceshuttle.
- 09.05 - Tour of building 14 including computer facilities and
09.15 NASCOM (NASA Communications).
- 09.15 - Travel to building 7, Clean Room
09.20
- 09.20 - Description of projects involving cooperation with
09.35 the UK including the Solar Maximum Mission (SMM), International Ultraviolet Explorer (IUE) and the Ariel series of UK scientific satellites. This discussion will be led by the group of UK scientists at present working at Goddard (primarily on the Solar Maximum Mission) and by Mr K Frost, the American project leader for SMM.
- 09.40 Depart Goddard Space Flight Center.
09.40



BACKGROUND

The Goddard Space Flight Center

1. Goddard is one of the eight main NASA field centres. It is named in honour of Dr Robert H Goddard, one of the pioneers of American space exploration. The Space Flight Center is concerned primarily with space science, earth science and space applications using mostly near-earth satellites, both manned and unmanned. As a necessary part of this work, Goddard has a central role in NASA tracking and communications networks and in data acquisition and analysis and has considerable capability in spacecraft design and integration. Goddard has a staff of around 3,500 with additional independent contractors' employees also on site. The budget for programme management (excluding extra-mural programme costs) is around \$140 million.

Space Science and Applications Programmes

2. The UK participates in space science and applications both through its subscription to the European Space Agency (ESA) and in bilateral or multilateral arrangements with the US and other countries. The latter programmes are usually initiated by NASA and managed by the Goddard Space Flight Center. They afford excellent opportunities for UK scientists to participate in state-of-the-art research and development at relatively low cost. Some examples are:

- (a) Solar Maximum Mission (SMM): An international scientific study of solar flare phenomena. The spacecraft carries seven instruments, two of which were developed in the UK, by Birmingham University (with the University of Utrecht) and by London University and the SRC. Further details at Annex A.
- (b) International Ultraviolet Explorer (IUE): A cooperative project between NASA, the European Space Agency and the

/SRC



SRC to study celestial objects which emit UV radiation not visible from the ground. Four detectors were provided by the SRC in collaboration with London University.

- (c) Earth Observation Satellites: Goddard has a major involvement in the development, tracking and control of earth observation satellites, for terrestrial, maritime and meteorological applications, often on behalf of other US operational agencies. The UK has participated in several of these, either through the provision of instruments (NOAA-A and NIMBUS-7 weather and oceanographic satellites), through data acquisition (SEASAT oceanographic satellite), or through the commercial or scientific use of data (LANDSAT earth observation satellites).

PERSONALITIES

- 4. A Thomas Young Director Goddard Space Flight Center
 Born 1938
 Educated University of Virginia. Sloan Fellow at MIT 1971-72
 1961-65 Langley Research Center, Virginia, working on project Vector.
 1965-68 Mission definition manager for the lunar orbiter project.
 1968-76 Worked on the Viking mission to place an automated spacecraft on the surface of the planet Mars, firstly with responsibility for the development of the Mars mission objectives and subsequently as the Viking science integration manager, the Viking mission operations manager and finally as mission director.
 1976-79 Director of the planetary programme in the office of space science at NASA HQ.
 1979-80 Deputy Director of the NASA AMES research center. February 1 1980, appointed Director, Goddard Space Flight Center.

/5.



5. Dr Anthony J Calio Associate Administrator for space and terrestrial applications.
Educated University of Pennsylvania and Carnegie Institute of Technology. Sloan Fellow at Stanford University 1974-75.
1963 Electronics Research Task Group NASA
1964 Chief of Research and Engineering, Electronics Research Center, Boston.
1965-75 Major responsibility for the Appollo Lunar Science Programme, firstly as Chief, Systems Integration and Coordination, Manned Space Science Programme Office, NASA HQ, and subsequently as Director of Science and Applications at Johnson Space Center.
1975-77 Deputy Associate Administrator for Space Science, NASA HQ.
1977- Associate Administrator for Space and Terrestrial present Applications.
6. UK Scientists working on the Solar Maximum Mission are:
Christopher Rapley) Mullard Space Science Laboratory
Robert Bentley) University of London
George Simnett) University of Birmingham
Ken Phillips)
Roger Burdett) Rutherford and Appleton Laboratories
John Sherman) Science Research Council

The Solar Maximum Mission

Objective: - to study solar flares with a view to elucidating the physical mechanisms involved in the storage and release of flare energy.

Background: - Owing to their transient and unpredictable nature and the extension of their emission over up to twelve decades of the electromagnetic spectrum, observations of flares prior to SMM were highly incomplete, making it impossible to distinguish between the variety of proposed flare models. However, a detailed understanding of observed solar phenomena is of primary importance to Astronomy (the Sun is so much closer to us than any similar celestial object) and flares in particular are of interest since they cause a variety of disruptive secondary effects at the earth and because the physical processes involved and the observational techniques used have close analogues in fusion research.

Mission Philosophy: -

- to assemble a complementary set of co-aligned instruments capable of providing images and plasma diagnostic information covering the wavelength range from the optical through to gamma-rays.
- to provide sufficient on-board computing power that instruments should be able to respond to the detection of a flare in real time with no ground intervention, and to execute appropriate series of joint observations.
- to support the SMM with coordinated observations from a world-wide network of optical and radio observatories as well as with observations from other spacecraft.
- to arrange for the experiment scientific teams and their Guest Investigators to work at the Goddard Spaceflight Centre in order to facilitate joint analysis of the flare data with the possibility of scientific feedback into the mission operations.

Status: -

- The mission has been highly successful, with innumerable joint data sets having been obtained, to the extent that it will take many years to fully analyse the information obtained.
- Unfortunately a technical problem with the observatory occurred shortly before completion of the first year of operation. Currently two of the instruments continue to operate whilst the remainder await attempts to minimize the impact of the problem. Ultimately the problem may be corrected in orbit using the Space Shuttle.

UK Involvement: - Two UK groups, the Mullard Space Science Laboratory of University College, London, and the Space and Astrophysics group of the Rutherford Appleton Laboratory worked with the Lockheed Palo Alto Research Laboratories (USA) to build the X-ray Polychromator for the SMM. This experiment consists of two forefront-of-technology sets of Bragg Crystal spectrometers, one of which is entirely novel in its design. These instruments provide maps in soft X-rays, with high spectral and temporal resolution to permit detailed studies of the behaviour of flare plasma in the temperature range $2 \rightarrow 30$ million degrees Kelvin.

The University of Birmingham and the University of Utrecht jointly built the Hard X-ray Imaging Spectrometer for the SMM. This instrument is entirely new and has provided the first ever opportunity to image and thereby locate the flare hard X-ray emission. Data from this experiment have already confirmed the presence (long suspected) of intense electron beams during the early stages of flares. In addition the instrument provides a flare alert with location and other information to the rest of the spacecraft.

Achievements so far: -

- (i) Advances in the understanding of solar flares.
- (ii) Advances in the understanding of other solar phenomena (eg: radio noise storms, coronal transients).
- (iii) Stimulation of advances in atomic physics theory (particularly in Europe) of value in their own right but also with applications in the analysis of fusion experiment data.
- (iv) First attempt on such a massive scale to achieve a coordinated joint study of a specific astronomical problem

It should be noted that a number of Ph. D. students have participated in the mission as members of the University teams. Several of these have since accepted positions within British Aerospace or other UK high-technology industries.

C.G. Rapley
16 February 1981

PRIME MINISTER'S VISIT: VISIT TO GODDARD SPACE FLIGHT CENTER
08.40 FRIDAY 27 FEBRUARY 1981

ADDENDUM

As part of his proposed budget cuts President Reagan is seeking to make substantial savings on space science and applications through cuts or deferrals of several space science programmes being prepared by NASA and Earth Observation Programmes managed by the National Oceanic and Atmospheric Association (NOAA). The UK was to participate in three of the space science programmes, either on a bilateral basis (the Gamma Ray Observatory) or as a member of ESA (the International Solar Polar Mission and the Galileo Mission to Jupiter) and planning for these must now be disrupted. In addition interest was growing in the UK in the potential applications of the National Oceanic Satellite System for observation of the oceans, which was to have been operated by NOAA. There is growing concern that access to Spacelab will be increasingly difficult in future.



PRIME MINISTER'S VISIT TO GENEX CORPORATION : ROCKVILLE, MARYLAND
10.15 FRIDAY 27 FEBRUARY 1981

Programme:

- 10.15 Prime Minister and party arrive at the Genex Laboratory facilities at 12300 Washington Avenue, Rockville, MD, 20852 (Telephone (301) 468 6622). Met by Dr J Leslie Glick, President and Chief Executive, and Dr David A Jackson, Vice President and Scientific Director of Genex, and taken to office for a ten minute briefing and slide-show on the activities of the Company.
- 10.30 Walk round laboratories, concentrating on experiments, apparatus and activities peculiar to genetic engineering. The main work at Genex is aimed at developing specific products by means of:
- (a) Genetic improvement of current microbial processes used in fermentation.
 - (b) Genetic manipulation of micro-organisms to improve the yields of commercial products.
 - (c) Construction of new microbial strains to make projects not possible using existing microbes.
- End products can be of use in the pharmaceutical, agricultural, food processing, chemical and energy industries.
- 11.00 Discussion with Dr Glick on the future prospects for firms like his in the US, UK and world-wide, embracing scientific, social, political and commercial constraints. Government regulation is handled differently in the US and UK as is industry-university collaboration.
- 11.15 Prime Minister's party departs for Georgetown University.



BACKGROUND ON GENEX

1. Dr Glick, an industrial biologist, and Robert F Johnston, a venture capitalist, founded the Company in 1977 with finance initially from a venture capital group backed by Monsanto and Emerson Electric Company, and later from the Koppers Company. Dr Glick and Mr Johnston saw the commercial possibilities and have had no difficulty in raising the capital to sustain a growth of over 30% per annum since 1977. This growth is typical of that in many new companies in high technology innovatory fields like genetic engineering and microcircuitry in the US. Genex is one of the four leading companies in its field. At present the laboratory covers 18,000 square feet and employs 75, of whom half are PhD's. Later this year, they are opening a second laboratory on premises covering 90,000 square feet on another site nearby. The area between Washington and Frederick has been referred to as "Gene Valley" because of the recent growth in genetic engineering companies. In addition to its own research, Genex does genetic toxicology assays, contract R & D and consultancy. They already have clients in Japan and Europe and are actively seeking commercial partners, which could be British.

PERSONALITIES

Dr Glick took his AB in 1961 and his PhD in 1964 at Columbia University, and was then a Post-doctoral Fellow in Biochemistry at Princeton for a year. From 1965 to 1970 he carried out cancer research at Roswell Park Memorial Institute, Buffalo, New York, finishing as Chairman of Physiology from 1969 to 1977. He was successively Vice President, President and Chairman of the Board of Associated Biomedic Systems, a biological manufacturer and R & D company in Buffalo, New York. Concurrently, he served from 1975 to 1977 as President of the Institute of Scientific and Social Accountability in Washington, DC, an evaluation research organisation. He has just written a chapter for a book to be

/published



published later this year. The chapter is entitled "Impact of Recombinant DNA Technology on the Economy" and the book is Volume II of "Biomedical Scientists and Public Policy."

Dr David A Jackson took his AB at Harvard in 1964 and his PhD in 1969 at Stanford. After research in biochemistry at Stanford from 1969 to 1972 he served as an Associate Professor of Microbiology at the University of Michigan from 1972 to 1980. He joined Genex full-time in 1980 having previously been part-time Chairman of the Genex Scientific Advisory Board. His pioneering work on recombinant DNA technology is widely acknowledged and he has written a recent book entitled "The Recombinant DNA Debate."



PRIME MINISTER'S VISIT: HONORARY DEGREE CEREMONY AT
GEORGETOWN UNIVERSITY AT 12 NOON ON FRIDAY 27 FEBRUARY 1981

Programme

1200

Prime Minister and party arrive at the Healy Building, Georgetown University. Met by Father Timothy S Healy SJ, President of the University. The Prime Minister will be taken to Father Healy's office where she will put on her academic robes (cap and gown).

1213-1300

Academic procession to Gaston Hall (within Healy Building). The degree ceremony consists of an opening prayer, a welcome by the Provost, The Reverend J Donald Freeze SJ, a reading of the University Charter and a reading of the degree citation itself. The degree is an honorary Doctor of Laws degree which will be conferred by Father Healy who will place on the Prime Minister an academic hood and present the degree diploma. Father Healy will then make a short speech followed by the Prime Minister's speech, a closing prayer and a psalm.

Gaston Hall, in which the ceremony will take place, seats 685 people. There will be 300 students present, 200 members of the faculty and invited guests and members of the press. Once the ceremony is over the Prime Minister will return to Father Healy's office where drinks will be served followed by lunch at about 1330. During the lunch, Father Healy will propose a toast to the Prime Minister. The Prime Minister, in return, may wish to propose a toast to the University. A guest list for the lunch is attached.



History of Georgetown University

Georgetown is the oldest Catholic institution of higher learning in the United States, founded by the Jesuits in 1789. It has 1200 students, of whom 60% are Catholic. Georgetown is probably the most prestigious of the six universities in Washington DC. It has five schools (arts and sciences; nursing; languages and linguistics; foreign service; and business administration). The University also runs a modern teaching hospital where Father Healy spends a considerable portion of his time. Also attached to the University is the Center for Strategic and International Studies (CSIS) whose Director, Dr David Abshire, headed the Reagan foreign policy transition team. CSIS has contributed a number of its people to the new Administration, including the Ambassador to the UN, Dr Jeane Kirkpatrick. Dr Brzezinski, the former National Security Adviser, now has a fellowship at CSIS.

Biography of Father Timothy S Healy SJ President of Georgetown University

Born 1923

Educated in New York, Maryland, Louvain (Belgium), Valencia and Oxford (D Phil 1965, MA 1979).

1946-49 Instructor and later Professor of English and
 Senior Vice President at Fordham University
1969-76 Professor of English, City University of New York
1976 President and Professor of English at Georgetown
 University

English is Father Healy's speciality and his Oxford doctoral thesis concerned the poetry of John Donne on whom he is shortly to publish a book. He is an expert on 17th century English literature. Has taught a University course on Chaucer.

Father Healy is engaging, a devoted priest but also a man of the world. He has been a successful and controversial President of Georgetown, taking a strict line on moral issues, forcing the editors of a student newspaper to drop an advertisement on abortion and refusing to grant official recommendation and subsidy to a student homosexual group. Asked in a recent interview about his

/political



political affiliations he said: "Listen, old buddy, I'm a Democrat. I am a New York Irish Catholic. I was born with a party affiliation. It came with baptism."



THE DONOVAN AWARD DINNER : WALDORF ASTORIA : NEW YORK
SATURDAY 28 FEBRUARY 1981

Programme:

- 19.00 - Prime Minister, Mr Thatcher, Miss Thatcher and members
19.30 of the Prime Minister's party are escorted by Mr Geoffrey Jones, President of the Veterans of the OSS, to ante room to Grand Ballroom to attend reception for principal guests (list to follow).
- 19.30 Prime Minister and other guests go into dinner. Prime Minister seated by Mr Geoffrey M T Jones. Presentation of Colours by Colour Guard. National Anthems. Blessing by Episcopalian Minister. Singing by cadets of West Point.
- 20.15 Dinner begins.
- 21.30 President of Veterans of OSS introduces principal guests.
William J Casey (Director of Central Intelligence and Dinner Chairman) introduces Prime Minister
Presentation of award by John M Shaheen (Chairman of Donovan Award Committee)
Photographs
Speech by Prime Minister
Benediction by representative of Cardinal Cooke.
- 22.15 Dinner ends.
approx



BACKGROUND

1. The Veterans of the OSS brings together every two years former members of the Office of Strategic Services, the wartime predecessor of the CIA. At reunion dinners they present the Donovan Award to "an individual who has rendered distinguished service in the interests of the democratic process and the cause of freedom". Previous recipients of the Award were:

1961	The Honorable Allen W Dulles
1963	The Honorable John J McCloy
1964	Lieutenant General William W Quinn
1965	General of the Army Dwight D Eisenhower
1966	The Earl Mountbatten of Burma
1967	The Honorable Everett McKinley Dirksen
1969	J Russell Forgan
1970	The Astronauts of Apollo II
1971	The Honorable David K E Bruce
1974	The Honorable William J Casey
1977	The Honorable Robert D Murphy
1979	His Excellency Jacques Chaban-Delmas

The Office of Strategic Services (OSS)

2. In 1939, the USA had no real foreign intelligence service. In July 1941, President Roosevelt appointed the charismatic 58-year old General "Wild Bill" Donovan to be "Coordinator of Information" - head of the USA's first central intelligence system. A year later, Donovan's organisation was renamed the Office of Strategic Services. The OSS grew to comprise 5 major components: Secret Intelligence, or the clandestine collection of intelligence; Secret Operations (SO) whose operatives ran resistance networks in France and worked with the British; Research and Analysis, a precursor of the National Foreign Assessments Center at the CIA which the Prime Minister visited in 1977; Morale Operations (MO) or black propaganda; and "X-2", or counter-intelligence. By 1944, the OSS numbered some 15,000 men and women.

/3.



3. William Casey organised a Secretariat for the OSS in Washington (as a young Naval Lieutenant), and was sent to London (1943) initially to establish a secretariat for Col David Bruce. Casey soon became (1944) Chief of Secret Intelligence (SI) in Europe, under David Bruce as Commanding Officer for European Operations for OSS.

4. Though there was a great deal of cooperation between the OSS and British Intelligence, it was not always a frank and comfortable relationship, in the view of a significant number of OSS veterans. The British were the tutors and mentors of the fledgling but fast-growing American intelligence arm, and while the teaching was welcome to all, the tutor was resented by some. There were policy disagreements between eg the SOE and the junior partner, the American SO. For example, the British doubted the wisdom of the American intent to try to penetrate Nazi Germany with agents given the absence of an indigenous resistance movement (such as existed in enemy-occupied France); given earlier success in "doubling" the German espionage organisation in the UK; and given the Ultra code-breaking weapon. It was with some reluctance, and after some delay, that the British agreed that England could be used as a base for American operations in Germany.

5. Former OSS officers thus range in their attitude to Britain from the blinkered and devoted Anglophile to the resentful (sometimes privately so) and equally blinkered Anglophobe. There are probably more who retain respect and affection for their former mentor, and nostalgia for the heyday of the OSS, than there are of the more cynical and questioning ones.

BIOGRAPHICAL NOTES

General William J Donovan was born in 1883 in Buffalo New York. He served in the "Fighting 69th" Infantry Regiment in World War I, receiving the three highest military decorations of the United States.

/He had a



He had a distinguished career in law, serving as Acting Attorney General and conducting three landmark cases before the Supreme Court.

In 1935 Donovan visited Italy and Ethiopia to look into the circumstances surrounding the Italian invasion. In 1937 he went on a fact-finding mission to Spain during the Civil War. In 1940, following the fall of France President Roosevelt sent Donovan to Britain to assess the situation. Donovan's report was instrumental in securing Roosevelt's support for supplying destroyers to Britain. Churchill thanked Roosevelt "for magnificent work done by Donovan who has carried with him through an animating, heartfelt flame".

In 1941 Donovan was appointed Coordinator of Information. In 1942, following Pearl Harbour, the title of this job was changed to Director of the new Office of Strategic Services (OSS).

- 1944 Promoted to Major General
- 1945 Prepared US brief for the Nurnburg trials.
- 1946 Returned to law practice in New York.
- 1953-54 Ambassador to Thailand

In 1957 he suffered a serious stroke and died two years later, aged 76.

William J Casey, Director of Central Intelligence. Honorary Chairman of the Donovan Award Dinner Committee (co-chairmen are Evangeline Bruce, widow of Ambassador David Bruce and Owen McGivern, a retired federal judge who acts as master of ceremonies). Age 67. A career lawyer and author of books on law and business administration. In the US Naval Reserve in World War II, he was an aide to Bill Donovan in the Washington HQ of OSS; Chief of Special Operations in the OSS London HQ and Chief of Secret Intelligence for Eisenhower's theatre of war.

- 1969-77 Served on a number of Presidential commissions, some related to intelligence, foreign policy and arms control.

/1971-76



1971-76 President and Chairman of the US Export-Import Bank and successively Chairman of the Securities and Exchange Commission and Under Secretary for Economic Affairs at the State Department.

Geoffrey M T Jones President of the Veterans of the OSS

Age 61

Grew up in France

1942 Joined US Army

1944 Posted to Algiers where he was in charge of training and despatching agents and Commando Groups in support of the invasion of Southern France (Operation ANVIL)

July 1944 Parachuted into France as a Delegue Militaire for General de Gaulle to the Var and Alpes Maritimes to coordinate the resistance groups in support of ANVIL.

1944-45 Organised and commanded OSS Nice.

Since the war he has worked as an advertising executive and management consultant.

Decorations include OBE (Military) and Croix de Guerre

John M Shaheen Chairman of the Donovan Award Committee

Age 65 President of Shaheen National Resources Co Inc and the Macmillan Ring Free Oil Co Inc. An oil company executive, Mr Shaheen received ECGD credit for the "Come by chance" oil refinery which he established with British equipment in Newfoundland in 1973/74. The company subsequently went bankrupt.

PRIME MINISTER

Points to Cover in your Talks with
President Reagan

EAST WEST RELATIONS

President Brezhnev's speech - some interesting features (in particular extension of area covered by CBMs) but nothing really new. Need for a considered reaction. President's reaction to Summit proposal.

Poland - assessment of present situation. Mildly encouraging? Need to maintain a "hands off" posture.

Afghanistan - Western objectives unchanged. Importance of Pakistan's position. Message from President Zia. Does the President envisage strengthening US commitment to Pakistan?

NEED FOR ALLIANCE CO-ORDINATION

Importance of NATO and, more specifically, quadripartite machinery. Possibility of a directive from Foreign Ministers about the priority to be given to quadripartite consultation. President's attitude to quadripartite summits.

DEFENCE POLICY

Nuclear understandings.

TNF deployment and arms control. Importance of maintaining both halves of NATO's double decision. Particularly significant for the Germans.

/ MIDDLE EAST

MIDDLE EAST

Arab/Israel dispute: how do the Americans see the continuation of Camp David? Role for Europe? Seen by us as complementary not competitive.

Iran/Iraq: will the hostilities spread or stabilise? Importance of the Gulf. Welcome signs of co-ordination among the Gulf states. Will the Americans pursue the Rapid Deployment Force? UK willing in principle to help. Your visit.

SOUTHERN AFRICA

Namibia: does President Reagan envisage pursuing a policy similar to that of the previous administration? Possibility of present OAU meeting resulting in General Assembly debate and, ultimately, Chapter 7 Resolution. The veto?

CENTRAL AMERICA

El Salvador : sympathise with US objectives. But what action is proposed? Difficulties of publicly supporting extremist regimes (Schmidt's attitude).

Belize/Guatemala: desirability of early agreement. Hope that Guatemala can be encouraged to moderate claims.

WORLD ECONOMY

Recession and the causes thereof: Ottawa Summit - President Reagan's views on attendance and agenda.

North/South: Mexico Summit - does President Reagan plan to attend? Is he seeking postponement? If so, for how long?

/ FAST REACTORS

FAST REACTORS

Is the new administration interested in Anglo/American co-operation in this field?

IRELAND

Likelihood that hunger strikes are about to recommence.
HMG will not change position on political status.

AmS

26 February 1981

POINTS FOR MEETING IN DODStrategic Nuclear Balance

What view do you take of it?

What are US intentions - land based missiles, sea launched missiles, new bomber aircraft? Any moves foreseen ^{by} ^{OR} ^{by} ^{IN} US, ^{OR} Soviet ^{IN} Anti Ballistic Missile area? What about SALT?

THEATRE NUCLEAR

UK moving steadily ahead -GLCM bases announced, work and planning progressing. Still very sensitive for Germans, Dutch and Belgians in particular. ERW doesn't help. New public programme of SLCMs could lead to European backsliding. Importance of SALT, arms control. Careful handling. UK will help.

US DEFENCE BUDGET

Tough to find money in hard times. UK kept its end well up. Where will new US money go? Much on pay and recruiting? What about new weapons? Chemical warfare?

NATO

Cause for concern. Lack of political and economic robustness. Needs careful and skilled approach. What about 3%? Will it run? Are there other approaches? Equipment costs rising fast. Some initiative needed. Need to develop dialogue about way forward.

S.W. ASIA

What is RDJTF plan? Is it intended to fight and hold a Soviet invasion? Or to offer public proof of risks Soviets would run and pose threat of escalation? What about basing? Glad to help

on Diego Garcia. Other UK involvement includes training, visits overseas and ship deployments. What do you see as role for Allies? Effect on NATO.

EQUIPMENT

Major issue. All hard pressed on costs. Strong industrial base on both sides Atlantic essential - crucial to European sense of involvement and public support. UK/US trade imbalance 1:3 US/Europe 1:10. Not looking for charity - will compete and can compete. Must not duplicate effort. Need to specialise more. Real way of increasing output. UK has smart technology.

Glad that Rapier Low Level Air Defence System and Combat Support Boat agreed.

Disappointed and embarrassed by way Congress undermined JP233 (a weapon to deny use of airfields by crating runways and dropping small mines). Your predecessors cancelled in December 1980. You may have better news? Encouraging. Staffs discuss urgently BUT we attach great importance to early in Service date for TORNADO and other aircraft.

What about US position on AV8B? Previous administration unclear about it. New administration may say they are recommending production funding (on what scale)? to Congress. UK still evaluating studies and in middle of annual review of budget. Accept need to decide how to proceed and will move as fast as possible.

Looking at our position on TORPEDOES. STINGRAY doing well - appreciate US requirement for Advanced Lightweight Torpedo different but some of STINGRAY technology may be useful. No need for us all to go on re-inventing everything. Should discuss.

/ OTHER ITEMS:

OTHER ITEMS:

SEARCHWATER RADAR (detects periscopes and surface ships from an aircraft) recently demonstrated to US Navy which is interested.

WAVELL computerised battlefield command and control system.

GIANT VIPER -a mine destroyer on the battlefield.

SCORPION light tank.

HAWK jet trainer for US Navy.

SHIPS STABILISERS

81 MM Mortar - an amazing saga.

Could you really have a good look. We shall be buying more things from you - in addition to TRIDENT - and must get two way trade moving.

Two last points

First, must build up real confidence and get message down the line.

AIR to AIR MISSILE PACKAGE crucial. (US doing medium range and Europe short range). Let's try and make it work. Second, worry about

Congress and continuing funding of projects. Continual battle and

sometimes cancellations (JP233, Multiple Launch Rocket System and

in part MALLARD and so on. Can anything be done to make the foundations firmer?



PRIME MINISTER'S VISIT TO WASHINGTON :
ECONOMIC INDUSTRIAL LUNCH : 26 FEBRUARY

1. The Amabassador opened the discussion by suggesting that it should concentrate on three areas. He would first invite the Prime Minister to give her prognosis for the UK economy. He would then welcome a contribution from the American guests, and particularly Secretary Regan, on the Administration's programme for the US economy and particularly on the time-scale within which they expected to see results. Thirdly, he thought it would be interesting to discuss how far governments should or should not take steps, outside the area of fiscal policy, to deal with industrial problems, particularly at a time of economic instability and of increasing competition from the newly industrialising countries.
2. The Prime Minister began by underlining three elements in the US economy which made it different from the UK. These were first that it had great underlying strength, based on free enterprise and risk-taking. Second, that it was not overburdened with nationally owned industry. Third, that the trade union factor in the US was quite different.
3. But there were a number of factors in common. Both economies had in recent years suffered an endemic tendency to inflation. If their politicians had been more strong-minded in carrying out their chosen policies, this inflation could have been avoided. But in Britain, the underlying rate of inflation had increased steadily from the 1960s onwards, and during the last Parliament had reached an average annual rate of 15%. This was partly because politicians had given way to pressures which had made it necessary to raise taxes beyond reasonable levels and to borrow above reasonable interest rates.
4. The answer to this was to return to sound money. The Prime Minister did not propose to discuss the technicalities. The basic point was that no money supply policy could be made to work properly with high borrowing by the public sector forcing up high interest rates. The single most important step to be achieved was to cut public spending. Money supply policies would then fall into their proper place and risk-taking could resume. In Britain, we had pursued a tight monetary policy and inflation was coming down. It was now running at an annual rate of below 9% which was good.
5. There were other problems. First, there was a very strong pound as a result of high interest rates and North Sea oil. This left industry less competitive than it would otherwise be. Even more difficult was the problem of high unemployment which resulted partly from squeezing out inflation and partly from reductions in over-manning. This was a problem which should have been tackled years ago and delay in tackling it had made it worse.



6. But there was a bright side as well. Pay settlements had been very much more reasonable and were now mostly in single figures. The balance of payments had been very strong, not simply because of North Sea oil, but because British companies were operating in a more dynamic way. There had been a real sea change in attitudes. The Prime Minister believed that once we had got through the present period of high unemployment, and given our independence from the rest of the world for resources of energy, Britain would be a very formidable competitor.

7. The Secretary of the Treasury acknowledged that the US economy was relatively strong, but at present it was growing weaker. Turning at once to the budgetary problem, he said that the figures available when the new Administration's economic policy was being drawn up, had turned out to be radically wrong. The revised figures on which they were now working made the problems much more difficult to solve within the time frame they had chosen.

8. Mr Regan continued that there were four parts to US economic policy. First, strict fiscal policy. This meant large budget cuts, starting with a reduction of \$41½ billion, or 8%, in the first year and rising to \$50 billion. Second, an enormous tax cut. Mr Regan admitted that there was some discussion even within the Administration about whether this would be inflationary. Third, deregulation. A task force had been set up to deal with the problem of excessive regulation. The new Chairman of the Council of Economic Advisers, Mr Weidenbaum, was an expert in this field. The aim of this part of the policy was to achieve substantial increases in productivity. Fourth, a tight monetary policy. This was the independent responsibility of the Federal Reserve, but Mr Regan commented that the line which Mr Volcker was proposing to take was in full accord with the Government's general purpose.

9. Mr Regan said that all the four elements in the programme were closely interwoven. There had been some criticism that the new Administration had not acted fast enough. But within the first thirty days, they had proposed the largest budget cuts, the largest tax reductions, and the most sweeping dismantling of regulations that had ever been put forward.

10. As far as the political acceptability of the programme was concerned, the Republican Party had a majority of three in the Senate, but games would be played in the House. It was difficult to predict the outcome. The Administration could propose, but others could dispose. Mr Regan was himself confident that the President's skill as a communicator would enable the Administration to carry their policies through.

/11.



11. As to results, the Administration expected to reduce the GNP price deflator from 9½% to 5% by 1985. An important factor in achieving this would be the incentive effect of tax cuts, both on businesses and on individuals. Reduction in capital gains tax should help to restore the level of savings. The proposed changes in depreciation allowances should encourage industrial investment and improve productivity. This should help to increase exports and lead to a stronger dollar. Mr Regan believed that this programme would succeed.
12. Mr Weidenbaum, Chairman of the Council of Economic Advisers drew on the theme of innovation in the new Administration's economic policies. They had looked not for any particular doctrine, but for what would work in this nation.
13. Congressman Reuss commented that we were all now monetarists and supply-siders, and observed that the IMF and the World Bank also had a part to play in dealing with world economic problems.
14. The Secretary for Energy in a brief general intervention, commented on the importance of getting the energy equation right. This would need to include a renewed emphasis on the development of nuclear power: the US Government was looking forward to collaborating with the UK on nuclear breeder reactors. He went on to emphasise the importance of movements in the price of oil in the struggle against inflation.
15. The Prime Minister commented that inflation could not be blamed on movements in the price of oil. The Germans and the Swiss had not suffered from inflation as a result of the oil price explosions of the 1970s. They had refused to print money to pay for the increase. In countries where this had not happened, the politicians had a heavy responsibility. When the price of oil increased, expenditure on something else had to be reduced in order to make room for it. This was the only way to achieve sound money. There was no inflation in a barter society. In her view, monetarism was like gravity. It was not a doctrine. It was there.
16. The Secretary of Commerce suggested that it would be unwise to put exclusive emphasis on monetary policy as the weapon for conquering inflation. We should not ignore the importance of pursuing responsible fiscal policies as well. Otherwise interest rates would rise to the point where it was impossible for industry to compete.
17. Mr Rohatyn (Lazards) commented on the strength which the UK derived from its energy resources. For the US, energy was an Achilles heel. He pleaded for a gasoline tax as the only means of curbing US consumption of energy and helping to balance the budget. As a Democrat, he supported the Administration's programme. There was no alternative.

/18.



18. Mr Greenspan (Economic Consultant) welcomed the universal recognition round the table that none of us could any longer live with inflation. There could be no solution of our economic problems without controlling inflation. This was an absolutely fundamental goal and he was encouraged to hear the Prime Minister say that the UK would not compromise on this.

19. Mr Wriston (Citicorp) said that enormous intellectual capital had been invested in economic systems which had not worked. But a change in attitude was now taking place across the country. People were ready to try something else.

20. Congressman Evans welcomed President Reagan's emphasis on working with Congress. The US people were tired of politics as usual. There was strong support for change. He thanked the Prime Minister for the courage she had shown and for setting an example to the rest of the world. He also expressed support for the work of the IMF and the World Bank.

21. The Ambassador asked when results might be expected from the Administration's economic policies. Mr Weidenbaum forecast that 1981 would be a mediocre year. But results might begin to be expected in 1982. The US economy had taken decades to get to the position it was now in. It would take some time to get it straight. He asked in return what the Prime Minister thought.

22. The Prime Minister replied that, as she had already said, the US was starting from a different point. Americans were still in the business of risk-taking. In the UK, incentives to take risks had all but disappeared with tax levels of 83% on earned income and 98% on savings. Her first step had had to be to reduce those disincentives.

23. She was confident that the US economy would come through the present recession. But she warned that it would be rough going for the first year. The Administration would be criticised as hard and flinty-faced. In the UK, she had remained hard and flinty-faced because she cared about pulling the country through. The UK was still in for a difficult year or 15 months. She had said at the beginning that it would take three years for her policies to bear fruit.

24. Mr Lewis Preston (Morgan Guaranty) said that he thought present policies were running high risks. Expenditure should be cut first. Tax reductions should wait. Mr Regan replied that unless tax levels were reduced, fiscal drag ("bracket creep") would destroy incentives completely. The savings rate was already down to 5%. Historically it had been 7 to 8%. How could the US economy become more productive if no encouragement was given to industry to modernise?

/25.



25. At the end of the discussion Mr Greenspan said that in his view, it was not a question of how much time the new policies would take to work, but how much time we had got. While interest rates remained at their present level, long term assets were being funded by short term liabilities. Measures were needed to reduce inflationary pressures quickly so that interest rates could come down. Otherwise he foresaw a serious threat to the strength of the financial system.

British Embassy
WASHINGTON DC

cc: PS/No 10
Mr Walden
Sir R Armstrong
Sir M Palliser

H M Ambassador
Minister
Minister (Economic)
Minister (Commercial)



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

20 February 1981

1. MR DALTON Not seen by Mr Dalton-Smith
2. PS/MINISTER OF STATE (COMMONS) *plw 23 Feb*
3. PS/CHANCELLOR OF THE EXCHEQUER *plw 23/2*
4. PS/PRIME MINISTER

plw brief.

*Lg
Pmt*

THE PRIME MINISTER'S VISIT TO THE UNITED STATES

UNITARY TAXATION

We have been advised by Mrs Connie Borcken-Hagen of the American Chamber of Commerce (United Kingdom) that two Bills are being introduced in Congress today which seek to curb the application of unitary taxation. Her understanding of the position is that the Reagan Administration had decided to include measures in a second tier economic package in which case legislation might emerge between April and the end of June. However, because of the political arguments likely to arise there may be a move to defer action. In the hope of preventing this she suggested that the Prime Minister might draw attention to the United Kingdom's concern during her visit next week.

We have been unable to confirm any of these views but do not think the unitary tax issue is of sufficient importance to warrant intervention by the Prime Minister. A brief on the subject is attached, in the unlikely event that it is raised on the US side.

M A Keith

M A KEITH
Assistant Secretary

cc Mr Battishill
Mr Corlett
Mr Cropper

Sir Lawrence Airey
Mr Dalton
Mrs Smallwood
Mr Keith (2)

THE PRIME MINISTER'S VISIT TO THE UNITED STATES

Unitary taxation

The application of the unitary basis of taxation by certain American States is an important matter for British business and investment in the US. It is also a sensitive issue of American domestic politics. We do not recommend the Prime Minister to raise this subject. But if it does crop up in any general discussion of tax policy the opportunity might be taken to register the Government's continuing deep concern about the application of the unitary basis to US subsidiaries of British and other foreign companies by some States; and to express the hope that Federal legislation to eliminate this will be enacted at an early date.

Background

The unitary basis is applied to US subsidiaries of foreign companies by California and, in varying degrees, by certain other States. It is so called because it works on the premise that it is unreal to try and compute the profits of any one operation of a multinational business in isolation, because the whole business is a single unit and all its component parts contribute to the profits of that unit. The basis involves taxing a subsidiary company operating in a State on a proportion of the worldwide profit made by the group as a whole and ignores the actual performance of that company in the State. The proportion is determined by various arbitrary criteria such as the ratio of payroll, gross receipts or assets in the State to their world counterparts.

It is a basis which is contrary to the generally accepted international principle of taxing subsidiaries on the profits they actually earn, adjusted if necessary to the profits which would have been made if they had been independent companies dealing at arm's length

with the parent company or other associates. The main arguments against the unitary basis are:

- a. the State employing it is normally taking more than the due share of tax which it would receive on internationally agreed principles,
- b. it takes account of operations which have no relation to the actual business in a taxing State, ignores the commercial results of the business and can produce arbitrary results, and
- c. the costs of supplying information on worldwide profits of a group and otherwise complying with the requirements are extremely high.

Article 9 (4) of the new UK/US Double Taxation Convention which entered into force on 25 April 1980 prohibits the use of the unitary basis by the respective national governments. As originally drafted the Article also prohibited its use by individual States in the USA. The US Senate rejected this, however, essentially on the constitutional point that the Federal Government should not seek to interfere with State taxing rights by means of tax treaties with foreign powers.

Several Bills were introduced in Congress during 1979 to prevent the unitary basis from taking into account the income of companies outside the US. On 19 March 1980 a Note was presented to the State Department by the Italian Government on behalf of the nine EEC Governments expressing concern about the application of the system and urging support for the proposed legislation. Subsequently on ratification of our Convention on 25 March 1980 a further Note was presented by the UK Government deploring the continuance of the system.

Hearings on the Bills were held in March and June last year but, despite US Treasury support, no progress was made before the Presidential election. It is understood that two further Bills have just been introduced but it is too early to assess their prospects.

A similar Bill (the Hughes-Mori Bill) was introduced in California in early 1980 to prevent that State from taking account of the income of a foreign company which is not controlled by US residents and has the major part of its operations outside the US. This failed by a narrow margin in its final stages last autumn as a result of a political and procedural clash between the two Houses of the Legislature. The principal point at issue was whether foreign energy companies should be protected. Mrs Hughes has introduced a new Bill recently in substantially the same form. The energy company question and the State's budgetary problem could be stumbling blocks and its prospects are uncertain.



From the Secretary of State

M Alexander Esq
Private Secretary
10 Downing Street
London, SW1

ha
- 2/3
20 February 1981

Dear Michael

BRIEF FOR THE PRIME MINISTER'S VISIT TO THE USA

- ... I apologise for sending you an extra brief on this subject but ECGD have only just heard that during the Prime Minister's forthcoming visit to Washington she is to attend a function at which Mr John M Shaheen will be present. She will wish to be aware of ECGD's experiences with Mr Shaheen.

Yours sincerely

Catherine Capon

CATHERINE CAPON
Private Secretary



CONFIDENTIAL

Brief for Prime Minister's Visit to Washington

MR JOHN M SHAHEEN

1. ECGD have paid substantial claims [£50 million] in respect of an oil refinery in Canada - Come-by-Chance. These claims could involve ECGD in heavy losses.
2. Members of the Shaheen group of companies owned the Come-By-Chance oil refinery, Newfoundland, which was built largely on ECGD-backed export finance loans. The bankruptcy of the refinery in 1976, with debts of some \$600 million has so far cost ECGD £50 million. Other UK parties which did not have ECGD insurance cover have suffered irrecoverable losses in the bankruptcy.
3. Mr Shaheen has made a number of offers to buy back the refinery, claiming he would eventually repay all creditors. His offers have never been commercially sound. He has resorted to the Canadian Courts in his attempts to prevent the sale of the refinery to Petro-Canada, a sale which we hope will produce substantial recoveries for ECGD.
4. Mr Shaheen's sustained efforts to frustrate the sale have included representations to UK Ministers. He may attempt to raise the subject in Washington. Given the current Court proceedings in Canada and Mr Shaheen's past behaviour, it seems inevitable that any comments would be distorted and might even be used as ammunition in the pending legal proceedings in Canada.
5. If Mr Shaheen were to raise the issue, it would seem best for the Prime Minister not to comment or simply to say that she hopes that current efforts will produce a generally satisfactory conclusion to what has been - and remains - a very difficult problem.

Export Credits Guarantee Department

20 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES: 25-28 FEBRUARY

1. Steering Brief
2. East/West Relations (including Poland, Afghanistan, Arms Control, Detente)
3. Defence Policy
4. Defence Equipment
5. Northern Ireland
6. Regional Questions
 - (i) Regional Questions: Near East
 - (ii) Southern Africa, Namibia and Zimbabwe
 - (iii) The Gulf and Iraq/Iran
 - (iv) China
 - (v) The Caribbean and Central America
 - (vi) Belize
 - (vii) Falkland Islands
7. Vietnamese Refugees
8. United States Internal Political and Economic Scene
9. Exchanges about United States and United Kingdom Economic Policy
10. International Economic and Monetary Policies
11. (Revise) Prospects for Mexico and Ottawa Summits
12. Energy (International and Bilateral Issues)
13. Extra-Territorial Application of United States Anti-Trust Laws
14. Counter-Terrorism
15. Anglo/American Defence Co-operation
16. Anglo/United States Intelligence Co-operation
17. United Nations Matters (for use with UN Secretary General)
18. Enserch/Davy

Briefs PMVH(81) 1-18
removed from this file.
They will be found at TNA
in CAB 133