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June 3, 1982

FROM: ✓ SJF - Paris, France

TO: ~~WLS~~, LT, JF, BFP, SXM, JWM, GP, DR, JG, DCB, LH, SJF, RAK, PA, PGH

The following comes from a background interview with French Foreign Minister Claude Cheysson:

With the consent of the French, the economic-summit participants will agree to President Reagan's proposal to increase the interest rates paid to Western creditors by the Soviet Union.

In exchange, Cheysson indicated that the French believe that they have won Reagan's O.K. for ~~a~~ General Electric's French subsidiary to provide technology for the Trans-Siberian pipeline.

This agreement probably will not appear in the summit communique, however. "This is not on the agenda," Cheysson said. "We'd be very sorry if it became an essential part of the summit. Not that it troubles us, but we feel that it is not why we are in Versailles. These issues won't be discussed at the table by the leaders, but between meetings."

Cheysson also emphasized that he is agreeing to higher interest rates for the Soviets for economic, not political, reasons. An aide noted that Western creditors already are overextended to the Soviet Union and the Eastern bloc. Cheysson said the French also cannot accept any cutback in trade with the Soviets. "At a time when we insist on the liberalization of trade," he said, ^[]we cannot afford having a decline in our trade relations with the Soviets.

If you agree there should be a boycott--we don't play ball.'

He also expressed skepticism that the West could win economic warfare with the Soviet Union. 'Many have said that may bring the Soviets to kneel down,' he said. 'There, I don't follow. Why? Don't forget that we are dealing with a totalitarian state. They are in a position to impose, I would say, anything on their people. So we can't bring the Soviets to kneel because they don't have the money. I think we may be out of breath before they are.' He added that the Eastern European countries are more susceptible to economic pressure ^{FROM} ~~than~~ the West than the Soviet Union, and that indirectly has an impact on the Soviets.

Overall, Cheysson said the French support Reagan's view of East-West relations. 'We French are probably the firmest with the U.S. in our attitude toward the Soviets,' he said. 'As long as they have troops in Afghanistan, we cannot have normal relations with them.'

Nor do the French want to give the Soviets technology that might help them militarily. 'We should be extremely strict in offering to the Soviets anything that can help them--in their military efforts,' Cheysson said. 'In particular, no technology!' He said it is 'no secret' that the Soviets tried to get some prohibited telecommunications equipment from the West with the pretext

of using it for the Trans-Siberian pipeline.

He said the French remain committed to blocking any Western equipment for the pipeline that might help the Soviets militarily. ''If there is something in those rotors that belongs to advanced technology, I wouldn't press for that,'' he said. ''If it is just rotors, ordinary rotors, or ordinary rotors that exist elsewhere, we are pressing.''

Has the U.S. agreed to release the General Electric equipment that the Soviet Union seeks for the pipeline? ''It is not clear,'' Cheysson replied. ''The flat 'no' that we heard in the beginning is no more there. There is no agreement.''

It is well-known that the U.S. has indicated a willingness to back down on the issue of pipeline technology if the Europeans would agree to cut back on credit subsidies to the Soviet Union. Cheysson said ^{THE} seven nations at the Versailles summit will confirm that ''we're ready'' to eliminate credit subsidies at the next OECD meeting. This would mean reclassifying the Soviet Union as a ~~Category One~~--or highly developed--nation when it comes to obtaining credit. But currently the Soviet Union is classified as a ~~Category One~~ ^{Two} nation. It is believed that ~~Category One~~ nations will soon be paying an interest rate of 12.5 percent. Category ~~One~~ ^{Two} nations currently pay 10.5 percent.

French agreement to these changes is important because

the French ^{WERE}~~was~~ the only country still holding out on the issue. But the French will go no further on economic sanctions against the Soviet Union. ''Beyond what we can do with the OECD, there we start having some problems,'' Cheysson ^{ID}says.

Reagan vs. Mitterrand. Here's how Cheysson sums up the differences between the two Presidents: ''In theory, the differences are quite remarkable, quite remarkable. In practice, things are not that clear.'' He said, [']The Americans believe they have a free-market economy, yet they have very sophisticated controls on such things as agricultural production. The French are seeking a state-controlled economy, but most companies in the French economy are still in private hands.''

(END FILE - CKM/AR)

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TO: MLS, LT, JF, DR, BFP, JG, GP, LH, DXB, DCB, JWM, SJT,
PA, PGH, SXM, FWF

FROM: RAK

RE: Background-only ivu with Ed Meese

European summits. In Meese's view, the President's sudden emphasis on achieving arms control with the Soviet Union is "tactical" in nature and does not reflect any softening of his basic mistrust of Moscow. "The fact that he established so clearly early in the administration his beliefs about the Soviets enables him to act now" to deal successfully with Moscow, says Meese. "There has been no relaxation" of the President's tough stance toward the Soviets. The administration's demonstrated determination to build up U.S. military forces means that Reagan "now can negotiate from a position of strength."

Yet Meese, whose hard-line view of the Soviets reflects to a large degree Reagan's own long-held attitude toward Moscow, clearly is disappointed in the President's shift from confrontation to a more moderate position that stands a better chance of rallying the support of the NATO allies.

While Reagan's fundamental views of the Soviets may not have changed--and the President, too, insists they haven't--his actions in recent weeks do indeed demonstrate a much more pragmatic understanding of Russia's role and influence in the world than was apparent when he took office with no experience in foreign affairs. Reagan's views did not

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evolve as they have because he changed his opinion of the Soviets as Jimmy Carter did after the invasion of Afghanistan. Reagan's shift was forced upon him by his recognition of the acute need to hold NATO together. The confrontational stance during his first year as President was splitting NATO down the middle, with Reagan's stubborn slowness to negotiate arms reductions the chief factor. His recent ambitious efforts at arms control also are influenced in part by the huge cost of the U.S. arms build-up and its impact on the deficit. Interestingly, Reagan in recent days has cited the exorbitant and unnecessary cost of the U.S. and Soviet military build-up. Cost never was a consideration in bygone days when Reagan boasted that in a U.S.-Soviet arms contest, the U.S. would emerge the easy winner because of its more robust economy.

Reagan's more pragmatic position also is evident in the economic arena. His decision, for example, to abandon efforts to stop the Siberian gas pipeline reflects his reluctant recognition that Moscow has broader influence in Western Europe than he first had imagined. Reagan now better appreciates Russia's economic power.

All of these considerations are part of the sobering process that Reagan gradually has undergone since becoming President. But to conclude that the President has warmed up to the Soviets and overcome his deep mistrust of them overstates the shift in emphasis over the past year. His approach has changed only to the degree necessary to shore

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up the Atlantic alliance in military and economic affairs and to placate public opinion in Europe in order to defuse pacifist sentiments. (Hence the very heavy White House concentration on Reagan's public image in Europe during the trip.) I don't believe Reagan himself has high hopes that he will achieve arms cutbacks with the Soviet Union. He still believes--and repeated in an interview last week--that the Soviets are intent on spreading communism around the globe through military force or whatever means possible. The pace of the arms talks in Geneva will proceed only as swiftly as public opinion here and in Europe dictates. Nor does Reagan in his heart of hearts believe the U.S. or Western Europe should increase trade with Russia. He still believes the Soviet system will collapse of its own weight if it receives no help from the West.

Falklands. Meese believes the Argentine troops will give up before a bloodbath ensues. "There's a good chance you might find a lot of people surrendering," he says. Once the fighting is over, the White House will attempt to improve its ties to Latin America but Meese could offer no specifics on how this might be done.

Health care for the unemployed. ATTN. FWF: Meese was totally unaware of this issue but offered a few comments on a background-only basis, to be attributed to a senior White House aide: "The [insurance] premiums are relatively low and so they can be paid out of unemployment payments....We now pay unemployment insurance to cover all expenses and

(MORE)

that includes health insurance." He also noted that a "high percentage" of unemployed workers live in families where another member is still employed. When I reminded Meese that the unemployed lose their employers' contributions to health insurance premiums, thus greatly increasing the cost of the insurance, he said that perhaps the White House should look into the issue. But he says he could not envision the administration ever coughing up money for this kind of program.

(END)

June 4, 1982

FROM: SJF - Paris

TO: MES, LT, JF, BFP, SXM, JWM, GP, DR, JG, DCB, LH, SJF, RAK, PA, PGH

RE: The following information was obtained on "'deep background'" from Robert Hormats of the State Department.

There will be only one surprise in the final communiqué from the summit at Versailles, according to Hormats. He said the participating nations will agree to a "'little bit more elaborate'" plan to control currency fluctuation than the United States had initially been willing to accept.

The U.S. has agreed to adopt a system similar to the one which was adopted by the very first summit meeting in France in 1975. It will call on the central banks of each country to intervene in the currency markets when all countries agree it is necessary. Currently, these countries intervene only on a unilateral basis.

Alfred Zanker ~~notes~~ notes the irony in returning to this mechanism that was first adopted in 1975 when the dollar was weak. Now it's being adopted because the dollar is strong. But Zanker notes that none of the nations involved in the summit ever actually followed through on the 1975 agreement.

Export Credits. Hormats confirmed that the U.S. is seeking a trade-off with European nations on the subject of export credits. The U.S. is asking the European nations to limit export credits to the Soviet Union in exchange for a promise that President Reagan will allow General Electric's French subsidiary to supply rotors for the trans-Siberian

pipeline. Hormats says the trade-off is not being offered in as crass language as that, but he adds, "Obviously, there is an implicit relationship between the two." He says that President Reagan will not decide on whether to release the pipeline parts to the Soviet Union until after the economic summit is concluded.

Hormats cautions that the language dealing with East-West credit in the final communique may be "somewhat vague." While the participating nations have agreed to increase the minimum interest rates set for the Soviet Union by the OECD, it's not yet clear how much of this agreement will be reflected in the communique. Hormats says the United States is still pressing for additional conditions on loans to the Soviet Union. He said the U.S. would like the European countries to place "prudent limits on the government-induced flow of money." In sum, the issue has not yet been settled.

Technology and other issues. Hormats said the communique will also establish a "working group" to promote technological development in the Western nations. This language is designed as an answer to French President Mitterrand's proposal for coordinated research and development in technological areas with potential for increased trade.

The communique also will include the United States proposal for a multilateral coordinating group under the

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International Monetary Fund to discuss the overall economic
policy¹⁶⁵ of the Western nations.

(END FILE ^{LYA}ERJ)

June 4, 1982

FROM: SJF - Paris, France

TO: ~~MLS~~ LT, JF, BFP, SXM, JWM, GP, DR, JG, DCB, LH, RAK, PA, PGH, LJJ

RE: Reagan meets Mitterrand, Thatcher and Suzuki

The war in the Falkland Islands dominated President Reagan's one-on-one discussions with Allied leaders prior to the economic summit in Versailles. Reagan sought to play the role of ~~the~~ peacemaker.

In his meeting with British Prime Minister Margaret Thatcher on June 5, the President called upon the British to pursue a negotiated settlement in the Falklands--even as British troops prepared to make a final assault on Port Stanley. In his luncheon session with President Francois Mitterrand on June 4, Reagan obtained French backing for his entreaty to Thatcher. French officials were know~~ing~~ to share Reagan's concern over the hard-line stance that Thatcher has taken ever since negotiations with the Argentine government broke down on the Falklands issue.

"We are very anxious that they come to negotiation," said French Foreign Minister Claude Cheysson. "I am very sorry that I have not heard that expression [negotiation] in any English mouth in the last few days." Cheysson's remarks originally were on background, but they became public when he was quoted by name by the Associated Press.

Reagan's "private initiative"--as Cheysson described it--coincided with news reports that Thatcher had ordered British troops to begin their final assault on the Falklands capital of Port Stanley. Although U.S. and French

officials acknowledged privately that they were taking such an initiative, their on-the-record remarks about the Falklands were more vague. As Secretary of State Alexander Haig said following the Reagan-Mitterand lunch:

"With respect to the Falklands, of course, both leaders are concerned that the bloodshed terminate at the earliest possible date and that that conflict be resolved within the framework of U.N. Resolution 502, which, from the outset, has enjoyed the support of both governments and which has been the fundamental premise upon which the United States has conducted its policies towards this very difficult situation in the South Atlantic."

There were reports in the Washington Post that Reagan would ask Thatcher to effect a pause in the fighting in the Falklands. But White House Deputy Press Secretary Larry Speakes denied those reports. On background, he said, the President would be less blunt with Thatcher. He indicated that Reagan would gently suggest that Thatcher ought to give the Argentines another chance at negotiation before British troops assault Port Stanley. British journalists who accompanied Mrs. Thatcher to the meeting with Reagan at the American embassy residence gave the President's initiative little chance of succeeding, however. They say that Mrs. Thatcher is adamant about taking Port Stanley at this point.

As usual, Reagan emphasized his personal relationship

with these foreign leaders during their meetings. All aides were banished from the room at the start of his meeting with Thatcher. The two talked one on one for most of the 1-hour session. The implication was that he and Maggie had a very candid discussion. When reporters who witnessed the start of the meeting asked about the Falklands, Thatcher replied: "'You may deduce that it will be on the agenda.'"

Reagan and Thatcher have always conducted themselves as friends in diplomatic meetings. Friday's session was no different. Mrs. Thatcher came to the U.S. embassy residence on foot from the British embassy down the street. She was 7 minutes late. While he waited for her, President Reagan stood in an open window on the second-floor balcony at the embassy residence and chatted with aides. It was as if he was waiting for a visit from a neighbor or good friend. (The picture of Reagan standing in this balcony will be a good one.)

Likewise in the meetings⁵ between Reagan and Mitterrand, the tone was extremely friendly--although somewhat more formal. Reagan and his aides had lunch at the Elysee palace. Despite the formality of the palace and the obvious language barrier, Reagan described the meeting at⁵ "the resumption of a personal friendship" with Mitterrand. Although they represent very different philosophies, Reagan appears to like Mitterrand for two reasons: (1) Mitterrand is anti-Soviet and (2) the two men share some personality

traits--both are very determined politicians who came to power after many years of being out of step with the current political climate. President Reagan and Mrs. Reagan also hosted Mitterrand and his wife at an informal dinner at the embassy residence on Thursday night.

Reagan said that he and Mitterrand discussed the Falklands, Central America and the Middle East. But they avoided economic topics entirely in their bilateral meeting. "We did not get into heavy discussion^S/because those are reserved for the meetings at Versailles," said Reagan.

Reagan's 55-minute meeting with Suzuki was an exception to the rule. Not only was the meeting more formal, but Reagan ~~just~~ did not feel it necessary to discuss the Falklands issue with the Japanese Prime Minister. Japan is only remotely concerned with this ~~recent~~^E issue. Instead, the two touched lightly on other matters, including differences still existing over Japan's restrictive trade practices. Reagan also explained why he was pushing Japan and other countries to limit easy trade credits to the Soviet Union. The Japanese Prime Minister told Reagan that he was pleased with the President's new initiative on strategic-arms talks with the Soviets.

(END FILE---CKM/RW)

June 4, 1982

FROM: ✓ SJF - Paris

TO: LT, JF, BFP, SXM, JWM, GP, DR, JG, DCB, LH, RAK, PA, PGH, JXL

RE: More on Thatcher and Reagan

Thatcher and Reagan met for 1 hour and a half without any aides present. It was done this way at Mrs. Thatcher's request.

White House officials say Thatcher began the meeting by explaining in detail the military situation on the ground in the Falklands. Aides say that Reagan did not directly put pressure on Thatcher to give Argentina another chance to withdraw, but instead explained how much a brutal assault on Port Stanley would complicate U.S. relations with Latin America and cause peace-keeping problems in the future. Reagan also told her he would be willing to send U.S. troops to participate in a long-range multilateral peace-keeping force in the Falklands.

The whole exercise was designed to send a signal to Argentina that this is their last chance to withdraw before a British attack on Port Stanley. Haig told reporters after the meeting: "The decision rests in Bueno^s/Aires. And if there were a decision made in the near term to announce an immediate withdrawal, I'm confident that the commanders on the ground could provide for arrangements that would avoid further bloodshed."

At the end of the meeting, Mrs. Thatcher and President Reagan strolled together for 5 minutes in the garden of the embassy residence while photographers took pictures.

(END) FILE - RW)

June 10, 1982

FROM: SJF - With Reagan

TO: ~~MLS~~, LT, JF, ~~BFP~~, SXM, JWM, GP, DR, JG, DCB, LH,
SJF, RAK, PA, PGH

RE: Style

It was Ronald Reagan's personal style--a combination of easy charm and hard-nosed horse[^] trading--that enabled him to return home successfully from his first official tour of Europe in early June.

Hours of intensive meetings with Allied leaders--including a NATO meeting and an economic summit--gave the President an opportunity to perfect his own approach to diplomacy. "He was never strident--never argumentative," said White House aide Michael Deaver. "But there was no question about his toughness."

His knack for establishing personal rapport with people was particularly helpful during his 10[^] day visit to France, Italy, Britain and Germany. He rode horses with Queen Elizabeth II. He discussed how it feels to be shot with Pope John Paul II. And he ^{CHATTED} ~~had it~~ about common problems with British Prime Minister Margaret Thatcher--in the words of one witness--"As if they were the only two in the room."

Reagan's good nature came through, too. When his speech to the German Parliament was interrupted by a heckler, the President stopped and asked: "Is there an echo in here?" The assembly roared with applause and laughter.

As usual, Reagan relied heavily on anecdotes and

personal stories to explain his philosophy to the ~~Allies~~. At the NATO meeting in Bonn, he sought to establish an image of himself as a peacemaker by quoting a letter he had written to Soviet Premier Leonid Brezhnev from his hospital bed after he was shot in March, 1981. The leaders seemed touched by this impromptu speech.

At the economic summit in Versailles, Reagan chose a less personal anecdote to explain why it is so hard to anticipate future technology. He recalled that a U.S. government commission on technology in the 1930s failed to predict many future advances. Then he held up one of them-- a ballpoint pen.

Yet Reagan did not shy away from hard bargaining when necessary. This was true at Versailles when it became apparent that he was about to lose his main objective: A statement calling on Western nations to limit export credits to the Soviet Union. The President promptly offered to make a concession on another issue, and that opened the way for an agreement on East-West trade.

Although Reagan had already met most of the 16 heads of state that he saw during his trip, they got to know each other much better during this period. Aides say Thatcher is still Reagan's favorite ~~Allied~~ leader. German Chancellor Helmut Schmidt remains his least favorite. Cultural and language differences sometimes make it difficult for Reagan to deal with Japanese Prime Minister Zenko Suzuki.

But language was not usually a problem. He got more applause from the German Parliament than he did when he spoke to the British Parliament. Reagan, who once traveled the after-dinner circuit, explained the difference this way: ''I guess it's like the difference between Philadelphia and Fort Worth.''

(END FILE - JNM)

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to: wite house list
from: sjf in bonn
re reagan's european trip.

lthough overshadowed by fighting in Lebanon and the falkland islands, president reagan's european trip has been a success so far.

in versailles, he won a symbolic victory on the east-west trade issue. at the vatican, he strengthened his standing among roman catholic voters back home. in london, his speech to the parliament was hailed as a major one. in bonn, he expects a strong endorsement by the nato allies for his arms control proposal and his view of allied defense stretegy.

there have been setbacks, however, when asked to assess the results of the trip so far, david gergen immediately sought to defend reagan for his brief snooze during his television appearance with the pope. haig's foulup over the united nations veto also caused some embarassment.

public reaction in europe ranged from indifference to downright hostility. reagan's visit clearly reignited the anti-nuclear demonstrations in europe that he had quelled with his first overatures to the russians on intermediate nuclear forces last november. as many as woo,000 demonstrators were expected in bonn on thursd
xxxxxx in bonn on thursday. in addition, the stringent security surrounding reagan became a liability. the french were annouyed by reagan's decision to bring his own water and food supervisors. the british complained about the way u.s. security personnel overran windsor castle. even nancy reagan's satin pantaloons had the europeans clucking.

nato. reagan's speech to the bundestag on wednesday was the climax of the trip. he was applauded at least 18 times. (haig said 21 times.) the speech was precisely what the germans wanted to hear -- strong on mutual defense and sofotxxxx and soft on anti-soviet rhetoric.

the applause came from both sides of the aisle the left as well as the right. when one member sought to interrupt his speech, reagan handled it gracefully by asking: "is there an echo in here?" members applauded and laughed. the hechter was a member who's always doing such things-- much to the dismay of the majority. reagan particularly pleased the crowd with such lines as this one: "europe's shores are our shores. europe's borders are our borders."

on background, richard burt said reagan expects three separate "products" from the nato meeting. the are: (1) a communique focusing on alliance unity that "could not have been agreed to six months ago," (2) an endorsement of reagan's arms control proposals -- including the new proposal on mutual balanced force reduction and (3) a reaffirmation of nato's defense doctrine with strong references to conventional forces. burt also defended reagan's mbfr proposal on grounds that it will enable the two sides to agree to a common understanding on current levels. "we think that is xxxxxx that this is going to make the definitional problem easier," he said.

burt denied reports that the nato allies would propose a resolution to condemn israel for the attack on lebanon. he also said he expected no formal discussion of the nato "drawdown" or "out of area" question caused by britain's involvement in the falkland islands.

how will they handle european efforts to use the word "detente"? burt said they will describe it precisely as they did in the luxemburg communique-- "genuine detente"-- a phrase that pleases both sides.

london. although the bundestag speech was more important to members of the alliance, it was not as significant a speech in the eyes of u.s. officials as reagan's address to parliament. prime minister margaret thatcher declared reagan's speech to parliament -- and his entire visit in london-- "a triumph".

hal miller, a conservative member of the house of commons,

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reflected the general view of those in the audience at the royal gallery. "it was a very fine speech," he said, even though he had been critical of reagan prior to the speech. yet what pleased members of parliament about reagan's speech was not the philosophical stuff, nor the call for a crusade on behalf of democracy. the audience was most pleased by reagan's remarks on the falklands. as stewart powell notes, reagan's words were almost identical to thatcher's explanation of the falklands crisis. "...those young men aren't fighting for mere real estate. they fight for a cause, for a belief that armed aggression must not be allowed to succeed, and that people must participate in the decisions of government under the rule of law."

tony dolan, who wrote the speech, was quite proud of it down" by taking out some of his sparkling rhetoric out of it. he's quite upset about it. it should also be noted that the paragraphs on the falklands and lebanon were inserted long after the speech was written. without the falklands section, the speech might not have been afterwards, one member came up to me and said: "argentinians please note."

nearly as well receive. / the mps applauded only twice -- once for the falklands statement and again when he offered a television exchange with brezhnev. / there was also some laughter on the television exchange idea. nor was this a hostile audience. only about 30 members of the labor party attended the speech. all of the others were conservatives or sdp members. "this is for your consumption, not for ours," said mp miller as we waited for the speech to begin in the ornate surroundings of westminster palace. "i detect a bit of public resistance here in london. people perceive it's being done for him, not for us."

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although the general reaction to the speech was positive, edward heath sought out/u.s. reporters afterwards to criticize reagan's ''crusade'' proposal. ''there are 30 million people out of work in the western democracies,'' said heath. ''what they want to know about democracy is when is it going to provide us a job. how do you deal with the communist bloc when in democracies so many people are out of work.''

what impressed the mps even more than the speech was the teleprompter. several members came up to us afterward seeking an explanation of how the teleprompter works. the british press was still raving about reagan's use of the teleprompter when we left.

although reagan was very pleased with his reception in parliament, he could not have been encouraged by the public relation to his visit in london. everywhere he went, the streets were guarded by police standing at 10 foot intervals. but they had no trouble restraining the crowds because there was no crowd. for example: fewer than 100 people were standing outside buckingham place on wednesday when he emerged from the big iron gates on his way to no. 10 downing street. londoners cited two reasons for this apparent indifference to reagan's visit. first, it came as somewhat of an anti-climax after the visit of the pope. second, reagan's security. not only did the tight security discourage spectators from gathering, but some people thought the americans were overdoing the security.'' we love americans, but not when they try to take over windsor castle, '' said mp miller. ''that's the queen's home. there's a strong reaction to food tasters going into the queen's kitchen.'' in london, government officials are much less concerned about security. the secret service went a bit too far by asking to put agents in the queen's private apartments.

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such request were denied. also, as usual in countries with strong gun control laws, most again were not permitted to carry guns. the crusade. reagan's proposed crusade to promote democracy is an outgrowth of the new foreign policy directive that the president signed about two weeks -- when william clark made his maiden public speech on foreign policy (if your story focuses on this crusade, you should dig up a memo i wrote two weeks ago based on a briefing with tom reed of the nsc. it puts this proposal in context.) planning for this initiative began about six months ago, and reagan okayed the idea about four weeks ago in a meeting with haig.

the long-term objective is to establish a quasi-governmental program to promote democracy in the third world by financing political parties, labor unions and newspapers. this is basically what the cia was doing years ago until it came under attack in the united states. (i can't help noting the irony in the reagan administration wanting to fund labor unions). for more details about this program see the may 30 new york times -- a front page story.

editorial reaction to the proposal was neither negative nor positive. the times of london editorial asked, "what does this mean in terms of particular policies." it called upon reagan to explain. an editorial cartoon in the same paper showed reagan lying on a psychiatrist's sofa saying "my problem is that no one listens to me anymore."

versailles. the language that the versailles summit adopted on east-west trade was exactly what reagan wanted but the leaders did not agree to the concrete action he sought -- an increase in the interest rate the soviets must pay. yet some agreement still may be worked out on the interest rate question before the june 15 deadline set by the oecd. what enabled reagan to win anything on this issue was a little last-minute horse-trading in the final session, reagan hinted that he was willing to make concessions on the issue of "global negotiations" if the french would lift their opposition to east-west trade proposal the italians then spoke out in favour of reagan's proposal. canada came to reagan's aid shortly thereafter when the french began to hammer on u.s. grain sales to the soviet union. the canadians are involved in grain sales too. finally, the french agreed to the language reagan wanted calling for an unspecified limit on export credits. the compromise language calls on all the countries to trade information on financial relations with the soviet union. it adds: "we will take into account existing economic and financial considerations and agree to handle cautiously the financial relations with the ussr and the eastern european countries in such a way as to ensure that they will be conducted on sound economic basis, including the need for commercial produce in limiting export credits."

in exchange for this, reagan agreed to a concession on the issue of north south economic relations. as i understand it, the u.s. has agreed to get involved in north-south talks in new york city before an agenda is set. previously, reagan has insisted on a fixed agenda before the u.s. would get involved. still the u.s. got language saying that these negotiations would not jeopardize existing international institutions such as the international monetary fund.

one incidental matter i'd like to clear up: it turns out that french foreign minister claude cheysson intentionally misled the american press when he told us that the french would be willing to raise the interest rates charged to the soviets. cheysson is xxxxxx cheysson intentionally misled the american press when he told us that the french would be willing to raise the interest rates charged to the soviets. cheysson is the jim baker of the mitterand administration -- he leaks stories in an effort to affect policy.

asked what reagan learned at versailles, david gergen replied an backround.: "he learned how tough the french can be." = falklands and lebanon.

these events clearly overshadowed the trip. everytime al haig held a news conference the questioning quickly turned to these topics. because the network news shows were concentrating on lebanon, the network reporters covering reagan had a better chance of getting on the air with a story on lebanon.

this often happens. war is sexier than issues of east-west trade and nato defense.

on the falklands. the u.s. seems to be backing away from an earlier commitment to participate in a peace-keeping force on the islands.

a week or more ago, reagan said publicly that the u.s. would be willing to put a force on the islands. but haig has been backing away from that ever since. he said on wednesday that u.s. participation in such a force would depend upon the makeup of the force and political climate at the time. on lebanon, haig made it clear early in the week that the u.s. had given israel a green light to do whatever it had to do to stabilize the situation along the lebanese border. although habib was sent on a peace mission to the area, haig made it clear that the u.s. had no intentions of imposing sanctions on israel for using american planes in this operation. he also said it is "possible" that the u.s. might help to beef up the peace-keeping force in lebanon when the fighting stopped.

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goofs.

reagan's aides were very upset about the attention focused on reagan's snooze at the vatican. reason: it raises once again the suspicion that he is too old for the job. certainly he cannot be blamed for falling asleep. after all, that was the day we had breakfast in paris, lunch in rome and dinner in london. we were all falling asleep. the blame lies instead with reagan's aides who scheduled him at that pace. most white house veterans say that this is the most amateurishly handled presidential trip they have ever taken. despite four advance trips to europe by the reagan staff, the logistics at virtually every stop have been screwed up they simply tried to pack too many things into 10 days.

haig.

the whole flap over the united nations vote last weekend could have been avoided if haig and kirkpatrick were on speaking terms. haig insisted on communicating with her through the state department and this caused the delay. william clark. by the way, was unaware of this whole matter until the next day.

even as reagan tried on this trip to take his place as a world leader, he could not escape the most serious problem

plaguing his foreign policy--

the ideological split in his administration. just as haig and kirkpatrick managed to embarrass him this week, you can bet that caspar weinberger will probably say something next week that will reverse the gains he made by meeting with the allies in bonn this week.

gergen says on background that he thinks kirkpatrick made a bad mistake. he described her heritage foundation speech as "illadvised and insensitive."

she was admonished by telephone by clark on tuesday night.

but gergen says that haig was not admonished for the un vote foulup. gergen hints that

kirkpatrick is in deeper trouble than haig

haig, by the way, made up another new word in a press conference on wednesday. the word was "criticality." when everyone gagged, he chose a different word.

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final antanalysis. although this trip was overshadowed by lebanon and the falklands and marred by some goofs, it could have been much worse. the trip, which reagan described as his "pilgrimage of peace," would have been more difficult had the british invaded port stanley either during the versailles meeting or while reagan was in london. gergen says white house officials were also worried that the british would move into port stanley shortly after reagan left london -- leaving the impression that they were just holding off until he left. whatever victories reagan had on this trip, they were achieved by a willingness to compromise. ironically, the softer reagan had on this trip,

rect ironically, the softer reagan appears to be on the soviets, the tougher the europeans are willing to be. reagan has clearly forged a better relationship with the european leaders. he is now a better known quantity in europe. but he has not won over the european people, who remain skeptical about his policies.

according to gergen, the "emotional highlight" of the trip for reagan was his visit with the pope. but the thing that the reagans enjoyed most was staying at windsor castle. "they felt right at home," says gergen. "it was an atmosphere that you rarely see in diplomacy -- a sense of warmth." he said the reagans were completely won over by the "understated elegance" of windsor castle.

best quote of the trip. when reagan went to no. 10 downing street for breakfast on wednesday, a british press association reporter named c.w. moncrieff was permitted to cover the start of the meeting. "i shouted questions at him (reagan)," moncrieff told us. "i kept shouting at him 'has it been a useful visit?' he just kept grinning. what is he deaf or something?"

but moncrieff was most offended when haig turned to him and asked: "where did you get those trousers?" (moncrieff's pants were too short.) angry moncrieff told haig: "in a bloody pants store."

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PORT: LAKER QUEUE: NRD-NRD MSG:
MA: 60 FMT: HJ: INI: OPR: RAK ;06/11,15:36

TO: MLS, LT, JF, DR, BFP, JG, GP, LH, DXB, DCB, JWM, SJF,
PA, PGH, SXM

FROM: RAK

RE: Background-only ivu with Jim Baker

Mideast war. Baker refuses to predict whether the President will decide to impose sanctions against Israel for its invasion of Lebanon, but he is blunt in expressing White House wrath over Prime Minister Begin's duplicity in dealing with Reagan. And, he hints that U.S. relations with Israel may undergo a fundamental shift as a result of the war.

The Begin government, says Baker, pledged privately to Reagan earlier in the week that the invasion would be halted when it had penetrated 40 kilometers from the Israeli border. That is why Reagan declined to come down hard on Begin sooner. But it "now has become apparent" to the White House that Begin never intended to limit the invasion to 40 km, says Baker.

"They were lying to us," he says, repeating the term "lying" a number of times for emphasis. "I don't know what the President's reaction will be when he gets back here but two things have made him inclined to be deeply disappointed" in Begin. "[First] what they told us turned out not to be true...They didn't level with us and [secondly] his [Reagan's] personal pleas for a ceasefire were rebuffed twice and [that] made the President look bad

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internationally."

Will the U.S. get tough with Begin? Baker answers the question this way: "The reaction here [to the war] has amazed me. Within the press, even, there is almost uniformly negative feeling about what Israel has done and a feeling that the administration should crack the whip. The President looks impotent if he does nothing....It's amazing the extent to which public opinion in this country is calling for [sanctions.]" Baker repeated this line of thinking about three times to make sure that I understood the implication, i.e., that the political pressures on the President now call for a firm response to Begin instead of support for Israel's position as has been the case in the past.

Baker stressed, however, that he has not talked to Reagan in the past 48 hours and that he may decide to do nothing about the Israeli action. When I asked whether the war might lead to a basic shift in U.S. support for Israel, he said that would depend on "what Begin tells Reagan" when the two meet later this month. Begin is coming to the U.S. for the UN disarmament conference.

If Reagan decides to invoke sanctions, the most likely step would be to "cut off future equipment. That would sure get their attention." Baker seems to oppose the idea of a multilateral peacekeeping force that includes Americans in a Lebanese buffer zone. There are good reasons not to place American troops "in that volatile of an

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area."

Arms for the Argies. Citing "classified" intelligence information, Baker refused to comment on the report that the Begin government has sold U.S.-supplied fighter bombers to Argentina. He left me with the impression that the CIA has confirmed the sale of the planes. When I asked whether he had any evidence suggesting the sale had not occurred, his answer was: "I can't talk about it."

Kirkpatrick vs. Haig. Baker says that, contrary to popular belief, Kirkpatrick is in no danger of losing her job anytime soon. "The President thinks highly of her." Will the feuding between Kirkpatrick and Haig stop? "No. I don't think there's any love lost there." Baker seemed more amused than concerned by the recent personal sniping by Reagan's two cabinet-level advisers.

Budget compromise. Baker does not expect House passage of a budget resolution to produce any encouraging action on Wall Street. The markets will not respond until the "implementing legislation"--the tax hikes and actual spending reductions through the reconciliation process--has been enacted. The White House hopes to have the various implementing legislation on the President's desk for signature before Congress leaves town for the August recess--as was the case last year.

Any increased confidence on Wall Street due to the House budget vote will be overshadowed late today by "adverse news" when the Federal Reserve announces another big spurt

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in the money supply, Baker says.

Will the economy recover in time to help Republicans in the fall? "It's not too late if we can get a recovery started in the next six to eight weeks...If you start getting it [recovery], you go out and talk about it." The White House is making plans for Reagan to remind voters of-- and get full credit for--the July 1 increase in Social Security payments and the next 10 percent tax cut.

Donovan. The White House will take no action until the special prosecutor presents his findings, but Baker made it clear that Donovan's days are numbered. "I understand we got more ink on Donovan over here than we did on the trip while we were in Europe...If it had been someone at the White House, closer to the President, there would have to have been a resolution" of the matter by now. Donovan "has been hamstrung since day 1" because he had no ties to organized labor. The special prosecutor's probe has left Donovan "mortally wounded," says Baker.

Accidental war. It is Baker's understanding that Reagan has decided to defer announcing a number of proposals he will advance to reduce the chances of "accidental war." One proposal is to upgrade the Washington-Moscow hot line from the current telex-type system to a voice system that would allow Reagan and Brezhnev to hear each other's voices and speak directly to each other (through interpreters) in emergencies.

Aside. Baker jokes that among the senators who voted

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against the administration's CIA-agent identification bill were four presidential contenders--Glenn, Kennedy, Cranston and someone else.

(END)

STORY:SIMES
MA:60 FMT:

QUEUE:NRD-NRD
HJ:

MSG:
INI:

OPR:BW ;06/11,16:55

TO: MLS, LT, JF, DR, BFP, JG, GP, LH, DXB, DCP, JWM, SJF,
PA, PGH, SXM

FROM: RAK

RE: Background lunch with Bob Sims, William Clark's new
special assistant

Middle East. The Israeli invasion of Lebanon has dashed Reagan's hopes of reviving the stalled Palestinian autonomy talks later this month when he is to meet with Prime Minister Begin, says Sims. Reagan had hoped to discuss the autonomy talks with Begin when he attends the UN disarmament conference. At the same time, Reagan had hoped to discuss the autonomy process with Egypt's foreign minister (President Mubarak turned down an invitation to attend the conference.). Reagan's personal discussions with both sides were to be aimed at reaching an agreement that would get the talks moving again. But the Israeli attack means the autonomy talks will stay on the back burner until the issue of Israeli troops in Lebanon is resolved.

Sims, who visited Israel earlier this year, complains that Begin's general policy is to disregard "American views" and "international opinion" in making decisions that he believes are in the best interest of Israel.

It is too early to accurately assess possible damage to U.S. ties to the Arab world because of the war, but Sims believes it will be minimal.

It is not likely, in Sims view, that the U.S. will halt

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arms shipments to Israel. That has never worked in the past, he says. The ultimate solution to the Lebanese war is a "permanent" multilateral peacekeeping force to patrol a buffer zone along Israel's northern border, says Sims. Such a force would have to include American troops.

European summits. As might be expected, Sims says the White House views the European summit as a success, even if it was overshadowed by crises in Lebanon, the Falklands and the UN-vote gaffe. A major accomplishment, Sims says, is that public opinion and media coverage in Europe was very favorable to Reagan. The White House believes it is making headway in establishing Reagan's reputation in Europe as a peacemaker instead of as a gunslinger.

On background, Jim Baker says essentially the same thing: "In Europe the reaction was very good, much better than it was" in the United States. Baker claims to be "disappointed" at coverage by American journalists, who concentrated on the UN gaffe and other negative aspects of the trip. The UN gaffe did not attract much attention in Europe, Baker insists. On substantive issues, says Baker, "the summit did not resolve a lot of problems, but they never do."

RR's ideological campaign to export democracy. Sims appears skeptical that this effort announced by Reagan in London will ever amount to anything. He knew very little about it except to say that there will be no CIA involvement and that the private sector in the U.S. will do

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most of the work.

Clark ivu. I repeated our request for a formal ivu with Clark and Sims, whose job includes dealing with press matters for Clark, generally supports the idea. He says Clark is not a particularly good public speaker and that our format affords a chance for him to be cautious and deliberate and still articulate the President's views. Sims said he would relay the request to Clark but he did not offer any encouragement that Clark would accept the invitation.

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TORY:WHUI QUEUE:SJF-SJF MSG: MA:60 FMT: HJ: INI: OPR:SJF ;06/15,09:32

To: mls lt jf dr bfp jg gp lh dxb dcb jwm rak pa pgh sxm

From: sjf

The final chapter of Reagan's trip.

The mood aboard Air Force One on the way home was upbeat, but there was no sense of triumph. Reagan had obviously accomplished his main purpose--to convince the Europeans that he is not a warmonger. But many difficulties had detracted from the trip. There had been no great victories, no cheering crowds.

After takeoff, Reagan invited reporters into his cabin for an off-the-record champagne toast. He toasted his staff and chatted about the trip. He and Nancy obviously enjoyed living like royalty at Windsor Castle. He joked that perhaps Prince Charles' new baby might be named after him--"Prince Ronnie." He also confirmed reports that he wants to hold the next economic summit in the "natural grandeur" of the American West, which he compared to the man-made beauty of Versailles.

Mike Deaver told us later on-the-record that a decision on the location of the next summit will be made by September 1. He said he would like to have it in California, but he worries that it's often very foggy along the coast at that time of year. He also mentioned the Grand Tetons, Idaho, Alaska or Hawaii.

Secretary of State Alexander Haig confessed on-the-record that the Falklands and Lebanon were a "burden" on the trip, but he added: "We consider the trip to be highly

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successful." (Haig, by the way, improved his standing with the White House during this trip. Everyone was impressed with how hard he worked.)

NATO. Haig declared the NATO meeting a "total success." He added: "The President opened a lot of eyes. They did not understand where he was coming from. They saw him as a cold warrior, a hip-shooting cowboy. But when they heard his views first hand...they knew better."

On the increased role of the French, he said: "The French demeanor has changed toward the alliance. I read it as a fundamental change in the French attitude. It was an important change in French thinking which, in East-West terms, was an improvement."

Economic Summit Aftermath. Haig acknowledged that President Reagan now has an obligation to release the U.S. parts for the trans-Siberian pipeline. This promise was made to the Europeans when they agreed to go along with language calling for a limitation on credit to the Soviet Union. But Haig said it was not a "deal"—"it was more of a linkage than a deal."

Haig also expects the OECD to set higher interest rates for the Soviet Union. This issue is supposed to be decided by June 15. "There will be great pressure to implement the consensus," said Haig. "France is the foot-dragger. We'll keep lobbying to get it done."

Why were the French sending mixed signals at the summit? Haig's off the record reply: "It's a new administration."

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They hadn't go their act together."

U.N. Speech. According to Ed Meese, Reagan's speech to the United Nations this week will simply "flesh out" the details of the "confidence building" plan he talked about in his speech in Berlin.

Brezhnev Summit. On background, Meese was very optimistic about a summit meeting between Reagan and Brezhnev before the end of the year. "The people in Germany who have dealt with Brezhnev do not regard him as a dead man," says Meese. "He is good one day--bad the next--but healthy enough to attend a meeting."

Gossip. Meese got very, very drunk on the flight home. When we talked about the gypsy moths, yellow jackets, etc., he quipped: "What the whole congressional process needs is a good dose of insecticide." He also got into a heated debate with Helen Thomas, Lesley Stahl and me on women's rights. He then went to the front of the plane and told Richard Darman that we all saw eye-to-eye.

Deaver and Darman confided off the record that they were both embarrassed at Windsor Castle when the maid entered their rooms with breakfast and caught them naked. They said the maid acted as if she didn't notice. "It was as if she was part of the furniture," said Deaver.

(END)

STORY:HOUSTON
MA:50 FMT:

QUEUE:NRD-NRD

MSG:

HJ:

INI:

OPR:BW

;06/17,08:49

TO: MLS, LT, JF, DR, BFP, JG, GP, LH, DXB, DCB, JWM, SJF,
PA, PGH, SXM

FROM: RAK

RE: Reagan goes to Houston

Politics. Tuesday night's fundraiser for Texas Governor William Clements' re-election campaign afforded a preview of how Reagan will stump for Republican candidates this fall. The White House political apparatus pulled out all the stops--

* Upon arrival the President announced that his administration will give to the city of Houston most of the federal land now occupied by Ellington Air Force Base, which was closed in 1976. The city has wanted the air base for years to use as an airport for non-commercial flights which currently clog Houston's Hobby Airport. The Reagan administration is conducting a massive inventory of federal properties to sell to state and local governments and private firms to raise revenue, but in this election year Houston will get the property free of charge.

* Reagan's remarks to the Texas Republicans (and a few prominent Democrats, including three former Democratic governors of Texas) were combative, partisan and distinctly anti-government in the style of his 1980 campaign. For example, he revived as a weapon against Democrats Jimmy Carter's "misery index" (first used by Carter against Gerald Ford and later used by Reagan against Carter), and

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he dusted off a favorite line from his presidential campaign: "The best social program we can have is a job." (The line received the same enthusiastic response as it did two years ago.) He invoked the name of FDR in heavily Democratic Texas and he told more horror stories about waste and fraud, such as the government paying \$310 for brackets that could be purchased in a hardware store for \$4.

* Despite the deep recession, Reagan vigorously defended his tax cuts and budget cuts, dispensing misleading statistics to down play the impact of the budget cutbacks on the poor. Spending for social programs under John Kennedy accounted for 29 percent of the budget, said Reagan, compared to 51 percent today after the Reagan budget cuts. But he declined to note that the Kennedy Percentage did not include Social Security, which was an off-budget item in 1962.

The President's speech heavily emphasized the drop in inflation since he took office, and he again accused his critics on Capitol Hill of "demagoguery." To remind his listeners that he now is not just an outsider to government, Reagan dropped the names of the heads of state he recently met with in Europe.

Clements. The Texas governor grossed close to 3.5 million dollars last night. The 3,300 guests paid \$1,000 a head for a black-tie dinner in the enormous Albert Thomas Convention Center. Clements' operatives claimed it was "the largest

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fundraiser ever in the U.S. for a single candidate. At a press conference earlier in the day, Clements said he hopes to spend less than the 7 million he invested in his 1978 campaign, but his enthusiasm for fundraising--and his personal fortune--makes that doubtful. A 10-million-dollar Clements campaign can be expected.

White House political director Ed Rollins told me on background that, despite optimism among Republicans, Clements will have a very tough race against state Attorney General Mark White. At present, White is campaigning against Clements' record, not against Ronald Reagan. But Rollins says he expects White to attack Reagan later as a trial. If attacks on the President fire up Texas Democrats, then White will continue to make Reagan an issue, Rollins speculates.

Jon Ford, Clements' press secretary, says on background that if unemployment in Texas continues to increase, Reagan could become something of a liability for Clements. Is Reagan not an asset in conservative Texas? "He was more of an asset two years ago," says Ford. Although the state jobless rate is only 6.4 percent, Texans at this time are especially sensitive about unemployment because they fear the recession finally is reaching the Sunbelt.

Reception. Reagan received a fairly enthusiastic welcome among the Republicans but Clements himself seemed to be more popular than the President. Gerald Ford, who also spoke at the dinner, completely failed to spark the crowd.

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No one seemed to remember that the man once was in the White House. Ford's dull remarks had people yawning--even though he pre-empted part of Reagan's text regarding the "misery index," forcing the President in his remarks to say a number of times, "As President Ford just told you...."

Falklands. Aboard Air Force One returning from Houston today, Larry Speakes said off the record that Reagan does not want to see the Galtieri regime overthrown in Buenos Aires. "A stable government is what we're looking for," said Speakes. The White House apparently would like to prevent the installation of a strongly anti-American Peronista-backed government. When I asked Speakes whether the administration is taking any steps to prop up the Argentine junta, he replied, "Not yet." But he declined to speculate what, if anything, the U.S. could do to prevent Galtieri's downfall.

(END)

To: mls lt jf dr bfp jg gp lh dxb dcb jwm rak pa pgh sxm
jls fwf

From: sjf

The following items come from a background session with
David Gergen:

* Secretary of State Alexander Haig will meet with Menachem Begin in New York on Friday, and President Reagan still plans to host him at the White House on Monday.

* It's ``possible`` the Reagan administration will attempt to supply U.S. troops to keep the peace in Lebanon. Says Gergen: ``There's more likelihood we'd put troops there than in the Falklands.``

* Although the White House expects Ray Donovan to ``seek other employment`` after the special prosecutor's report, Gergen notes that the labor secretary is a ``fighter`` who might refuse to leave quietly.

Middle East. Even though U.S. officials are hinting publicly that Reagan might cancel his meeting with Begin, there are no actual plans to cancel it. These hints are designed to ``send a signal`` to Begin to halt ceasefire violations in Lebanon. Gergen notes that Reagan does not want to meet with Begin with the Israelis still in combat.

The future of F16 shipments to Israel will be left in ``limbo`` for a while to let everyone know that ``we are not going to be led around with a ring through our nose.`` Yet there is little doubt that the Israelis will get their planes eventually.

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The U.S. would be willing to participate in a peace-keeping force in Lebanon because ``that's a part of the world where we traditionally have participated in peace-keeping efforts.'' He adds: ``There are not very many alternatives.''

Donovan. White House officials expect the Donovan affair to end soon. But there are no plans to dismiss him publicly. ``The idea all along was to give him a chance to clear his name and then he would take it upon himself to seek other employment,'' says Gergen.

Gergen acknowledges that the White House may be forced to act sooner to get rid of Donovan if the allegations keep mounting. ``Obviously,'' he says, ``we're not going to sit around and take a log of political damage on this.''

Donovan has no defenders at the White House. ``He'd be in better shape if he had done a better job,'' says Gergen.

(END)

To: mls lt jf dr bfp jg gp lh dxb dcb jwn rak pa pgh sxm
jls fwf

From: sjf

The following items come from a background session with Ed Meese:

* Meese now remembers that Fred Fielding told him last January about the memo linking Ray Donovan to organized crime. He says he told Fielding at the time, "Make sure it's thoroughly checked out."

* President Reagan will tell Menachem Begin next Monday that as a result of his attack on Lebanon he must now make some concessions to bring "moderate" Arab nations into the peace process.

* The Reagan administration is looking for ways to bolster the Argentine government of General Galtieri. This might help the U.S. restore good relations with Latin America.

Donovan. Meese says the memo linking Donovan to organized crime was one of many "outlandish" reports that the FBI submitted to the Reagan administration last January on cabinet appointees.

"At the time, we were getting all kinds of things about all kinds of people," he says. "As you know, if you throw out the FBI dragnet you get all kinds of gossip, hearsay, rumor and all that. While I don't remember any other case where they talked about organized crime, there were equally outlandish things coming in." Meese says Fielding told the FBI to look deeper into it.

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(Fielding, by the way, has suddenly disappeared on vacation and everyone I've talked to at the White House claims not to know where he went.)

Meese contends that the FBI and the Senate committee are "trying to shake some of this off on Fred." He adds: "What you have here is the FBI and the (Senate Labor) committee feuding with each other."

Middle East. Asked what Reagan will tell Begin on Monday, Meese laughed and replied: "Menechem, old buddy, you've got to withdraw those troops."

He added: "The message is how do we, Number One, build from here? Can we build a central, cohesive Lebanese government so that we will have the withdrawal of all forces? Secondly, how do we get back on the track of the Camp David accords and the peace process--including autonomy talks? Thirdly, he will talk to him about bringing moderate Arabs into the peace process. Actions like this make it harder and harder to sustain their acceptance of this at a time when we felt we were starting to make some progress."

Haig will remind Begin on Friday that "one of the great concerns" of the United States is that the Soviets might use this situation to increase their influence in the Middle East. Another "wild card" to be mentioned is Iran.

Meese offers this vivid explanation of why the meeting between Reagan and Begin is still officially tentative: "If they encircled and invaded West Berlut between now and Monday, I have a feeling that the President might find

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other things to do during lunch. We don't want to be in a position of things going on there while the President is having a meeting with him. Nor do we want to indicate that we condone further loss of life. Nor do we want to do things that would give perhaps the wrong impression to moderate Arabs and the world community generally. But I think the meeting in all probability will be held."

Asked about U.S. participation in a peace-keeping force, Meese replied: "I think it's not unreasonable that we would want to cooperate in a peace-keeping force--if that was the appropriate vehicle. But we have not made a decision yet."

The Reagan administration is not worried how this situation might alter the Jewish vote in November. He says "that issue becomes more diffuse" in a congressional election.

Argentina. Now that the fighting has ended in the Falklands, the U.S. will make an effort to restore good relations with Argentina. "I think we'll be working with all concerned nations in trying to make sure that the ceasefire continues and to use our good offices to the extent that they can be used to reach a long term settlement of the problem," says Meese.

The U.S. is trying to find ways to bolster Galtieri. "We're looking at it, but I don't think we've come up with any particular plan to prop him up," says Meese. "We've indicated our desire to continue our friendship with

(MORE)

Argentina. We have indicated that we would like to be of assistance in humanitarian ways."

Economic conditions. By election day, Meese predicts that unemployment and interest rates will be lower. Inflation will be only slightly higher, he says, and there will be signs of an upturn in the economy. But he refuses to predict what impact the economic situation will have on the election. "People will appreciate that our economic program is working and that overall the economy is vastly improved because of the reduction in inflation," he says on the record. "All polls indicate that it generally an asset to run as a support of the President. People do understand that Ronald Reagan has the best interests of the nation at heart."

(END)

To: mls lt jf dr bfp jg gp lh dxb dcb jwm rak pa pgh sxm
jls fwf

From: sjf

The following items come from a background session with
Craig Fuller:

* Ray Donovan will fight White House pressure on him to resign. ``He's really a fighter,`` says Fuller. ``He's told me that he wants to stay.``

* Not only will some White House people leave after the election, but Fuller expects ``a realignment of roles and responsibilities`` among those who stay. A likely candidate to leave: Elizabeth Dole.

* The Big Three has totally disintegrated as a policy-making group. Baker is solely in charge. Meese has no overall decision-making role. Deaver focuses mostly on ``special projects,`` such as planning the disastrous itinerary for the Europe trip.

* A ``large national organization`` is being put together by the White House to lobby for the balanced budget amendment. It will be announced next Thursday.

* Next week, President Reagan will veto the supplemental appropriations bill that provides special stimulus for the housing industry. But he will not oppose the conference report on the 1982 budget, no matter what the deficit.

Donovan. Although some people at the White House have been pressing for Donovan's resignation now, that idea has been rejected by Baker. ``We are at a state where it's hard to

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change course," says Fuller. Although the President has been kept up to date on this matter, Reagan himself has not been involved in deciding how to handle it.

Since the current news stories are based on facts that were known last January, says Fuller, it would be unfair to oust him now. He says Donovan "is convinced there is going to be a finding soon that vindicates him." One reason Donovan wants to hang tough is he feels he's been through "the longest confirmation process in history."

Fuller says White House officials erred last January when they overlooked this problem. "There are a lot of people around here who should have looked closer at the matter," he says. But Fuller defended Fred Fielding's directive to the FBI to ignore Donovan's trip the Rose Bowl with known gangsters. "It was a perfectly appropriate response to the incidental information that they had," says Fuller.

(Robert Bonatati, Reagan's labor guy, also confirms--on background--that Donovan has decided to fight to keep his job. According to Bonatati, Donovan was ready to resign at the end of 1982--until these new allegations arose. Now Donovan's got his back up again.

(Bonatati says the Donovan story has not had much impact outside of Washington. But he adds that the allegations against Fred Fielding could be more damaging, especially coming on the 10th anniversary of Watergate.)

Nimmo and Others. Fuller denies the New York Times story that Robert Nimmo is about to get the axe as director of

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the Veterans Administration. Ed Meese visited the VA director's expensively decorated office about two weeks ago, but failed to admonish Nimmo. The White House is awaiting a report from the inspector general, but Fuller senses no inclination to dismiss Nimmo.

Nor is the director of the General Services Administration in any trouble for padding the payroll with friends and relatives. "Everyone is aware of it, but I don't think anyone has a strong view," says Fuller.

Why does Reagan have so much trouble handling personnel matters? Fuller says the President is completely oblivious to the people who work for him, even those people right under his nose. To illustrate, Fuller says Reagan has only recently begun to call him by name--even though Fuller has worked for Reagan in a variety of capacities for more than 10 years.

Post-Election Shakeup. Fuller expects Dole to leave because she is "extrodinarily frustrated" with her lack of influence. But she may seek another position in the administration. Fuller himself has decided to stay, and so has Richard Darman. He also expects Baker, Meese and Deaver to stay after the election.

But Fuller expects the chain of command to be changed to more closely reflect reality. He expects Baker and Deaver to sit down and work out a new organization chart after the election. Baker's pre-eminent role will be recognized in some way. Deaver may step asside to concentrate entirely on

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special projects. Fuller and Darman hope to be elevated above the assistant-to-the-President level. In reality, Fuller and Darman already occupy positions beneath Baker but superior to other presidential assistants such as Dole, Williamson, Gergen, Rollins, Duberstein, etc.

You can now expect a ``summer departure`` for Energy Secretary Edwards.

Big Three Bust-Up. The Big Three still meets every morning, says Fuller. But the meetings amount to Baker filling in the other two on what's happening. Although Meese still insists upon being portrayed as an equal to Baker in public, he makes no effort privately to do the work. Fuller says of Meese: ``His instincts are good. His knowledge of the federal government is astounding. But he can't get anything done.``

Deaver has never sought public recognition of his status within the administration. He has always been Baker's deputy. He continues to be close to Reagan and run the logistical side of the White House operation. But he has conceded much of his authority to Baker.

William Clark is no longer considered a potential rival to Baker. Although Clark has improved the management of the National Security Council staff, he expresses no personal opinion on foreign policy issues. Fuller says he's ``all process and no substance.`` All NSC materials now represent ``a balance`` between State, Defense and the CIA.

Budget Matters. One of Deaver's ``special projects`` is

(MORE)

the new organization to lobby for a balanced budget amendment. Fuller has no details.

__Although the builders will raise hell about Reagan's decision to veto the housing stimulus bill, the administration already has lined up some backers including the Chamber of Commerce.

(END)

June 18, 1982

FROM: SJF - White House

TO: MLS, LT, JF, BFP, SXM, JWM, GP, DR, JG, DCB, LH, SJF, RAK, PA, PGH

RE: Reagan's Pipeline Decision

In a surprise move, President Reagan decided on Friday to continue and expand his ban on the sale of U.S. equipment for the Trans-Siberian Pipeline.

Reagan linked his decision to the continued repression in Poland and acted against the advice of State Department officials. The decision is certain to have serious repercussions in Europe, especially since many European officials felt that Reagan had agreed to release the pipeline parts during discussions at Versailles.

Not only did Reagan continue sanctions that were imposed last December on the sale of rotors, turbines and pipelayers, but he also extended his sanctions to goods produced by subsidiaries of U.S. companies overseas. This new element was certain to be tested in the courts.

"The objective of the United States in imposing the sanctions has been and continues to be to advance reconciliation in Poland," Reagan said in a statement issued at the White House. "Since December 30, 1981, (when the sanctions were first imposed) little has changed concerning the situation in Poland. There has been no movement that would enable us to undertake positive reciprocal^A measures. ~~B~~ The decision taken today will, we believe, advance our objective of reconciliation in Poland."

Senior administration officials were asked what Reagan expected to happen in Poland before the sanctions could be lifted. Their reply: "'We are very anxious to see any movement toward reconciliation. Those moves, when they come, will be assessed by the President at that time.'"

Secretary of State Alexander Haig, who recommended lifting sanctions on the pipeline parts, told reporters last week that European leaders at the economic summit in Versailles were led to believe that the ban would be lifted in exchange for language in the final communique which talked about limiting export credits from the West to the Soviet Union. But White House officials denied that any such deal was made at Versailles. "'There were no deals along these lines,'" one official said. "'The decision of the President today was not influenced by the progress on the credit initiative.'"

Officials conceded that the President's decision would contribute to the cost of the pipeline and delay it by at least one to three years. The exact increase in cost cannot be estimated, according to officials. One aide contended that many of the parts involved in this ban cannot be obtained anywhere else.

Administration officials were hard pressed to explain how this decision conforms with President Reagan's decision last year to lift a ban on U.S. grain sales to the Soviet Union. Officials said these two decisions were made on

different premises. One aide said the decision ''indicates the will and resolve of the President to insist on movement in Poland--this move does penalize the Soviet economy.'' He noted that the Soviets can obtain grain from many sources, but the U.S. is the only manufacturer of certain pipeline parts.

(END FILE--JNM/RW)

STORY:WHU1 QUEUE:SJT-SJT MSG: MA:60 FMT: HJ: INI: OPR:SJT ;06/21,15:10

To: mls lt jf dr bfp jg gp lh dxb dcb jwm rak pa pgh sxm

From: sjf

From the White House:

Pipeline. Richard Darman, Baker's assistant, says off the record that Secretary of State Alexander Haig misled European leaders at Versailles by indicating that Reagan would lift the ban on pipeline parts. He said Reagan never made such a deal.

According to Darman, the State Department fought hard for an end to the ban because Haig had gone out on a limb on it. He says Haig was trying so hard to get an agreement at Versailles on the East-West trade language that he overstated Reagan's willingness to give in to the pipeline.

This is not the first time that Haig distorted matters to get a compromise. For example, says Darman, in negotiations between the Saudis and the Congress on the AWACS sale, Haig committed both sides to do more than they were actually willing to do. "Going all the way back to the Saturday Night Massacre, it's obvious he's been doing this for years," says Darman.

Urban policy. The White House is disavowing the so-called "urban policy" outlined in the Sunday New York Times. Larry Speakes says the story was based on a draft report put together at the Department of Housing and Urban Development. "It is a draft," he said, purporting to quote the President. "It is only that--a draft. I was prepared at the staff level. It has not been approved, nor

(MORE)

has it been adopted. I pledge that the federal government will not abandon its pledge to the nation's cities."

Economic policy. The White House also backed away from reports that it wants more control over the Federal Reserve Board. Speakes says the Treasury has been studying the issue because the administration has been asked to testify in Congress on a bill that would change the status of the Fed. But he adds: "Generally, we've supported the independence of the Fed."

Asked about a general review of economic policy, Speakes replied: "The President's thinking on the matter is that he will stick by his program." He said Treasury Secretary Regan is doing this review "mainly on his own initiatives" because "he feels it's good business to look ahead a bit."

Vacation. Reagan's scheduled five-day trip to the ranch next week may be extended, according to Speakes.

(END)

STORY-BEGIN
MA:60 FMT: QUEL:NRD-NRD MSG: OPR:BW ;06/21,16:58
HJ: INI:

TO: MLS, LT, JF, DR, BFP, JG, GP, LH, DXB, DCB, JWM, SJF,
PA, PGH, SIM
FROM: RAK
RE: Reagan receives Begin

The President made no progress in urging Begin to pull Israeli troops out of Lebanon. The talks between the two leaders were "frank and bordering at times on direct and even blunt," according to Secretary of State Haig, who briefed reporters on background, attributable to a senior administration official:

* Reagan told Begin that the U.S. is not "enthusiastic" about the prospects of U.S. troops participating in a multilateral peacekeeping force in Lebanon. The President is reserving until later a decision on U.S. participation.

Begin wants U.S. forces to police a Lebanese "sanitized zone" which Israel demands as a prerequisite for withdrawal. Begin is "skeptical" about the use of UNIFIL troops to guarantee peace in southern Lebanon and wants instead a new multinational force. Begin agreed that Israel will relinquish all control over the buffer zone.

* Reagan "emphasized his deep concern" that the Israeli military action "be terminated at the earliest possible date, that the withdrawal of Israeli troops be accomplished expeditiously" and that international humanitarian aid to Lebanese refugees be started immediately.

* Begin agreed to a complete pullout of Israeli forces

"as soon as possible" (his words), but emphasized that such will not occur until Israel's northern borders are secure from Palestinian attack and all Syrian troops are withdrawn from Lebanon. Begin agreed to no timetable and Haig refused to be pinned down to specifics on how soon the administration expects an Israeli pullout. "We're not talking about a prolonged Israeli occupation of that buffer zone, but rather an early insertion" of a peacekeeping force, Haig said.

* Reagan did not raise the question of future U.S. arms sales to Israel and Haig stressed that there has been no suspension of U.S. military aid. Begin, however, did raise the question of American military shipments to moderate Arab states. That subject "was not concluded" by the two leaders.

* In the Oval Office, Begin lectured the President of the United States on the meaning of the word "invasion." Israel has not invaded Lebanon, Begin told Reagan, because to invade means to annex the conquered territory. Israel does not intend to annex the territory it has seized but rather supports an "independent and free Lebanon," said Begin. He lectured reporters similarly, in Reagan's presence, during the public departure ceremony on the South Lawn. Begin complained that he had read "in some newspapers in this country" about Israel's "invasion" of Lebanon. "We don't covet even one inch of Lebanese territory," he said.

* Begin told Reagan that PLO shelling of Israeli towns which occurred in response to the initial Israeli air strikes into Lebanon was the "provocation" that sparked the Israeli invasion. Israel intended only to penetrate 43 kilometers into Lebanon but widened its ground and air assault only after Syria moved troops and missile batteries into the Bekaa Valley, Begin told Reagan. When Haig was asked whether the U.S. accepts Begin's assertion that Israel never intended such a massive invasion, he responded, "It serves no purpose now to make a determination on that." When asked whether Israel should be "rebuked" by the U.S. for its military action, Haig said, "I have no judgment to make on that at this time."

* Begin "rededicated himself to a strong additional effort" to achieve progress in the Camp David peace process after the Lebanese crisis is resolved. Haig said U.S. efforts to get the peace process moving again will include steps to "broaden" participation by "other powers."

While Reagan apparently put little pressure on Begin during their talks, he was restrained in his public comments. Reagan was very brief in his remarks during the departure ceremony, calling the discussions "worthwhile" instead gushing with the effusive praise that he normally uses to describe talks with a foreign head of state. (Begin called the talks "fruitful," and it appears that he did more of the talking than did Reagan. During an Oval Office

(MORE)

STORY: BEGIN

PAGE: 4

photo session, Reagan appeared to act grim deliberately. He did not smile for the cameras or joke with reporters as he often does. Instead, he maintained a somber mien and glanced at his wristwatch as if he were bored by Menachem's questions about his European trip.

(END)