

DEPARTMENT OF STATE
BRIEFING PAPER

CONFIDENTIAL

MIDDLE EAST

Ambassador Habib is trying to develop a political consensus in Lebanon where none has existed for several years. While he has been successful in achieving an agreement on a basic goal -- the need for a strengthened central government -- he is having difficulty in persuading the Lebanese players to make the urgent political decisions necessary to achieve this goal. Largely as a result of Ambassador Habib's persuasive efforts, the new National Salvation Council finally agreed to meet on June 20 and will meet again on June 22. The Lebanese executive authority -- probably through the Council -- must make the decisions necessary to inaugurate urgent negotiations between the Government of Lebanon and the Palestinian Liberation Organization fighters and other armed Lebanese elements.

In the meantime, it is imperative that the Israelis retain pressure on west Beirut but through a cease-fire in place. They must, however, withdraw from the Baabda area in order to remove the impression that the Lebanese government is acting only under Israeli pressure.

It is envisioned that a follow-on negotiation between the PLO and the Lebanese authority would remove the PLO as a state-within-a-state in Lebanon, transform it into a community responsive to the authority of the Lebanese government, and permit the safe passage of the PLO leadership cadre out of Lebanon.

The very important issues of Israeli-Syrian disengagement, Israeli withdrawal, and the arranging of a peacekeeping force in a buffer zone in southern Lebanon must be taken up as soon as the outcome of the West Beirut-PLO issues are resolved. The key to all our efforts in Lebanon is the strengthening of the Lebanese government and extension of its authority, the issue for which Ambassador Habib is working so intensively at the moment. Mrs. Thatcher will be very interested in our intentions with regard to resolving the Palestinian issue. We must impress upon her our resolve to make early progress on this through intense efforts to build on progress already made within the Camp David framework. The President responded on June 19 to Prime Minister Thatcher's letter on Lebanon and undertook to continue to consult closely on these issues.

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EAST/WEST RELATIONS

On East/West relations Mrs. Thatcher has been perhaps your strongest supporter among Allied heads of government since you took office. Her views on the nature of Communism, the Soviet threat and the Western posture required to deal with them are robust. She has emphasized cooperation and teamwork in developing a united Alliance approach to East/West problems.

Partly because Britain has fewer economic ties with the East than its European partners, it has also been more helpful to our efforts to achieve greater discipline and stringency, keyed to Soviet behavior, in the economic field. Friday's NSC decision as it effects John Brown, Ltd., a British company operating in a high-unemployment Scottish area, will be all the more painful in light of this pattern of British good will. The Prime Minister may suggest that she will be under strong Parliamentary pressure to invoke British law against the application of the NSC decision in the UK. (See Background Paper on Economic Sanctions Against USSR).

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ECONOMIC SANCTIONS AGAINST THE USSR

The Europeans, including Prime Minister Margaret Thatcher, are unhappy with the President's decision of June 18 to expand export controls on US oil and gas equipment and technology originally adopted in December following the imposition of martial law in Poland.

The December sanctions blocked the sale of all US produced oil and gas equipment and technology to the Soviets. The most significant transaction to be affected was a contract under which GE was to deliver \$175 million worth of rotors to several European affiliates (including John Brown Ltd. in the UK) for use on the West Siberian pipeline. The President's June 18 decision reaffirms the earlier sanctions and extends controls to equipment manufactured overseas by US subsidiaries as well as that produced by foreign companies on the basis of US technology.

The Prime Minister is likely to focus on the important economic losses our decision may cause John Brown, Ltd. It has \$279 million in pipeline contracts with the Soviets which are dependent on receipt of GE rotors.

The British have claimed that nonfulfillment of these contracts could force the financially troubled firm into bankruptcy, with politically damaging increases in unemployment, and the Prime Minister has personally written the President twice to urge that our sanctions be eased to permit the deliveries of the necessary rotors.

In addition the British have been among the most vociferous critics of US efforts to apply our laws and regulations in foreign jurisdictions. The British have blocking legislation on the books to prevent UK companies from complying with US laws if we try to enforce them in Britain, and can be expected to use it if necessary. This further cooperation on limiting Western credits to the Soviets may also be in jeopardy from this decision.

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