

THE WHITE HOUSE  
WASHINGTON

DECLASSIFIED  
E.O. 12958 Sec. 3.6

SECRET/NODIS/XGDS

OR 01-56, #33; 01-111 4/26/02

By: dal NARA Date: 11/26/02

MEMORANDUM OF CONVERSATION

**PARTICIPANTS:** J. Malcolm Fraser, Prime Minister of Australia  
Andrew S. Peacock, Minister for Foreign Affairs  
Amb. Nicholas F. Parkinson, Australian  
Ambassador to the United States  
John L. Menadue, Secretary, Department of  
Prime Minister and Cabinet

President Ford  
Dr. Henry A. Kissinger, Secretary of State  
Brent Scowcroft, Assistant to the President  
for National Security Affairs  
Amb. James W. Hargrove, U.S. Ambassador  
to Australia

**DATE AND TIME:** Tuesday, July 27, 1976  
10:55 a.m. - 12:27 p.m.

[The press came in to take photos. There were greetings and small talk about the Olympics. The press then departed].

The President: I am delighted to have you here. Congratulations on your victory -- not only your personal victory, but your party's. I envy your majority. I wish we had it, but we are working on it.

Fraser: Thank you very much, Mr. President. It is great to be here and I deeply appreciate the invitation during such a busy period. I wish you well in your coming trial. A little luck is always useful.

We particularly wanted to visit in order to wash away a few vestiges of difference between our countries.

The President: I very much appreciate the change. There has been virtually complete change on the Indian Ocean and in general attitude on national security problems, like letting our nuclear warships into ports again.



SECRET/NODIS/XGDS

SECRET - XGDS (3)  
CLASSIFIED BY: HENRY A. KISSINGER

We are determined to maintain a role in the Indian Ocean, and we are working on the Congress to convince them of the need for Diego Garcia. I think we will make it. I want close cooperation with you. Perhaps we can cooperate with you on the P-3 flights and other aspects of an Indian Ocean military presence. Perhaps you could be of some help with Singapore on this too.

When I was in Congress I was known as a Hawk, and I can't change now that I am in the White House. You might be interested in where we are going on the defense budget. It's a much better situation. Over the past decade they have regularly and systematically cut Presidential defense proposals. They've cut all together over \$50 billion. This year I recommended an increase of \$14 billion in obligations and \$10 billion in expenditures, and they've cut less than one percent. Some of their cuts were okay; some were not. There's been a big change in public opinion.

Fraser: I'm glad to hear it. The history was discouraging. We've had a similar experience. Appropriations will be increased significantly this year and for the next four years.

I understand our experts are working on renewal of Pine Gap. It had been on an annual basis, but I would propose renewal on a ten-year basis if you would find that useful.

The President: That would be very helpful.

Fraser: And I would welcome some sort of cooperative program on the P-3's. We fly them, you know, and I think it would be good. Some of the internal equipment may be different. When Admiral Hayward was in Australia in April he asked if the airport at Learmonth [Northwest Cape] would be of use [for transit flights to Diego Garcia], but Hayward said it was too far South. But if you can use it, we'd be willing, and maybe you could use it for the P-3's.

The President: [To Scowcroft]: Who's negotiating this for us?

Scowcroft: Probably Defense.

The President: I will tell our people to press the cooperative approach.

Fraser: I spoke to some of your Congressmen on Diego Garcia.

Kissinger: You gave them the answer they didn't want!

Fraser: I thought I had to lay it on the line. A number of countries around the Indian Ocean privately approve of your moves to counter the Soviets in those waters, even though they aren't in a position to say so publicly. China is an example.

The President: I appreciate the letter you sent me on your trip to China. We hear nothing about Teng Hsiao-ping now.

Fraser: We got the same kind of demonstration in every village we visited. Hua Kuo-feng still seems to be in charge.

The President: Chiao Kuan-hua is still Foreign Minister, isn't he? He was farther down the line when I was there in '72 and he was very articulate and bright. I liked him.

Fraser: He's impressive and forceful.

Kissinger: He's a minor edition of Chou.

Fraser: I would think he'd be a tough negotiator.

The President: Yes, except when he was with Teng, Chiao said very little.

Fraser: And with us when he was with Hua.

The President: How about Mao?

Fraser: They stopped his appearances just before I came. They trotted out Chu Teh two weeks before he died. They had him under careful control and he seemed very vague and frail.

The President: I thought Mao was mentally very alert when I saw him.

Kissinger: Mao was better with you than when I had seen him the previous month.

Fraser: I got several impressions. First is that anyone who makes predictions on China is foolhardy. I got the impression also that they aren't going to make issues out of Southeast Asian problems or the Korean situation or the Taiwan situation. They consider the Soviet problem overriding and won't let these less important problems complicate it.

The President: That's our impression too.

Fraser: They are taking a sharp line on Taiwan, for example in their conversation with Senator Scott.

Kissinger: But he provoked it.

Fraser: One other impression, which may be a misunderstanding. There was only an oblique reference. They wanted us to have the feeling there was not adequate communication.

Kissinger: With Australia or with us?

Fraser, Peacock: With the United States.

Fraser: It's true on Australia particularly but the doors to China have been shut so long and they have so much reason to be suspicious. But the impression we got was they want more dialogue with you. One thing -- the SALT talks going on -- which we support -- and they are not a part of it; they are concerned something may happen which would affect them. This was just a general feeling we got. I think we all should try patiently to draw them out and to encourage them as they emerge and engage them more freely in some wider framework. Not that you are not doing that, but I thought I should pass this on.

The President: I never had that impression during our talks in December. They were critical of some of the things we do, but I never got the feeling they thought there was a gulf.

Kissinger: The Chinese are masters. They are near-geniuses and cold-blooded analysts of the balance of power. Sentiment is not something they are concerned with. In fact, we brief them more than anyone else but our close allies. Whenever we are about to meet with the Russians at a high level, we brief them in detail. And they tell us nothing. Now they are concerned that we are weak. They see Vietnam; they see Angola;

they see Turkey. And they would like to freeze us into total hostility to the Soviet Union. That would get them off the hook. And then they can organize the Third World against us both. Their game is very complicated but they are doing their best to maneuver us into a position where we have no options. Their policy is becoming more transparent because their leadership is less competent now. We need to maintain our options with respect to both. Being frozen into hostility with the Soviets would worsen our relations with China, not help them.

Fraser: We don't want that. Hostility to the Soviet Union appears absolute now but the possibility of reconciliation we must keep in mind. We have to offer them an alternative home to the Soviet Union. They shouldn't feel a need to repair their relations with the Soviets.

Kissinger: Yes, we must walk this line. It isn't easy. They should feel they can count on us but not take us for granted.

Fraser: Any enduring relationship with China has to take into account your relations with Western Europe too.

The President: We have kept our allies fully abreast of our SALT II negotiations.

Kissinger: And the Chinese. And on MBFR.

The President: In SALT, we think a good foundation was laid in Vladivostok. The problems now are how to negotiate these ambiguous systems like Backfire and cruise missile. I happen to think SALT is in everyone's interest. I won't sign a bad agreement just to sign an agreement. We won't compromise principles but I want an agreement.

Fraser: We certainly support that.

The President: We are after an agreement. Otherwise both sides will have to move ahead with major programs. So we are looking for an agreement through 1985. We don't have much time, since the Interim Agreement ends in '77.

Kissinger: And if we went into competition, in ten years we would be no better off really. Our estimates are that we would lose as many as 125 million people in a nuclear war if we didn't strike first, and 110 million

if we did. Even with our 6-to-1 advantage in warheads. We need to spend the money on conventional forces.

The President: We have a study underway now on our Navy. The figures you see are misleading since alot of their ships are used for coastal defense and minesweeping. Our tonnage is almost double theirs. But we are taking a hard look at whether we need an extra push on Navy.

Of course we are also debating with Congress on what to do with the B-1. An evaluation will be complete by 1 November. I think we need it -- the B-52 is aging.

Kissinger: It would be a disaster if the B-1 were scrapped. The thing the conservatives don't realize is that their SALT opposition has left open the B-1 to attack.

The President: Carter supports a \$7-9 billion cut in the defense budget. I don't think it can be done.

Kissinger: Did you see the defense advisers who met with Carter yesterday? \$7- 9 billion cut is just the tip of the iceberg. They would have to cut in Asia and Europe and the B-1.

The President: There's no question they would stop the B-1 and try to modify the B-52. Humphrey tried to stop R&D on the cruise missile.

Fraser: Would they reduce the commitments to match?

Kissinger: Not necessarily.

The President: The cruise missile isn't the ultimate weapon but it's still necessary.

Fraser: How do you see the economy going? Was the Puerto Rico meeting a success?

The President: Yes, it was. I think things are going well. At Rambouillet we were all in the trough of the recession; we tried to coordinate our programs for recovery. At Puerto Rico the recovery was under way -- with our economy way ahead. We all recognized the need to curb inflation while reducing unemployment. We also discussed North-South and East-West economic issues.

[Describes domestic recovery, with relevant statistics and trends.]  
It's much better than even in January. The trends are all in the right direction.

Fraser: That must be nice for later this year.

The President: Yes, though we would rather have the employment higher and the inflation lower. How about you?

Fraser: We are getting back, but it is difficult. The previous government just gave the unions anything they wanted. I think now we are in the early stages of recovery, but some indicators are going in each direction. I think inflation is the chief problem and we can't move until we get that licked. We cut \$3 billion off the budget this year and there are signs inflation is coming down. We've had trouble getting the unions to restrain their wage demands. Treasury is convinced the recovery is underway, but slowly.

The President: I notice the British have taken some tough decisions, but I notice they had some defectors. He can't afford too much defection.

Fraser: No. It is always difficult taking on these very tough programs. I think it is probably better that Labor does it than the Conservatives.

The President: Callaghan called me and told me he has had to defer some defense spending, in order to insist on deferral of some social program costs, but he said it was no more than a temporary defense deferral.

Fraser: Are the NATO countries increasing their defense spending?

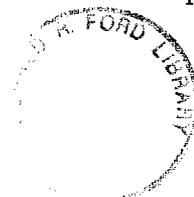
The President: Yes, but not as much as we would like. We are trying to improve cooperation and standardization.

Kissinger: General Haig is doing a superb job of utilizing what he has.

The President: I am very worried about the situation in Italy.

Peacock: Hasn't Carter said he could live with Communists in the Italian government?

Kissinger: Yes. And that is disastrous. The Communists will bide their time until the U.S. election, hoping for a Carter victory and an easier posture



from the new Administration. If the US backs down, that'll be a disaster, because France will then follow the same road.

Once you get to arguing how much participation is okay, you are lost.

Fraser: Isn't this how Czechoslovakia went?

Kissinger: I had a study made showing that the East European Communists were making precisely the same kind of statements in 1945 to 1948. They sound just like Berlinguer and the French Communists today. I will give you a copy tomorrow.

Fraser: Yes, I'd like that.

President: Our hard line in Portugal seems to have paid off well.

Kissinger: But Italy is more complicated. Like on Diego Garcia, many of the Europeans agree with us on Italy but criticize us in public.

Fraser: That is bad. It reminds me of Vietnam.

Kissinger: It's interesting that all the crazies who were protesting the killing in Vietnam and elsewhere are totally silent about the 500,000 who almost certainly were killed in Cambodia.

Fraser: At least.

Peacock: The Cambodians have come to us in Peking to suggest that we establish diplomatic relations by 6 August. We couldn't do it by then but I wanted to discuss that. There might be some advantages but that may be too soon.

Kissinger: The Chinese want to build a barrier to the Vietnamese. While the Cambodians are dreadful, it does make some sense.

Fraser: We would have to disclaim any idea of approving their actions.

Peacock: We could perhaps be useful to you -- I want to talk about it in more depth.

Kissinger: It might be a good idea. Anything that would help to contain Vietnam would be good. Though I consider the Cambodian Government loathesome.

The President: Do you have relations with North Korea?

Fraser: Yes. It was established by the previous government. We have kept them.

Kissinger: How do they treat you?

Fraser: There is virtually no contact. We were kicked out quickly because they didn't like the way we abstained on the UNGA vote.

The President: Well, we are looking forward to seeing you at dinner this evening.

Fraser: There is one domestic problem I need to raise for the record -- your beef imports.

The President: Yes, we have the same problem. I'm getting pressure from meat producers here.

Kissinger: I was hit with it when I was in Oregon for a speech.

Fraser: We are having a serious drought and people are killing the cattle. There are arguments on both sides of the question and I would simply like to say I mentioned it.

[There was additional brief discussion of the prospective grain crops in Australia and the U.S. The conversation then ended.]

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DEPARTMENT OF STATE

Memorandum of Conversation

ME01-125 #16; pt. III 5/29/02

del NARA Date 6/19/02

DATE: July 27, 1976

Place: The White House  
Time: 11:00 A.M.

SUBJECT: President's Meeting with Prime Minister Fraser

PARTICIPANTS:

US

AUSTRALIA

President Gerald R. Ford  
Secretary of State Henry Kissinger  
Ambassador James W. Hargrove  
Mr. Brent Scowcroft

Prime Minister J. Malcolm Fraser  
Foreign Minister Andrew Peacock  
Secretary, Department of Prime  
Minister and Cabinet  
John Menadue  
Ambassador Nicholas Parkinson

After initial pleasantries the President expressed to the Prime Minister his pleasure at the actions of the Prime Minister's government, particularly with respect to national security matters. He mentioned specifically the reversal of position on Diego Garcia, the admission of NPWs into Australian ports again, and the improved cooperation on the joint US-Australian defense facilities. He said he considered it vitally important to have a military capability in the Indian Ocean and would continue to attempt to convince Congress of the necessity for improving Diego Garcia; he believes he is making headway on this. The US is anxious to work out arrangements for cooperative P-3 surveillance flights with the Australians, the President said, and perhaps the Australians could be some help with Singapore on this matter, too.

The President cited the improved situation on Defense appropriations this year. Over the past decade Congress had regularly and systematically cut the presidential proposals; a total of more than \$50 billion had been cut over this period. This year, however, he had recommended an increase of \$14 billion in obligations and \$10 billion in expenditures and the Congress had cut less than 1%. Some of their suggested cuts were acceptable; others were not. The Congress' attitude reflected a changed American public opinion, he said.

James W. Hargrove (Amb.)  
7/28/76  
(Drafting Office and Officer)

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~~SECRET~~ - XGDS (3)  
CLASSIFIED BY: HENRY A. KISSINGER



The Prime Minister indicated he was heartened by this news and that the history was discouraging. Australia had had a similar experience; defense appropriations there were to be increased significantly this year and for the following two years as well.

The Prime Minister said he understood negotiations are being conducted to put the arrangement for the joint facilities at Pine Gap on a new ten-year term instead of its present year-to-year term. He said he would be happy to see it put on the long-term 10-year arrangement. The President commented that his support would be very helpful.

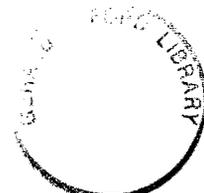
The Prime Minister said Australia would also cooperate on P-3 surveillance of the Indian Ocean if that is possible. When Admiral Hayward was in Australia in April he had asked if the airport at Learmonth (North West Cape) would be of use (presumably for transit flights to Diego Garcia -- notetaker's comment) but Admiral Hayward had replied that he thought it was too far south. However, the Prime Minister said if it can be used by the US, Australia would be willing, and perhaps it offered possibilities for cooperative P-3 flights.

The President asked Mr. Scowcroft who was negotiating this matter for the US and speculated that it would be Defense. He said he would speak to them about it.

The Prime Minister said a number of the nations peripheral to the Indian Ocean privately approve of the US moves to counter the Soviet strength in those waters although they are not in a position to do so publicly. He cited China as an example.

The President thanked the Prime Minister for his letter about his trip to China. There then followed a general discussion of the leadership situation in China, the position of Teng, the health of Mao, and the present Chinese Foreign Minister. The Prime Minister thought him impressive and forceful; Mr. Kissinger thought him a minor edition of Chou. The Prime Minister thought he would be a tough negotiator.

The Prime Minister said he got the impression from his trip to China that the Chinese were not going to make issues out of insurgencies in Southeast Asia or the Korean situation or the Taiwan question, that they considered the Soviet problem to be overriding and didn't want to complicate it with these less important problems. The President said that was our impression also.



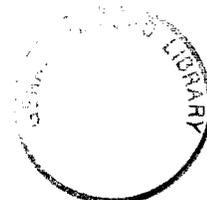
Another impression from his trip, the Prime Minister said, something as to which there was only an oblique reference, was the feeling that there hadn't been adequate government-to-government communication and that they wanted more.

Mr. Kissinger asked if he was speaking of communication with Australia or with the US? The Prime Minister and the Foreign Minister both replied: "With the United States." The Prime Minister thought they were afraid that something might happen to inhibit their long-term interests. The Prime Minister thinks our types of countries need to build up a framework of long-term (maybe as long as 25 years) relations with China to draw them out of their ideological position.

The President said he hadn't had any impression that the Chinese felt neglected by the US when he visited with them in December of 1975. Mr. Kissinger said the Chinese were near-geniuses and cold-blooded analysts of balance of power politics but that loving people was not their specialty. We have, he said, actually briefed the Chinese more than anyone else except our closest allies. Whenever we are about to meet the Russians at a high level we brief them in detail about our plans. Their basic problem is they think we are becoming weaker (as in Viet-Nam, Angola and Turkey, for example) and they don't like it because it doesn't fit their plan. They would like to get the US into a posture of irreconcilable hostility with the USSR and then they would mobilize the Third World against both powers. Their policy is becoming more transparent with the lower level of competency in the Chinese leadership since Chou's death. We need to maintain our options with respect to both powers. Freezing into hostility with the Soviets would worsen relations with China, not help them.

The Prime Minister believed it to our interest that China should not feel a need to repair their relations with the USSR, he said. Mr. Kissinger agreed, adding that the Chinese should feel that they can count on us but not take us for granted. The Prime Minister said he thought any enduring relationship had to take into account our relations with Western Europe as well. Mr. Kissinger again agreed, saying that we are keeping Western Europe and China both fully advised of our MBFR and SALT negotiations. The President said he is convinced a good SALT agreement is essential, although he would not sign a bad agreement just to have an agreement.

Emphasizing the importance of a good SALT agreement, Mr. Kissinger said our estimates are that the US would lose as many as 125 million people in a nuclear war if we didn't strike



first and as many as 110 million if we did (not a significant difference) even with our six-to-one advantage in warheads now. We need to divert resources from nuclear weapons to conventional, he said.

The President agreed, especially in respect to naval forces, remarking on our present shipbuilding program and the possibility of acceleration. However, he made the point that figures on comparative naval strength are misleading because of the large number of Soviet ships in coastal and minesweeping use. Our tonnage is almost double theirs. Nevertheless, we are taking a hard look at an extra push in the naval program. He also commented on the debate in Congress on the B-1, a program which he thinks is essential in view of the age of the B-52s.

Mr. Kissinger agreed that it would be a disaster if the B-1 program were scrapped. The President noted that Jimmy Carter's proposed reduction of \$7 billion in the defense budget would be terrible, as would his proposal to reduce strength in Korea. Mr. Kissinger thought the Carter advisers on defense matters were a problem, that they would probably reduce commitments in Western Europe as well as in Korea. The President said there's no question that they would stop the B-1 and try to modify the B-52. He noted Humphrey tried to stop R&D on the cruise missile, which the President thinks is not the ultimate weapon but is still necessary.

The Prime Minister asked for the President's comments on the economy. Did he think the Puerto Rico summit was a success? The President thought it was indeed. It was a necessary follow-up to Rambouillet, this time to emphasize the problem of renewed inflation instead of recession recovery as at Rambouillet. He quoted current statistics indicating the situation in all respects looked better in the US than it had in January of 1976. How about Australia's economy, he asked the Prime Minister? The Prime Minister replied that Australia had started its program of recovery later and had to turn around from a very extreme position in which the previous government had put them. They have cut \$3 billion off the budget this year and there are signs inflation is coming down. They have had trouble getting the trade unions to restrain wage increases, but there are some encouraging signs. Treasury is convinced the recovery is under way, but slowly.

A discussion followed of Great Britain's problems and the prospects for Prime Minister Callaghan's success in this program. The President said the British Prime Minister had called him to tell him he had to defer some defense expenditures in order to insist on deferral of some social program costs, but that it was no more than a temporary defense deferral. The Prime Minister asked if NATO was increasing its force level and the President

answered it was increasing some, but slowly, and that he'd like to see it do better. Mr. Kissinger commented that General Haig was going a superb job of utilizing what he had.

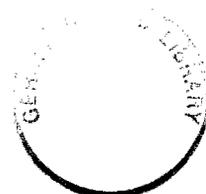
A discussion of Italy and the problem of the Communist participation in government followed. Mr. Kissinger thought the Italian Communists would bide their time until after the US elections in hope of a Carter victory and an easier posture with the new administration. A back-down in the US position would be a disaster, he thought, since France would soon follow the same road. He said he had some research done on what the Eastern European indigenous Communists were saying in 1945-48 and that they sounded exactly like Berlinguer and the French Communists today. He promised to give a copy of the research work to the Prime Minister, who said he would like to have one.

The President said our hard line in Portugal seemed to have paid off well. There was general agreement, but Mr. Kissinger added that Italy was more complicated. He added that, as in the case of the nations peripheral to the Indian Ocean, many of the European nations agreed with our position on Italy in private but criticized us in public. The Prime Minister thought that was very bad, and that it was reminiscent of the situation in Viet-Nam. There were comments on the atrocities in Cambodia.

The Prime Minister commented that three days ago the Australian Ambassador in Peking was asked if Australia would consider resuming relations with Cambodia on August 6. He thought there might be some advantages in re-establishing relations but he thought the precise date was much too soon. Mr. Kissinger said the PRC would like to see Cambodia re-established as a block to Vietnamese ambitions. The Prime Minister said if they did establish relations he would want to disclaim any idea of approving the actions of the Cambodians. The Foreign Minister said he'd like to discuss this matter with Mr. Kissinger in more depth. Mr. Kissinger replied that might be a good idea and that anything that would help to contain Viet-Nam would be good, although he considered the Cambodian government "loathesome."

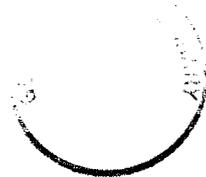
The President asked if Australia maintained relations with North Korea and the Prime Minister noted that they had established them but in a short space of time they were evicted from North Korea because they didn't like the way Australia abstained on a UNGA vote on the Korean situation.

Just before departure, the Prime Minister asked if they could include a brief discussion of the meat importation problem



in the report of the conversation, in view of his domestic problems in this regard. The President agreed, noting however that he was getting some pressure on the same subject from US domestic meat producers. Mr. Kissinger noted he had been hit with it recently in Oregon. The Prime Minister acknowledged that there were arguments on both sides of the question and he would simply like to note that the subject had been raised.

After a few brief additional comments on the drought in Australia and in Europe and the prospective grain crops in the US and Australia, the meeting adjourned at 12:20 P.M.



27 July 76

Decision

Discussion of Ologopos  
Passport

P Delighted to have you here. Comments on your entry - not only personal but party, I envy your magnet. Wish we had it but we working on it

F Thank you very much. It great to be here + appreciate commutation during sea-hike busy period. I wish you well in your coming trial. A little break is always useful.

We party wanted to visit in order to work away a few vestige of dirt.

P I very much appreciate change. There has been virtually complete change on Indian Ocean - in good attitude.

We determined to make a work there & are working on Oregon Dingo. I think we will make it. I want to see you as/you. Perhaps we can compare 1-3 flights + other aspects of Indian Ocean mail service. In Aug I have a bank + I can't change from Dir WA. You might be interested in where we are going on day budget. (Describes c 7) budget

F We are also working on a 5 yr pp to upgrade our capabilities.

Understand our experts are working on annual of Five Gap. It had been on annual basis but I would propose renewal once 10 yr basis if you would find that





How I know about Scott Lewis w/ Mao.

One major prediction on China is fast-  
hardly. Another impression is a sharp  
line they are ~~not~~ taking on Taiwan, for  
example in their own w/ Sen Scott

K But he predicted it.

F One other impression which may be immediately  
They wanted us to have feeling there was not  
adequate communication - that had on Aust. part -  
but doors to China had been shut so long  
& they have so much reason to be suspicious - but  
a impression we got was they would more  
challenge w/ you. One thing - the SALT  
talks going on - which we suggest - & they  
not a part & concerned something may happen  
which would affect them. This was just a  
good feeling we got. I think we all should try  
patience to draw them out & to encourage them  
to emerge & dialogue more fully. Not that  
you not doing that but I think I should press this  
on

P I never had that impression during our talks.  
They were critical for a few things we do,  
but I never got a feeling they that there was a  
quell

K The Chinese are ~~the~~ masters. Sentiment  
is not something they are concerned w. In  
fact we bring them more than anyone else  
but on else allies. And they tell us <sup>nothing</sup> ~~nothing~~.  
How they are concerned we are weak. And  
they would like to freeze us into total hostility  
to a J.V. That would get them off a hook.  
Their game is very complicated but they



doing this but a movement to end position where we have no options.

F We don't want that. Hostility to S U appears absolute now but possibility of reversal we must keep in mind. We have to offer them an alternative to S U.

K Yes we must walk this line. It isn't easy.

P We have kept our allies fully abreast of our Salt II report

K and - PDC

P In Salt, the third agreed foundation was laid in Vlad. The press now are showing signs these organizations are backfire & e M. I happen to think Salt in everyone's interests. We want surprise principles but I want an agreement

F We certainly support that.

P We agree on a agreement. Otherwise both will have to know about w/ major props. So we looking for an agreement thru 1985. We don't have much time, since Britain ends in 77.

K And if we went into competition, in 10 yrs we would be in better off really. We need to spend ~~for~~ a money on crew faces.

P We have a steady under way but on our way. We taking a hard look at whether we need an X Gas push on way.

Openness we also debating w/ Cong on what to do w/ B-1. F real enlighten by 1 hour. I think we hold it - B-52 is aging

K The thing a conversation about ~~how~~ which is that ~~there~~ their Salt position has left open



c B-1 & attacks.

P ~~But~~ Carter suggests a 7-9 bit cut in def budget  
I don't think it can be done.

K Did you see a def adviser who met w/ Carter  
yesterday? 7-9 bit cut is just a tip of a  
iceberg. They would have to cut in Asia &  
Euro + B-1

F Would they reduce c contracts to match

K Not necessarily.

P (Discussed B-1 + CIA a bit more)

F How do you see economy going

P I think things are going well. At Round, we  
were all in a trough of recession. We had to  
cover our heads for recovery. At P.R. a  
recovery was under way, w/ no way ahead.  
We were able to curb inflation while  
achieving ~~employment~~. We also discussed  
N-S + E-W Euro issues.

(Describes domestic recovery, w/ relevant  
statistics & ~~some~~ trends.)

The trends are all in a right direction

F That must be nice for later this year

P Yes, tho we would rather have employment  
higher & inflation lower. How about you?

F We are getting back, but it is def. The price  
level just gave us a warning anything they  
wanted. I think now we are in a early  
stage of recovery, but some indicators are  
going in each direction. I think inflation  
is a bit of a problem & we can't see till we  
get that ~~back~~ broken.

P I notice - Brits have taken some tough

decisions, but I notice some defections. He can't afford to much defection.

F No. It is always dip taking on that way tough prog. I think it prob better <sup>have</sup> ~~but~~ do it them conservation

P He has had to defer some dip spending

F are - Nato countries missing their dip spending.

P Yes, but not as much as we would like. We are trying to engrave crop + standardization. I am very worried about a set in Italy.

Research Harriet Carter said he would like w/ em to in govt.

K Yes, and that is disastrous. Once you get to arguing how much parties, you are lost.

F Don't this how Czech want

K I have a study showing E. Euro making precisely a some kind of statements in earlier years. I will give you a copy tomorrow.

(Under discussion of Italy & P-Cong relations)

It is interesting that all c crises who were protesting beatings in UK + elsewhere are totally silent on a 570, 000 who almost certainly was killed in Cambodia.

F at least.

Research Tom Embrochians have come to no in failing to suggest dip relations by 6 Aug. We couldn't deal by them but I wanted to discuss that

K Tom Chase want to build a bureau to a Venice. While c Embrochians are cherdful, it does make some sense.

Keank We could perhaps be useful to you - I want to talk about it.

P Do you have relations w/ KM

F Yes. Estab by a previous Govt. We have kept them

K How do they treat you

F They are essentially no contact.

P Well, we looking forward to seeing you at Christmas this evening.

F There is one domestic prob I need to raise for records - your brief M

\* P Yes, we have a same prob

(<sup>Birth</sup> Discussion of Puerto Rico & dispute over country of M.)

F We having a serious drought + people are filling c/wth - It would help if I could say I mentioned it.