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MEMORANDUM

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By *[Signature]* NARA Date *3/2/00*

WHITE HOUSE

WASHINGTON

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MEMORANDUM OF CONVERSATION

File

PARTICIPANTS:

James Callaghan, Secretary of State for Foreign and Commonwealth Affairs
 Denis Healey, Chancellor of the Exchequer
 Eric Varley, Secretary of State for Energy
 Gordon Richardson, Governor of Bank of England
 Sir Peter Ramsbotham, Ambassador to U.S.A.
 Sir Thomas Brimelow, Permanent Under Secretary and Head of Diplomatic Services
 Sir Donald Maitland, Deputy Under Secretary
 John Thomson [at end], Assistant Under Secretary
 Anthony Acland, Principal Private Secretary to Callaghan

Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
 Ambassador Walter H. Annenberg, U.S. Ambassador to Court of St. James's
 Mr. Helmut C. Sonnenfeldt, Counselor, Department of State
 Mr. Arthur A. Hartman, Assistant Secretary for European Affairs
 Ambassador Robert Anderson, Special Assistant to the Secretary for Press Relations.
 Peter W. Rodman, NSC Staff *PMR*

TIME AND DATE:

11:15 a.m. - 1:00 p.m.
Monday, July 7, 1974

PLACE:

Foreign and Commonwealth Office
London

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SUBJECTS:

Energy; North Sea Oil; Foreign Assistance;
Nuclear Non-Proliferation; CSCE; Trade Bill

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Secretary Callaghan: You must be very bored with debriefing everybody. I have been reading all these reports about your meetings in Europe.

Secretary Kissinger: But it's getting better. [laughter] The real trouble will begin when I debrief my colleagues at the Pentagon. [laughter]

ENERGY

Secretary Callaghan: What I would like to do is -- we haven't had a detailed discussion ourselves, so you won't get an HMG view -- but to get some informal thoughts on energy. So Denis Healey and Eric Varley are here.

Secretary Kissinger: Good.

Secretary Callaghan: It is clear there is an interrelationship between supply and politics and price. The question is whether an increase in supply will drive the price down or whether the Arab producers will produce less and just pocket the revenue. Then there is the question of the impact on inflation on one hand and the impact on unemployment on the other. And the third question is what should be the nature of the institutions we should be focussing on: the Energy Conference or the OECD. We have your initiative of last December, which seems to be going well. I like the idea of pooling. But that of course is just crisis management. What are your views?

Secretary Kissinger: Why don't we hear some more views?

Chancellor Healey: Bill Simon is coming here and I'll spend 24 hours with him. Our biggest worry is the growing tendency, in spite of what you said when it hit, for every country to attempt to balance its payments before the Arabs have had time to find a way to invest the revenues. So you get a cycle of begger-thy-neighbor policies.

The second impact is to raise prices and depress demand by raising prices. Some of you are noticing the price effect and not noticing the demand effect. My own judgment is that we may inadvertently promote a world depression by acting directly on the prices.

Secretary Kissinger: Is it your view that by attempting to act on prices we're giving the Arabs an incentive to hold down production?

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Chancellor Healey: I'm not saying that; I'm worried about the tendency to resort to demand-depressing policies, in addition to the tendency to.....

Secretary Kissinger: I understand that. I don't understand why our attempt to reduce prices will affect demand.

Chancellor Healey: Because you are slowing down demand in the effort to reduce prices. Arthur Burns and the Fed, for example.

Secretary Kissinger: I see. You don't mean prices directly. That's our fault.

Chancellor Healey: We will have to come to terms with the tremendous revolution in the terms of trade that is represented by the Arab oil producers. The problem is how to resume growth policies after this, after the tremendous increase in the price of the resources on which it depends. Helmut [Schmidt] and I have discussed this.

Secretary Kissinger: Yesterday he expressed concern to me that if they seek to increase exports they will exaggerate the inflation.

Chancellor Healey: Naturally we would like them to increase imports!

Secretary Callaghan: And increase their aid.

Secretary Kissinger: He thinks aid is inflationary, so he cut it.

Secretary Callaghan: So he puts inflation at the head of the list.

Chancellor Healey: The supply-demand equation is dependent critically on foreign demand, and will be affected by the measures we all take to control inflation.

Secretary Varley: The recent feature is the simultaneous feature of our economic developments. Before the Arab oil crisis, there was simultaneous a boom in every country, which put inflationary pressure. Therefore, the Arab oil policy came after this extended development. Now we have the simultaneous policy in reverse. This is what accounts for the great nervousness existing in financial centers throughout the world. Partly the problem is knowing they are confronted with a problem of this size -- \$60-70 billion -- and pressures from knowing how extended it is.

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Secretary Kissinger: What do you think about the problem Helmut [Schmidt] is concerned with -- using short-term loans to finance long-term debt?

Governor Richardson: The problems are the long-term borrowing, turning it into short term, and the third problem is the magnitude of the money to be absorbed. It has had a good effect, making everybody more cautious. The Eurobanks don't want to give big-country credits any more. But they can't take the whole weight; we need other institutions.

Chancellor Healey: The private banks in Euromarket borrowing have been overextending themselves before but are much more cautious lately. The central banks have guarded against this. The risk of crashes through overextension is much less now. And Gordon's going off now to the Bank of International Settlements to discuss the question of private banks.

Secretary Kissinger: Are you in touch with Burns?

Governor Richardson: Yes.

Chancellor Healey: The risk of a great crash, as David Rockefeller warned about.....

Secretary Kissinger: He got it from Schmidt.

Chancellor Healey:is much less now. The Germans have less control over private banks than we.

Secretary Kissinger: Schmidt agrees it's a problem but a manageable one. But there is still the fear that the market can't take the whole weight.

Governor Richardson: As the banking system thinks it can't handle it, it tells, for example, the Arabs, to make their loans longer. So it has this effect.

Chancellor Healey: The Arabs will then face the question: "What are we going to do with it?" Simon will ask the Saudis whether there are some American projects they can put their money into.

Secretary Kissinger: Yes.

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Governor Richardson: I am not complacent about it but there is nothing gained by constant overalarm. On the question of a run on dollars, we are trying for an agreement among the Central Banks which would show some overlapping responsibility.

Secretary Kissinger: What makes Schmidt so agitated?

Governor Richardson: The Germans have always been worried about Euromarket.

Chancellor Healey: Herstatt [the German bank which failed] wasn't directly connected with the Arab recycling. But there is this extraordinary nervousness.

Secretary Callaghan: If the Central Banks will assume a corporate role dealing with the problem, then we are all right.

Governor Richardson: I wouldn't go so far. Some of them have legal inhibitions about what they can do.

Chancellor Healey: Yes. More order in the banking system will prevent the system from breaking down but will not solve the problem of recycling.

Secretary Callaghan: Can the Fed do it?

Governor Richardson: Yes. And the Bundesbank.

Secretary Kissinger: Schmidt keeps coming back to it and the President promised him something.

Chancellor Healey: He worries about it because he doesn't have to worry about payments deficits. We and the French, and recently you, do.

Secretary Kissinger: Giscard had the same view. The banking problem is in hand.

Governor Richardson: Yes, basically in hand. But you don't want to shift overnight from too lax a policy to too taut.

Secretary Kissinger: Is there anything we can do with Burns?

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Governor Richardson: Not on that.

Secretary Kissinger: Anything we can do with the Germans?

Chancellor Healey: Theirs is the least controlled of all systems.

Governor Richardson: But after Herstatt they are instituting a system of requiring more information, and so on. This will help warn against danger.

Secretary Kissinger: His concern is, if there are major withdrawals of short-term dollars, will we step in? We will do it for US banks, but will we do it for foreign banks? That is his problem.

Governor Richardson: If the Arabs take short-term dollars out, it will be from fear of the oil market. What they will do is put it into U.S. Government Treasury bills.

Secretary Callaghan: It has to go into somebody's pocket.

Secretary Kissinger: Yes, but the fear is if everyone sees the trees and not the forest.....

Chancellor Healey: The real problem is whether we can agree on policies to discourage countries from all seeking their own payments balances when we know they can't succeed. Until the Arabs find things to do with their money.

Let me ask you: One idea thrown out when I was in Washington with the C-20 was that the Arabs might subscribe to something more than the current Witteveen facility if it is at a higher interest rate. If the Arabs can be persuaded to contribute to such a facility, from which developed countries can draw, if there is a higher rate.

Secretary Kissinger: I have no basis for judgment. My impression in Saudi Arabia is that no one there has any idea of what to do.

Secretary Callaghan: Can we impose what we think is right or must we let them find their own way?

Secretary Kissinger: They will never find their own way.

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Secretary Callaghan: My fear is that by the end of the year if they haven't found their way, they will say: "Why should we produce more oil?"

Secretary Kissinger: If we keep facing them with individual approaches, they will be intellectually overwhelmed. They could handle one integrated approach.

Chancellor Healey: Will Bill Simon be concerned with a collective approach or just American concerns?

Secretary Kissinger: I am seeing him Wednesday. He will be at first concerned about American interests, because there is no collective approach yet.

Chancellor Healey: My fear is that you're saying multilateralism is for the goyim. [laughter]

Secretary Kissinger: We attempted a multilateral approach a year ago; we were drawn into the pettiest bureaucratic discussion. Then there was the European-Arab dialogue. Then we were forced into unilateral steps for our own self-protection. We are prepared to bring it back into the multilateral framework. I will talk to Bill.

Chancellor Healey: We have all started contacts with the Saudis. We need at least a conceptual framework for a multilateral approach.

Secretary Kissinger: We need a conceptual framework. We have to avoid competitive approaches. Then we have to start cooperating on a broader scale. We can't leave it to the pettifogging that goes on in Brussels.

Secretary Callaghan: We can leave it to the Finance Ministers. If they can work out an approach on recycling.

Chancellor Healey: The Big Five have very good relations -- Japan, Britain, France, United Kingdom, the United States.

Secretary Kissinger: We would be prepared to see if the informal group of Finance Ministers started last year could be applied to energy. I think France could be brought into it if they are not forced to formally reverse previous policy.

I'll tell Bill to conduct his talks leaving open the possibility of a multi-lateral solution.

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Secretary Varley: We suggested this the other day and it got a good response from our colleagues. We are quite serious about seeing that the initiatives taken are supported. While you say there is pettifogging in the ECG, we want to support these initiatives.

One other point. I have spoken with some of the companies. They seem to feel it is a confrontation. The Saudis are the key. How serious are they about an independent role?

Secretary Kissinger: I never stop being amazed at the political naivete of the oil companies. I can't conceive that there can be a cartel of producers without eventually a cartel of consumers. They will be driven to it. Will it be a confrontation? There needn't be. We can manage it in a way that is to the benefit of the producers too. What are they going to do with \$60 billion? We will have a depression as Denis said. That is, I have believed since last year that there must be some organization of consumers. The Arabs know we have been the organizing country on this, and they have never tackled us on it. I told the Brazilian Foreign Minister that the Arabs respect strength. He said, yes, especially in the strong. [laughter]

I just don't agree with the strategy of the companies. We simply will not let them operate without political direction. We had some oil executives congratulating the King in October on the embargo and asking why they waited so long, given the stupidity of American policy on the Middle East. We just won't permit it any longer.

I am seeing Jamieson next week.

I am not worried about the companies; I am worried about the governments.

Secretary Callaghan: Emergency sharing we are working on. And then recycling.

Secretary Varley: We will get ready for a multilateral dialogue with the producers.

Secretary Kissinger: What are we going to talk about?

Secretary Varley: To make sure they don't start cutting back when these other matters take effect.

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Saudis tell us they are going to increase

Chancellor Healey: Why will they? It is not in their interest.

Secretary Kissinger: Because of their political relationship with us.

Ambassador Ramsbotham: They have been saying it but they haven't done it. I will believe it when I see it.

Secretary Kissinger: What should I do with Jamieson?

Secretary Varley: To take the British Petroleum line, which is to support the governments and not take an independent line.

Secretary Kissinger: We will have him do that anyway.

Secretary Callaghan: We should try to have an agreed position on price and supply.

Secretary Kissinger: Yes. He will do that. He is not an unintelligent man.

Chancellor Healey: The key question is one of judgment in which you are perhaps more expert than we: Whether if we leave things alone a bit, the supply situation will lead them to cut prices, or whether if we form up too soon we will lead them to consolidate their position and not cut.

Secretary Varley: Saudis held their position at Quito. If it hadn't been for them, prices would have gone up.

Secretary Kissinger: No question. Yamani came to Washington on a special trip. I wasn't able to see him.

My view is we should prepare coordinated action but not show our muscle.

Secretary Callaghan: Yes.

Secretary Kissinger: Not do it too noisily; the Arabs will understand.

Ambassador Ramsbotham: As far as it seems to involve restricting demand and sharing supplies, it will seem to many Arabs to be a confrontation.

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Secretary Kissinger: I don't believe that. I don't believe that. Unless the political situation ---the Arab-Israeli situation -- deteriorates radically.

Chancellor Healey: I would like to ask a foreign policy question -- straight-forwardly -- what chance do you see of the Gulf sheikhdoms using these weapons against each other? Can you quantify it?

Secretary Kissinger: The Saudis are trying to extend their influence. The biggest danger is Iraq and Kuwait.

Chancellor Healey: What are the long-term chances of Saudi Arabia?

Secretary Kissinger: I don't see how they can possibly survive modernization. What we are forcing on them. It could end up a Qaddafi-type situation. Fahd thinks he can handle' it like the Shah does in Iran. Yamani told me he thinks in five years the monarchy will be replaced.

Chancellor Healey: By Yamani? [laughter]

Secretary Kissinger: I don't think he counts that much in Saudi Arabia.

Secretary Callaghan: Eric, what institution do we use and how does it link with this European oil action in Brussels?

Secretary Varley: I have talked to Simonnet about it. We think a good deal of work is needed. Whilst we will go along with the European energy policy and strategy, we should collect much more information before we get bogged down in regulations, before we have worked out an energy policy at home, before North Sea oil is in stream.

Secretary Callaghan: Is European energy action getting in the way of the Washington Energy Coordinating Group?

Secretary Varley: No, Simonnet treats them as separate.

Secretary Callaghan: What is the future of the ECG? Will it move into broader areas?

Secretary Varley: I am hoping it can move into what we have been discussing, a dialogue with producers.

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Secretary Kissinger: Once we know what we want to say.

Ambassador Annenberg: If I were an Arab, I would want you to come to me with ideas on how it can be recycled.

Secretary Kissinger: We shouldn't be concerned only with emergencies but we should have coordinated a policy to avert crises.

Chancellor Healey: If the Europeans can decide how to handle their mutual payments deficits, it doesn't affect the Arabs. If you have done this, this makes you believable.

Secretary Kissinger: At the time of the Washington Energy Conference we didn't feel so eager for a conference with the producers because we didn't think the consumers were ready.

I agree with Denis: we first have to discuss among ourselves what to do with the money, which has to come here, before we can talk to the Arabs about supply.

Ambassador Annenberg: I talked with a key US banker who told me the private banks can't take in more.

Chancellor Healey: The question is what the consumer countries decide for themselves about the money. It can't go anywhere else. But it will bear no relation to the deficits: You will get most of it, but your payments problem will be diminishing; ours will too once North Sea oil comes in.

Secretary Kissinger: Should we do it in the Energy Coordinating Group?

Chancellor Healey: We think it should be Finance Ministers, assisted -- or impeded -- by Governors of the Central Banks.

Secretary Callaghan: There is so much interaction between politics and economics that we would like to use the ECG as the umbrella for our discussions, as we are having here today.

Secretary Kissinger: We will be prepared to do that.

Secretary Callaghan: Are you ready to do that?

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Secretary Kissinger: Yes.

Secretary Callaghan: [to Healey] So you can advance this idea.

Chancellor Healey: I would rather call it a junction through which trains move, rather than an umbrella.

Secretary Kissinger: Who should take the initiative in the Big Five meetings of Finance Ministers?

Secretary Callaghan: Could you discuss it with Bill [Simon]?

Secretary Kissinger: I will discuss it with Bill. I think it better if we don't do it.

Chancellor Healey: One problem is that two Finance Ministers recently became more senior. Schmidt gives Appel almost no latitude -- he is almost like an Ambassador [laughter]. Giscard gives Fourcard a little more. Maybe we could hold the meeting in Germany and this would give Helmut a chance to play more of a role.

Secretary Kissinger: My impression is Giscard would be prepared for this Big Five type of arrangement, and they are looking for a way to associate themselves without formally having to reverse policy.

Governor Richardson: If we can keep the emphasis on ^{the} financial side....

Secretary Kissinger:it will be easier.

Chancellor Healey: I will talk to Bill, and we will look forward to some Big Five meeting. We can canvass views on how to find a forum.

Secretary Kissinger: There is a meeting of the ECG today, and we have told our representative to favor some solution if France would prefer to work in the OECD under some warehousing arrangement, like the Development Advisory Committee.

Governor Richardson: The Arabs want to put their money where they want, but we should have an arrangement to recycle as we want.

Secretary Kissinger: They would prefer not to have to make decisions.

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Governor Richardson: So, I have to go. I will be seeing Henry Wallich.
[Richardson leaves.]

Secretary Kissinger: I will talk to Bill.

NORTH SEA OIL

Secretary Callaghan: We are doing something soon on the North Sea and Eric will tell you on a confidential basis.

Secretary Varley: It could be Thursday.

It has come along very nicely, as you know. By 1980, in terms of value, we will get all the oil we need. We will still have to import some heavy crude to get the proper mix. It will be one million pounds a year, but much will be remitted abroad. So we will take action on five heads:

- Denis will have taxation proposals on profits from the North Sea.
- In future licenses, the Government will go for participation. In existing licenses, we will try to get negotiated participation. We will do nothing to reduce the incentives to the companies.
- We will set up an agency to deal with some of these matters.
- Regional interests will want to see some industrial development. All North Sea oil is in Scottish waters.

There is a good deal of nervousness that the British Government will act in some kind of confiscating way. That is far from the truth.

Ambassador Annenberg: There is concern that you are not going to leave them much of a broomful.

Secretary Varley: We will take no action to reduce incentive. They expect not to be able to keep all the windfall profits. The Norwegians have such a system. They are used to some kind of participation, and we are long committed to it.

Secretary Callaghan: They will get a reasonable return on their heavy capital. The tax is on the resources they are finding there.

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Chancellor Healey: When it was just exploratory, the companies took risks. Now it is known to be there, and it is just a matter of putting the needle down. It is almost a current operation now, not exploration.

Secretary Varley: And we contributed to the costs of machinery, which were extensive. It won't be a Qaddafi-style confiscation.

Ambassador Annenberg: Will you get into the rate of tax [in your announcement]?

Chancellor Healey: We won't get into rates but into the structure of taxation. The rate we wouldn't fix until we had further discussion with the companies and before my tax bill in the autumn.

Ambassador Annenberg: You have the right to scrutinize the records of the companies.

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Secretary Varley: The Ambassador/rumors. I know the companies would be alarmed if we had a state purchasing agency. There is no such intention.

Chancellor Healey: The rumors are good because we will look so much better when the announcement is made.

There is a bill before the Senate requiring 30% of oil imports to be carried in U.S. tankers. You probably haven't heard it, but we are concerned about the economic and strategic reactions.

Secretary Kissinger: Has it passed the House?

Ambassador Ramsbotham: It has gone very far.

Secretary Callaghan: It has an economic effect on our shipping, of course. I can't expect you to be concerned about that. But strategically it could encourage other major oil-importing countries to do the same, to try to keep their own flag fleet.

Secretary Kissinger: Peter, where does it stand?

Ambassador Ramsbotham: It was passed by a substantial majority in the House in March. The question is now a Presidential veto.

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Secretary Kissinger: It will be difficult to veto.

Secretary Callaghan: We tend to think you are omnipotent after seeing what you did on the Byrd Amendment. You just lifted your little finger. That will help our policy in Africa and yours.

Secretary Kissinger: We will have to see how far it has gone. If it's too far, we may not be able to reverse it.

Ambassador Ramsbotham: It is not yet on the floor of the House.

Secretary Kissinger: Arthur [Hartman], will you look at it?

Secretary Callaghan: Obviously it has an economic aspect but also a strategic aspect. Is there anything else on oil?

FOREIGN ASSISTANCE

Chancellor Healey: The less developed are the worst hit. How is the fourth replenishment going and anti-Indian thing?

Secretary Kissinger: I would expect it to go through. The anti-Indian thing will be tough. But we will oppose it.

Secretary Callaghan: How is your food situation? Does it depend on the harvest?

Secretary Kissinger: It depends on the harvest. And there is great resistance in our Agriculture Department. In principle, we would like to consider increasing our food aid. How far depends on the harvest. The reports are that it is good.

Ambassador Annenberg: Are the Canadians offering anything?

Secretary Kissinger: Not before the election.

NUCLEAR NON-PROLIFERATION

Secretary Callaghan: On India, we will have to coordinate on training. We should be tough.

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Secretary Kissinger: I think it's sheer hypocrisy. But I agree non-proliferation is extremely dangerous.

Secretary Callaghan: Yes.

Chancellor Healey: Taiwan too.

Secretary Callaghan: Our information is that something is happening there. They are a candidate.

Secretary Kissinger: I am not known to be pro-Indian. But to be retroactively tough on them seems pointless. And it isn't going to achieve anything either.

Secretary Callaghan: We are refusing to train more.

Ambassador Ramsbotham: I talked to Sisco: You have 150 in the pipeline.

Mr. Hartman: It includes scientists working in the nuclear area.

Secretary Kissinger: I will look into this in two weeks. We really need a coordinated strategy. We frankly hadn't thought it through.

Secretary Callaghan: We ought to try to get a carefully coordinated view of what scientists we are willing to train, what we are willing to train them in, and so forth. I don't know what the Canadians will do. But we should.

Secretary Kissinger: By the end of the month? All right. Arthur? We should have our own thinking straightened out by the end of next week.

Mr. Thomson: Perhaps the Soviets are interested. I know the Australians and Dutch are interested. And the French.

Secretary Callaghan: If we had an agreed strategy by the end of the month, would it be an effective holding action?

Mr. Thomson: Yes.

Secretary Callaghan: We will try and get that agreed by the end of the month.

Now we move to our wider attitude on NPT.

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Secretary Kissinger: I think the Soviets would be interested in that. It would be bad to give them a handle in an anti-Indian move. They would maneuver as the protector.

Mr. Thomson: The Indian explosion put us over the watershed, and we have to try to push it back. It has to be multilateral. We have to try to get the French aboard because they are the leakiest.

Secretary Callaghan: Is the NPT dead? I have told Dr. Kissinger about Taiwan.

Secretary Kissinger: Where is your information from?

Mr. Thomson: You prevented the Germans from giving them something, but then the French went ahead with more. There is no question they are going ahead on weapon technology.

Secretary Kissinger: [to Sonnenfeldt] I want a meeting next week on this question.

Secretary Callaghan: Should we amend the NPT or try for a new treaty?

Mr. Thomson: We need agreements to shore it up. There are several inspection systems; we could agree to all go for the best one. We could agree that no IAEA money goes to countries who don't accept the strictest.

Secretary Callaghan: What incentive would they have to join the NPT?

Mr. Thomson: They couldn't get the money.

Secretary Callaghan: Some are too far along to be affected?

Secretary Kissinger: Japan.

Mr. Thomson: It would be a great burden on Indians if they couldn't get money.

Secretary Callaghan: What has been done on peaceful nuclear explosions?

Mr. Thomson: The Soviets and Americans have found that the chances of using them at reasonable cost are much less than was thought before.

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Secretary Kissinger: Except the Soviets were insistent when we negotiated the threshold test ban to protect their peaceful nuclear explosions program.

Secretary Callaghan: Will anything make the NPT more attractive?

Mr. Thomson: Some West Europeans may join; but others may not. The key is whether we can deny them money if they don't.

Secretary Callaghan: Do you think it is a relevant question?

Secretary Kissinger: It is a relevant question. One question is peaceful explosions. The second question is what you do to countries who go ahead with safeguards and then, when they have the technology, break loose. What penalties are there.

Secretary Callaghan: [to Thomson] Do we sit down ourselves and think about it in isolation from Americans?

Mr. Thomson: We have some ideas.

Secretary Kissinger: I haven't seen our work yet. [to Sonnenfeldt]: Could we have a meeting Friday at 3:00? [to Callaghan]: We had the impression that the Soviets are interested in it.

Mr. Thomson: We saw your communique: "emphasizing the fundamental importance of the NPT and increasing its effectiveness."

Secretary Kissinger: I think renegotiating the NPT is impossible.

Mr. Thomson: We are over the watershed with India but not totally.

Secretary Kissinger: If we give it an anti-Indian turn, the Soviets will be subject to temptations. But if we keep it multilateral, there is a chance they will cooperate.

Secretary Callaghan: On on-site inspection, did you get something?

Secretary Kissinger: They agreed to prior notification and on-site inspection. For the first time. What they didn't agree to -- and I don't blame them for that -- is to discuss what these inspectors would do.

Secretary Callaghan: Will you have talks now?

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Secretary Kissinger: We will start talks now. On explosions below 150 KT we need only more data on the site; we don't much care whether they are using a military device. But above 150 KT, the provisions must be more effective because we don't want them to be using PNE's for military tests. In that case the freedom of maneuver of inspectors is much more important.

Secretary Callaghan: Thank you very much.

Shall we break for lunch now?

Secretary Kissinger: All right.

CSCE

Secretary Callaghan: What shall we talk about after lunch? CSCE? You asked for something; so we have done it. We will give you a paper. Now it is on your chit sheet, not ours.

Secretary Kissinger: The Russians wonder what more they will be asked for if they make a concession. So they want to know what we are asking for. Eight or ten points. We need a package.

Secretary Callaghan: We have got a package.

Secretary Kissinger: And SALT. The Moscow Summit, of course.

Secretary Callaghan: And the Middle East. And trade negotiations.

TRADE BILL

Secretary Kissinger: We don't have a trade bill.

Secretary Callaghan: That is what we were going to say to you.

Secretary Kissinger: I thought we were on the way to solving the problem of the Jackson Amendment. But I read a cable that the Israeli Government told Javits -- whom I had broken away from Jackson -- to hang tough. They can't play this way with our domestic politics and expect the kind of support we are giving.

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Secretary Callaghan: Tell this to Harold, because he can make this point to the Israelis better than anyone.

[The party then proceeded on foot to Admiralty House for luncheon.]

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