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Director of Central Intelligence

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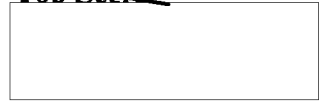
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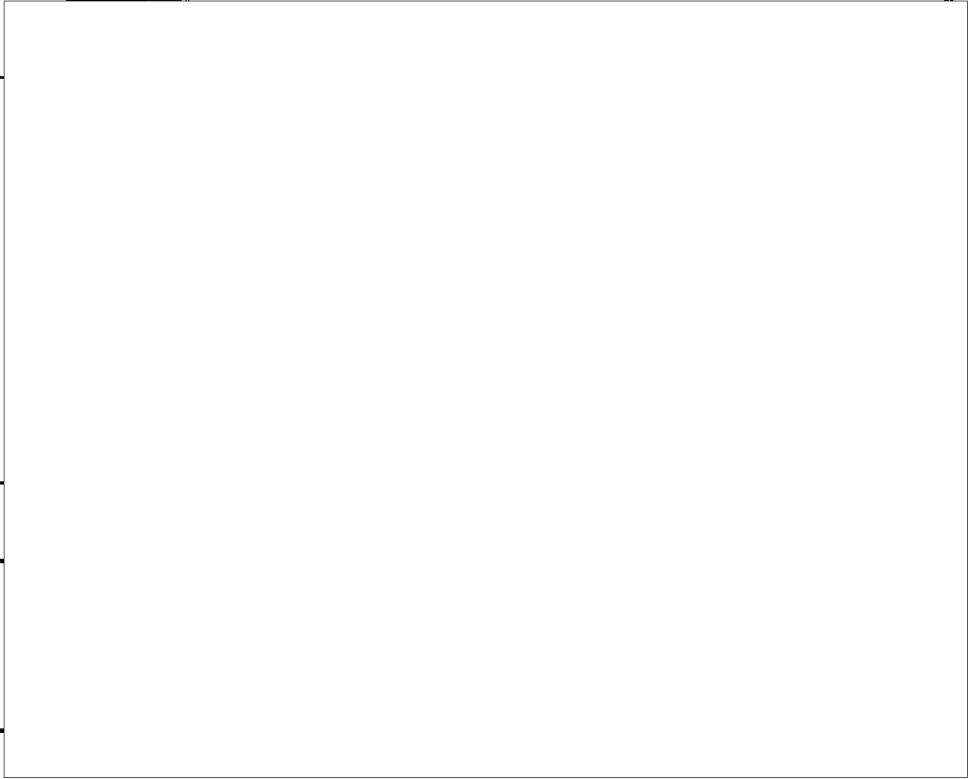
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UK:

Second-Round Vote Looming

Foreign Secretary Hurd's remarks hinting at his possible candidacy in a second round of voting, plus recent polls showing widespread voter support for Heseltine, are shifting the tide against Thatcher in tomorrow's party leadership contest. [redacted]

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[redacted] observers increasingly believe Thatcher may fail to secure a sufficient majority of Tory members of Parliament on the first ballot tomorrow, although her supporters continue to appear confident. Recent polls show that a Heseltine-led Tory party would have a better chance of defeating Labor in the next general election. *The Sunday Times of London*—a bellwether of Conservative opinion—also has endorsed Heseltine.

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On Friday, Hurd did not rule out the possibility of his standing in a second round, which would occur on 27 November. Chancellor of the Exchequer Major also appeared to move away from Thatcher by criticizing her EC stance in a press interview, but he and Hurd have again publicly pledged their support. [redacted]

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Comment: A large number of abstentions in tomorrow's contest would deny Thatcher a clear-cut victory, throw the leadership challenge into a second round, and put pressure on Thatcher to step down. This would encourage Hurd to run, although he risks serious long-term damage to party unity unless Thatcher first agrees to stand down. Hurd also may find it difficult to stem Heseltine's momentum, particularly if Heseltine achieves more than the expected 120 or so votes in the first round. [redacted]

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Even if she survives, Thatcher looks increasingly like a lameduck. She is becoming more isolated within the Cabinet, and Major and Hurd are likely to exercise even more assertiveness in the future in setting British policy toward Europe. Thatcher would not face another formal challenge until next November, but she is likely to come under intense pressure to step down next spring when increased poll tax rates are scheduled to go into effect. [redacted]-CIA, DIA-

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UK: Implications for the US

Both Heseltine and Hurd are strong supporters of Thatcher's tough policy in the Persian Gulf and share her view that British credibility would suffer if Saddam Husayn is not forced to withdraw from Kuwait. As new appointees trying to consolidate their positions, both would nevertheless be more cautious than Thatcher about pursuing any joint UK/US action that did not have international endorsement. Opinion polls show widespread opposition to any unilateral US or UK action.

Heseltine and, to a lesser extent, Hurd would probably try to stay more in step with Britain's EC partners—even on such an issue as the Gulf. Although both are more pro-Europe than Thatcher, they recognize that the current acceleration toward EC monetary and political union risks splitting the Tory party before the next general election. Both probably would hope that by presenting the UK as a good European player and by playing down the US-UK "special relationship," they could persuade the UK's EC partners to slow the pace of integration.

Heseltine and Hurd are also likely to be more open to development of a European pillar within NATO. Heseltine has bluntly referred to the "special relationship" as "nostalgia." Hurd also is likely to be less worried than Thatcher has about a US withdrawal from Europe and more concerned about drawing France closer to the Western alliance. Both probably would have less trouble than Thatcher in going along with an increased security role for the EC.

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