

Po - CH / NL / 0534

PART A

Part . A .

**CONFIDENTIAL**  
(Circulate under cover and notify REGISTRY of movement)

Begins: 8/3/89.  
Ends: 18/4/89.

**THIS FOLDER HAS BEEN REGISTERED ON THE REGISTRY SYSTEM**

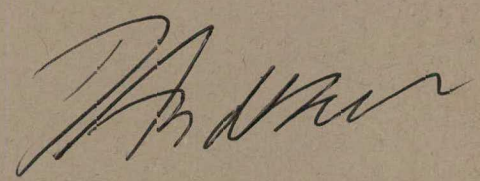
PO CH | NL | 0534.

PT.A.

Chancellor's (Lawson) Papers:  
Prime Ministers Meeting with  
Mikhail Gorbachev, April 1989.

PO CH | NL | 0534.  
PT.A.

DD's: 25 Years



22/3/96



CH/EXCHEQUER	
REC.	8 MAR 1989
ACTION	Mr BOTTRILL
COPIES TO	EST, EST, Sir P. MIDDLETON, Sir T. BURNS, Mr NICKS, Mr LANKESTER, Mr MOUNTFIELD, Mr H. P. EVANS.

*We will need to have a link to take Gorbachev's support for our IMF. No one of this year, so for an ask, so for an ask, diff. for request, give Mr. Evans, Chinese Communist Party.*

*9/3*

PM/089/012

PRIME MINISTER

8/3/89.

Our Relations with the Russians

*Mr. White  
Mr. Young  
(in a long?)*

1. I was interested in David Young's minute to you of 16 February and the frank comments of the Soviet Minister for the Chemical Industry reported by Alan Clark. Such comments are heard increasingly frequently from our Soviet and East European interlocutors and are not confined to private conversations. Parts of the Soviet press have exposed Soviet short-comings in a far more comprehensive and damning way than even hostile Western commentators ever did. Several leading Soviet economists have given astonishingly frank accounts of the fundamental economic problems facing the Soviet Union, writing from a more or less openly "capitalist" standpoint. Criticism of the Soviet/socialist system has always been more frequent in Eastern Europe. You will have noticed the recent root and branch condemnation of Soviet communism and all its works by a Hungarian communist party commission looking into the 1956 uprising.

2. Pessimism about the prospects for Soviet economic reform is also widespread and open in the Soviet Union. It is usually focussed on the excessive centralism still

/inherent



inherent in the system, and the lack of real prices (an issue being delayed for political reasons). Hesitantly trying to graft bits of a market mechanism on to the existing system has served largely to increase confusion and introduce further distortion.

3. David Young raises two particular questions:

*links* | (i) Gorbachev's prospects: I entirely agree that there is a basic mismatch between the immediate need for concrete improvements in living standards for the Soviet population and the time it is likely to take to produce them. (I would expect it to take far longer than the two or three years which David mentions). New investment is not necessarily the solution. Soviet ability to waste capital investment remains largely intact. Much more radical changes in attitudes/ownership/distribution/retailing/pricing and rouble convertibility are needed before goods of the right sort and quality begin to appear in any numbers. The important thing will be to demonstrate that the prospects are there. Until that can be done the prospects for perestroika are gloomy. That is not the same as saying that Gorbachev is in danger of failing. The threat to him is from the so-called conservatives in the hierarchy, and their motivation is based more on concern about glasnost, political reform, the leading role of the party and their own position than about the economy. There is no alternative programme on offer (although we hear

/that



that conservative economists are working on one) and no focus for opposition. Gorbachev is more likely to be forced to trim his sails than to be forced out. And when under pressure in the past he has retaken the initiative and moved ahead. He could well surprise us again, eg at a Plenum Meeting on Agriculture in mid-March.

(ii) Economic relations with the West: I agree that we should not encourage Gorbachev to borrow (there is no sign that he wishes to even though Soviet indebtedness has not reached unmanageable proportions): I also agree that the prospects for increased East/West economic activity are poor unless the Soviet Union's hard currency earning capacity improves. The problem is to identify ways in which this can be done, which also accord with Western commercial interests. (This is not to say that massive foreign currency expenditure is the only way in which Soviet standards of living can be raised.)

4. All this is relevant to Mr Gorbachev's April visit. He will no doubt tell you of his difficulties. He is engaged in a process which is bound to involve at best serious disappointment and frustration:

(a) The basic lesson is that free enterprise is the only long-term answer. Neither Mr Gorbachev nor the Soviet people will yet accept this, nor do they wish to see too obvious a Western label on Soviet reforms. Entrepreneurs are still viewed with great suspicion, even hostility, in the Soviet Union.

/(b)



(b) Soviet economists are not themselves agreed on the way ahead. Some argue (as George Soros does) for an "open sector" and for special economic zones. Others put the emphasis on a big rouble mark-up on imported consumer goods plus innovations such as share ownership, in order to mop up surplus rouble purchasing power. The problems of price reform and convertibility have yet to be faced. The aim of establishing a disciplined monetary and banking system, and bringing the budget deficit under control, has only recently been acknowledged let alone addressed.

5. We are already doing a certain amount:

(a) We are responding in areas where a Western role has been requested. Management training is being provided both by the Government and by British commerce and industry. More can and will be done. Joint ventures are slowly being established (there are so far 13 Anglo-Soviet joint ventures) which may also help in the long run to introduce Western control and management techniques. British banks are making their expertise available to the Soviet banking reform process.

(b) Consortia are already being established to increase Soviet foreign currency earning power in parallel with imports from the West. New areas such as mineral/oil exploration are being looked at to see if increased efficiency can cut down waste and improve export earnings.

/(c)



(c) However the British gas industry however see no requirement to purchase Soviet natural gas for the foreseeable future thus closing off possibly the only area in which Britain could relatively rapidly do something to increase Soviet foreign currency earning capacity in a significant way.

X | 6. The signs are that Mr Gorbachev will not come with any major request for Western or specifically British assistance. I believe there is only very limited scope for offering him practical advice. There may be scope to make the point that Britain is well-placed to supply not only goods but also the management expertise and advice which the Soviet economy and Soviet enterprises clearly need as they adapt to changed circumstances. We could also point to the availability of a wide range of British consultancy firms highly respected internationally and experienced at injecting new life into old industries and companies. British consultants are already beginning to take a close interest in the Soviet market. Some big British firms may also be ready to help on the management side, although it is difficult to see how they could become involved to great effect in practice.

7. I am copying this to David Young and Nigel Lawson (with a copy of David's original minute).

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
8 March 1989

Mr. [unclear]  
Mr. [unclear]

Further

dti

the department for Enterprise

Soviet Dept N° Heenan

- cc PS
- PS/N° Waldegrave
- PS/PUS
- Sir J. Fretwell
- Mr Bayne
- Mr Ratlow
- Mr Carmuk
- Mr Goulden
- ERD N° Richardson
- COMED N° Duffin
- EED N° Hulse
- Sec P.D. N° Lever
- News D N° Burns

(Extraordinary patronising Fed official comment! Indict! But Amish)

RECEIVED IN COUNTRY  
26 FEB 1988  
ESB 0911

PRIME MINISTER

Our master is starting to see the potential of [unclear] - good for their education in general terms if not in [unclear] speech.

**OUR RELATIONS WITH THE RUSSIANS**

... I thought you should see the attached minute from Alan Clark. It brings out the extraordinary state of confusion in the Soviet camp but I believe it can also be taken to indicate the opportunities for us both politically and commercially.

16/11 R. Gower

2. Kamentsev himself provided more sweetness than light and I am not sure whether we advanced the cause of many British companies or projects. Nonetheless he did seem to invite commercial proposals of a more daring nature than we have hitherto considered practical politics and my officials are taking steps to ensure that you will be able to raise two or three with Gorbachev without too much risk of upsetting him when he arrives in April.

3. Turning to the political side, the main economic reason for fearing for Perestroika seems to be the mismatch between the immediate need for more consumer goods in Soviet shops and the two or three years that it will take Gorbachev to get production from his proposed investment in machinery to make these goods, coupled with his determination not to borrow to fill the gap.

4. While I doubt if we ought to persuade him to borrow unless we can see a good chance of his avoiding a repeat of the Polish





the department for Enterprise

fiasco on a more serious scale, I do think the time has come for us to push more radical proposals for increasing the USSR's hard-currency income.

///  
Like what?

I am copying this minute to Geoffrey Howe.

D Y

16 February 1989

Department of Trade and Industry



the department for Enterprise

To:

Secretary of State

cc Chancellor of the Duchy of  
Lancaster

From:

Minister for Trade

13 February 1989

*David*

You should have a note of my meetings in the last week with three senior, though second-tier members of East European Governments. At the Lancaster House dinner last week for Kamentsev (who got drunk) I had Bespalov the Soviet Minister for the Chemical Industry on my right hand. After a somewhat taciturn beginning he suddenly asked me why the DTI existed at all (!):

'What is the role of the Department when all industrial decisions and contracts are undertaken by the private sector?'

*good question!*

After some moments of general discussion on these lines he confided that his own position was 'quite impossible'. He no longer had directive powers; individual managers were making their own decisions about production programmes, tending always to opt for what was easiest.

"But what about the market? If they were satisfying a demand well and good, surely?" No, they didn't have to bother about that. They were making things for which there was no demand '...because it was more convenient'.

"Sack them". He had no powers.

"Put them under arrest" (I tried to coax out any latent Stalinism). That could only be done in wartime.

Bespalov lamented what sounded very like the Russian equivalent of the Employment Protection Act: 'it is against the law to dismiss anyone other than for a criminal offence'. There was a conspiracy between managers, who came in late and left early, and workers who 'also liked to stay in bed'. (Shades of Devonport Dockyard!).

I should emphasise that Bespalov struck me as being an intelligent, liberal minded human being. But he is deeply gloomy about Perestroika, said things had been done in the wrong order - political reforms had come 'at random' before the economy was strong enough to support them. As Perestroika developed Gorbachov had been obliged to make concessions 'to different groups'. The reforms were completely out of balance.

Emboldened, I gave the advice which I offered to the Central Praesidium in October 1987 when I was Chairing the Joint Commission. "Privatise agriculture and road haulage, and everything else will fall into place". He, as they did then, received this in complete silence.

Our conversation was long and intense. I won't delay you by repeating it all but I find it astonishing that a senior member of (any) Government should express himself with such reckless candour about the policy of the administration of which he is a member, to a complete stranger who holds Ministerial office in another country, and that country not even an ally.

Par  
for  
Friday  
Lounge  
or

Then today I hosted a lunch for Obzina, Deputy Prime Minister of Czechoslovakia. He is a heavy Stalinist of the old school - Military Technical Academy, Army role in the 1968 uprising, etc. But with a certain brutal geniality. In Prague last year I had baited him with the fact that in 1939 Czechoslovakia was the fourth richest country in Europe; now after 50 years of socialism it was the 17th. He remembers this. Anyhow, in my speech at the end of the meal I referred to the Joint Socialist Market, said something diplomatic about how this showed things were '...on the move in the Comecon countries politically and economically'. Blandish stuff. In our conversation he had made contemptuous references to 'fashionable reforms' but to my amazement in his response he said, on his feet to the whole room:

'On the move? To move one has first to be upright. But we have been brought to our knees, indeed you could say we were lying on our back.'

Then this evening I had a meeting with Jastrzebski, the Polish Minister for External Economic Relations. His misgivings showed from yet another angle. In recommending the reforms, he said, significantly, they had now got enough momentum and would survive, one way or another, 'possible political changes'.

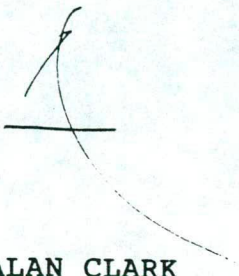
"Changes?"

'Of direction. Returns' (sic) .

You will appreciate the significance that all three of my interlocutors , politicians with different responsibilities, in different countries, should have expressed their anxieties so recklessly. Even allowing for the fact that my own somewhat uninhibited style invites indiscretion I found this surprising, and ominous.

My own view, for what it is worth, is that Gorbachov will survive. Not only is he tough and clear-headed but he has worked his way up from the very bottom of the system. It is not as if he were some intellectual like Kerensky imposed from outside as window-dressing; or some Pahlevi autocrat who got it by inheritance. He must know every rock and gully on the approach march where he might suffer an ambush, or could entrap his enemies.

But these encounters, coming so close and being so consistent in tone, do not augur well for his prospects.

A handwritten signature in black ink, appearing to be 'Alan Clark', written over a horizontal line. The signature is stylized and somewhat abstract.

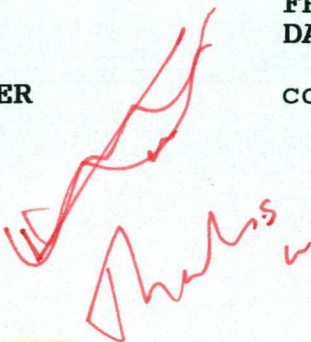
ALAN CLARK

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FROM: P MOUNTFIELD  
DATE: 21 MARCH 1989

CHANCELLOR OF THE EXCHEQUER

cc Economic Secretary  
Sir P Middleton  
Mr Wicks  
Mr Lankester  
Mr Bottrill  
Mrs Thomson



**USSR: POSSIBLE STERLING ISSUE**

The Bank of England have warned us that the Soviet Bank for Foreign Economic Affairs (VEB) is hoping to raise a £100 million-£200 million fixed-rate sterling issue in London some time before 30 June. This would be the fourth VEB international bond issue, but the first in sterling.

2. There are no formal objections to such an issue; signature of the UK/USSR Claims Agreement in 1986 meant that the USSR could return to the British capital markets from which it had been banned ever since 1917. That announcement raised very little interest at the time. The Bank of England have confirmed to the VEB that there are no procedural objections to the loan.

3. The loan will probably be announced at some stage during the Gorbachev visit at the beginning of April. Despite the recent criticism in the USA of Government credits to the USSR, we do not think that this announcement (which does not involve either the Government or the Bank of England directly) will attract any criticism. We certainly see no grounds for ministerial intervention.

4. However, in view of the possible public interest, you might like to know what is planned.

PM

P MOUNTFIELD

BF 5/4



~~COVERING CONFIDENTIAL~~  
**Foreign and Commonwealth Office**  
London SW1A 2AH

Telephone 01-270 2413

PS/Chancellor of the Exchequer  
HM Treasury  
London  
SW1A 0AA

Your reference

Our reference

Date CM8ABP

3 April

Dear Mr Allan,

DINNER AT NO 10 IN HONOUR OF MR GORBACHEV, 6 APRIL

1. We thought your Minister might find it useful to have the attached briefing on the Soviet Union and Anglo-Soviet relations for the dinner which the Prime Minister will be giving in honour of Mr Gorbachev on 6 April. I am also enclosing personality notes on Mr and Mrs Gorbachev and the other Soviet guests.

*Yours sincerely,*  
*Valerie Ewan*

VALERIE EWAN

- CC: PS/Lord Chancellor
- PS/Sec of State for Home Dept
- PS/Sec of State for Energy
- PS/Sec of State for Defence
- PS/Sec of State for Education
- PS/Sec of State for Trade & Industry
- PS/Sec of State for Environment
- PS/Sec of State for Wales
- PS/Mr Waldegrave
- ps|Sec of State for Health



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**GORBACHEV'S REFORMS****Introduction**

Gorbachev acknowledges that the Soviet system has failed to deliver. He accepts the need for fundamental changes in, if not of, the system and that economic reform cannot work without political reform. But the reforms so far, though radical in Soviet terms, are half-measures unlikely to reverse Soviet decline. And Gorbachev appears to believe that he can introduce these changes without undermining the Communist Party's monopoly of real power. A moment may well come, however, when this belief is called into question. He is already adapting traditional Soviet socialism in ways previously undreamt of - towards a more humane, participatory system.

**Glasnost**

In order to initiate change, Gorbachev has removed the wide-ranging constraints on public discussion and debate which were a key element in his predecessors' control of Soviet society. He has permitted increasing frankness about the past. Stalin is largely debunked. But the dangers inherent in this approach are clear and have been highlighted by "conservatives" such as Ligachev. It disorients traditional Party activists and provides their opponents with a license to criticise; it leads to increasingly open discussion of what lies behind poor housing, food shortages, declining life-expectancy etc; and it enables open expression of long-suppressed national

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feelings dangerous to the cohesion of the Union. Glasnost may be partially reversible (the instruments of repression remain; censorship could be greatly strengthened; books banned; public debate radically curtailed); but the longer glasnost is left untrammelled the harder it will be to put the genie back in the bottle. Meanwhile openness about Soviet history has reached the point where the claim that Stalinism was an aberration from the true faith is increasingly questioned. Lenin and the system he founded are themselves in danger of exposure. The threat to the last bastion of party legitimacy is real.

Political Reform

Gorbachev has concluded that, given the strength of entrenched interests in the Party and bureaucracy opposed to change, popular participation/enthusiasm is essential if his reforms are to succeed. The ferment caused by glasnost is one way to generate support for a cause so far heavily dependent on his own energy and leadership. It has already transformed the political atmosphere and begun to have some effect on the cynicism and apathy prevalent among the younger generation.

But most of the structural reforms which he has proposed seem unlikely to catch the public imagination. An executive Presidency, a new-style Supreme Soviet and closer and more regular supervision of the executive by the legislature may attract constitutional lawyers. But they are unlikely (at least until they make a real impact) to win hearts and

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minds. The idea of a "law-based state" will - at least initially - cut little ice with those used to one based on arbitrary state power, particularly while the KGB remains effectively untouched. Proposals to separate more clearly the activities of Party and government and to confine the former to a strategic role sit oddly with Gorbachev becoming Head of State and proposing a similar amalgamation of functions lower down the hierarchy. Gorbachev's own democratic credentials are not convincing (he summoned 1,500 Supreme Soviet deputies from around the USSR in October for a 25 minute meeting to endorse unanimously his appointment as President). At best he is pushing through democratic reforms by highly undemocratic methods because he believes there is no other way: the Soviet people are not yet ready to exercise democratic freedoms responsibly.

The elections to a new Congress of 2,250 People's Deputies to be held on 26 March will lead to a new-style Supreme Soviet of 542 sitting for 6-8 months each year, rather than for a few days as at present. It is not yet clear how the Supreme Soviet will be elected from the Congress and how far (or if) members will be able to combine their existing jobs with such time-consuming political responsibilities.

Gorbachev himself is likely to be elected as new-style President in late April. The intricate electoral process has been far from an example of pure democracy (in some 25% of seats there will be only one candidate). But the process has involved an unprecedented degree of popular

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participation and in some seats genuine uncertainty about the outcome eg Yeltsin in Moscow.

Nationalism within the USSR

The idea of greater devolution of decision-making lies at the heart of Gorbachev's reforms and has been taken up eagerly by many non-Russians - who have also seized the opportunity to express long-held grievances, in many cases anti-Russian and anti-Soviet. Popular Fronts have developed rapidly, particularly in the Baltic Republics, nominally supporting perestroika but in practice pressing for greater republican autonomy (and with independence often the hidden agenda). In a diverse multi-national empire, the potential for problems and conflict is enormous: half its population is non-Russian and a growing number non-Slav. Ever since the 1920's, the Soviet leadership has consistently tried to keep the relationship between Moscow and the Republics off the political agenda, but many bitter historical disputes have only been papered over. Removing the wraps may allow the issues to be addressed properly. But it also raises the temperature of the debate when there are no obvious solutions and no democratic traditions or mechanisms to channel emotions.

Gorbachev has himself now conceded that there are no easy answers. He will not countenance moves which call into question the integrity of the USSR or accept eg Baltic demands to run their own economies separately. But as Party and government in the Republics become - partly at

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Gorbachev's behest - increasingly linked to local nationalist aspirations (and less able/willing to respond to central control) , Moscow's room for manoeuvre is further reduced. Any major crackdown would throw perestroika off track, but significant concessions to greater local autonomy would only confirm the suspicions of conservatives in the apparatus. The preparation for this summer's plenum on the Nationalities issue is already proving difficult.

### Economic Reform

Unless there is a nationalist explosion, the fate of Gorbachev's reforms is likely to be determined by their impact on the standard of living of ordinary Russians. It was evidence of impending socio-economic crisis and the widening economic/technological gap with the West (and even some NICs) which drove the Soviet leadership to adopt reform - not least because of the long-term implications for their military power. But after years of mismanagement and stagnation, change will at best be slow. So far there has been a partial introduction of full-cost accounting (to establish at least which enterprises are losing money) and some moves to decentralise economic decision-making - although the burden of central planning is little reduced. The cooperative movement has made significant headway, although most cooperatives are in the services sector with only a handful of employees. The recent plenum should lead to more agricultural cooperatives and greater leasing of plots to individual families. Foreign trade is being liberalised, with large enterprises allowed to do business

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direct (not through ministries). But many fundamental issues are unresolved, including the central one: how can market reforms designed to improve incentives and competition interlock with a command economy in which resources are allocated centrally?

Genuine reform will be a matter of decades, not years. Even the statistical tools to show what is happening do not really exist. Real reform will be disruptive - unemployment and bankruptcies are inevitable. It will also require fundamental changes in attitudes. The shift from quantity to quality as a criterion of success has scarcely begun. Those used to taking orders must be trained to take decisions. Without price and supply reforms to enable goods and raw materials to respond to real demand, the planners are bound to continue to dominate economic life. Traditional Soviet envy directed at those doing even slightly better than average (which has already led to attacks, no doubt sometimes justified, on the cooperative movement for profiteering) must be overcome.

Agriculture may offer the best hope of relatively rapid results - particularly in terms of showing people some concrete benefits from perestroika. Gorbachev is beginning the inevitably slow process of rebuilding the peasant-class butchered by Stalin and re-establishing the link between farmer and land (eg by introducing 50-year inheritable leases for families and small groups of farmers, encouraging cooperatives etc). But improving the supply of food

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requires not just measures on the farms but massive changes in the infrastructure, the storage and handling of goods, and a price structure which will genuinely encourage production. The task of putting more and better consumer goods on the shelves is even more long-term (massive imports of finished goods are not a real option).

The leadership have still not told the people that things will get worse before they get better - and when they do many Russians may well wonder if the "good old days" (of idleness, back-scratching and corruption) were not preferable. And in macro-economic terms the prospects for the Soviet economy are gloomy - with growing inflation, a huge budget deficit, wages rising faster than production, food rationing in many towns and a huge imbalance between supply and demand.

Price reform will have to come, but fear of the popular discontent price rises would create has already pushed retail price reform off the agenda for the next few years. Radical ideas for soaking up the excess demand in the economy and using it for productive investment (ie some form of bond or stock market) are even being considered: legislation is already in place allowing enterprises to issue certain types of bond on a restricted basis; and some are now selling shares to their own workforces.

The Soviet economy clearly needs greater links with the outside world, but the Russians have too little hard

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currency to buy Western goods, very few quality manufactures which are competitive in Western markets and only raw materials (particularly minerals) to export at world prices - and they have been badly hit by the fall in the price of oil and the decline of the dollar. The Russians increasingly accept that being cut off from the real economic world has hurt the Soviet Union, not the rest of us. They are now keen to encourage Asian/Western companies to participate in the development of the Soviet economy (Joint Ventures, Special Economic Zones etc). But the complications and difficulties involved are enormous - as other socialist economies have found as they attempt to reform themselves.

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10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

✓  
19/4

CH/EXCHÉQUER	
REC.	19 APR 1989
ACTION	Mr MELLISS
COPIES TO	CST, EST, SIR P. MIDDLETON, MR WICKS, MR LANKESTER, MR MOUNTFIELD, MR ROBSON, MR H.P. EVANS, MR P.G.F. DAVIS.

18 April 1989

*Dear Stephen,*

*MBX - significant*

**PRIME MINISTER'S MEETING WITH THE SOVIET PRIME MINISTER**

The Prime Minister had a talk in Luxembourg this afternoon with the Soviet Prime Minister. Mr. Ryzkhov was accompanied by Adamishin and a notetaker.

The Prime Minister began by renewing our invitation to Ryzkhov to visit the United Kingdom. We hoped he might be able to come later this year or early next. She referred to the success of Mr. Gorbachev's recent visit and invited Mr. Ryzkhov to tell her about progress with economic reform in the Soviet Union.

Ryzkhov said that he would be delighted to visit the United Kingdom and would be in touch about dates. He agreed that Gorbachev's visit had been very valuable. It had attracted wide interest in the Soviet Union as had the Prime Minister's interview with Soviet television and with Izvestia.

The Prime Minister said that we had been impressed by the pace of political reform in the Soviet Union, but economic change was obviously proving more difficult. It would not be realistic to expect progress across the board. It might be best to focus on one or two key sectors and try to make a success of them. Ryzkhov said that he fully agreed: he was looking for breakthroughs in particular areas. Initially, he and his colleagues had set unrealistic objectives, concentrating investment heavily on the metallurgy interest. The result had been to neglect other sectors, where results which would improve people's standard of living could be achieved more easily. The Prime Minister was right to say that political reform was easier than economic reform. Structural changes in the economy were proving very difficult to make. Some 400 military production facilities were being switched to civil purposes. But this would take at least two years. Meanwhile there was a lot of criticism of the Government, mostly from people who did not realise that they had to work harder themselves to get what they wanted. The Prime Minister commented on the importance of motivating the workforce. This took the leadership from good managers. Ryzkhov agreed: slogans were useless, as the Soviet Union had found to its cost. The Prime Minister said there was a lot of

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psychology involved. It sometimes seemed to her that people in the Soviet Union suffered from a poverty of ambition. Ryzkhov said that it was indeed the case that many people were more or less content with what they had, and seemed to be unwilling to use the benefits of perestroika to better themselves. Another problem was that many people still did not understand the reforms or have confidence that they would last.

The Prime Minister said that she was very grateful to General-Secretary Gorbachev for inviting her to visit the Soviet Union again in 1990 and suggesting that they meet in Kiev. She would give some thought to the proposed British manifestation in Kiev. It should not just be an occasion to display British goods but also the processes by which they were made. She would discuss this with some of the industrialists. Ryzkhov said that he would welcome this.

The Prime Minister said that she wanted to mention the situation in Lebanon, which she had discussed earlier in the afternoon with the United Nations Secretary-General. A ceasefire would require the major countries to exert pressure on the various parties in Lebanon. It would be very helpful if the Soviet Union would bring pressure to bear on Syria. It was important that we should all work together for a solution. Ryzkhov took note but did not comment.

Ryzkhov said that he wished to mention the situation in Georgia which was a tragedy. The Prime Minister said that she had followed it closely. Ryzkhov added his condolences for the disaster at the Hillsborough stadium. He also referred to Britain's generous help to Armenia, welcoming in particular our gift of a school.

Ryzkhov was urbane and friendly, sipping a whisky and soda as he talked, and appearing to go out of his way to find points of agreement with the Prime Minister.

I am copying this letter to Brian Hawtin (Ministry of Defence), Alex Allan (H M Treasury), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours sincerely,  
C. D. Powell

C. D. POWELL

Stephen Wall, Esq.,  
Foreign and Commonwealth Office