



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

26 July 1989

*Dear Sir,*PRIME MINISTER'S MEETING WITH MRS BIRYUKOVA

The Prime Minister had a talk this afternoon with Mrs Biryukova, Soviet Deputy Prime Minister and Chairman of the State Commission for Social Development. The Soviet Ambassador was also present.

The Prime Minister said that we watched everything in the Soviet Union with great interest and took encouragement from what was happening. We particularly admired what Mr Gorbachev was doing. She believed this would be seen as an historic time, which enlarged liberties and led to higher living standards. She acknowledged that greater openness often led to added difficulties.

Mrs Biryukova conveyed warm regards from Mr Gorbachev and Mr Ryzhkov. Mr Ryzhkov had been very appreciative of the message of understanding and support which he had received from the Prime Minister, at the moment he was presenting his government for confirmation by the Supreme Soviet. The Prime Minister's kind words about Mr Gorbachev and the process of perestroika were much appreciated. She was well aware of the consistent support which the Prime Minister had given to perestroika and had read very carefully the Prime Minister's interviews with Ogonyok and Izvestis. The results of Mr Gorbachev's visit to the United Kingdom had been highly valued in the Soviet Union.

The Prime Minister said that she had seen the list of companies which Mrs Biryukova was visiting. We were anxious to help, and she hoped that Mrs Biryukova had established some useful contacts. Mrs Biryukova said the primary purpose of her visit was to translate the agreements reached earlier to expand Anglo/Soviet trade into specific projects. She felt that progress had indeed been made. There was the prospect of purchase of medical equipment, and negotiations were under way on possible turnkey projects to produce such equipment in the Soviet Union. There were also prospects for the involvement of British firms in the light food and textile industries in the Soviet Union. The Minister for the Textile Industry of

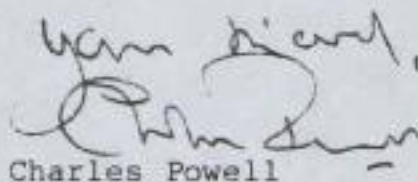
the Russian Republic had discussed setting up a consortium to modernise factories producing linen fabrics in the Moscow area. She had herself visited some of Courtaulds' plants and negotiations with them were underway. There were also discussions on the possible conversion of defence industry plants to consumer needs. Mrs Biryukova added that she was expecting to purchase consumer goods to the value of several tens of millions of pounds as a result of her visit. But this was only a short term measure: her real objective was to establish industries in the Soviet Union to produce these goods. The Prime Minister referred to the importance of training and sending people over here to see our factories in operation. Mrs Biryukova said the point was well taken. She recalled that the Prime Minister had said in her Ogonyok interview that becoming a real entrepreneur was a lengthy business.

The Prime Minister concluded by asking Mrs Biryukova to convey her very warm regards to Mr and Mrs Gorbachev and to Mr Ryzhkov, whom we hoped to see in Britain later in the year. We were also very pleased with General Yazov's visit. She had been very sorry to see that Mr Kamentsev, who had accompanied her on her visit to Georgia, had not been confirmed in his post by the Supreme Soviet: he was such a nice man. Mrs Biryukova said that everyone was sad about this, but it did not seem to make much difference. Mr Kamentsev was still working at his job.

Mrs Biryukova continued that she wanted to tell the Prime Minister that she had by chance been part of the crowd outside the door of No.10 when the Prime Minister had won her first election in May 1979. She had never really expected to step inside but now, ten years later, here she was. She hoped very much that she and the Prime Minister would meet again in Kiev.

There was a final exchange on the inadequate numbers of women in politics. Mrs Biryukova said that there was only half as many women in the new Supreme Soviet as in the last one. She put this down to a conservative outlook on the part of men.

I am copying this letter to Richard Gozney (Foreign and Commonwealth Office), Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).


Charles Powell

Ben Slocock Esq
Department of Trade and Industry

PRIME MINISTER

MEETING WITH MRS. ALEKSANDRA BIRYUKOVA

You are to see Mrs. Biryukova tomorrow afternoon. She is a Soviet Deputy Prime Minister, a candidate member of the Politburo, and Chairman of the State Commission for Social Development, which makes her the top woman in the Soviet Union. Like many other Soviet leaders, she was given a tough time - seventeen and a half hours of questioning by the Supreme Soviet - before her nomination was accepted.

The main significance of the meeting is the fact of it taking place, further evidence that everything is now back to normal at the highest level following the expulsions. Mrs. Biryukova's particular task is to try to produce more short-term benefits from perestroika in the form of better supplies of clothing and household goods. She is here to discuss proposals for British-Soviet cooperation through joint ventures and joint production, and wishes in particular to discuss how to convert factories from the production of defence equipment to consumer goods.

I think you will want to take the conversation in two parts. The first will be a general discussion of political developments in the Soviet Union, much on the lines of your talk with General Yazov today, emphasising your continued strong support for what Mr. Gorbachev is trying to achieve. It would be helpful if you could also mention the invitation to Mr. Ryzhkov. You might also say that you hope Mrs. Biryukova will visit the "Britain in Kiev" Exhibition in June next year, which will be accompanied by a Trade Fair.

On the more down to earth level, you will want to give a puff to some of our major companies who are participating in her programme, and who are pursuing important projects in the Soviet Union. They include:

Courtaulds, who are engaged in modernising acrylic fibre plants.

Taylor Woodrow, who have a contract to modernise artificial fur factories (she will have come direct from a meeting with them).

Coats Viyella, who are discussing a project to make cotton thread.

Illingworth Morris, who supply overcoats.

Pharmaceutical companies such as Glaxo and Beechams, who have a great deal of experience in the Soviet Union.

The consortium of seven British companies which has been formed to cooperate with the Soviet Union in food production.

You will want to commend these companies to her and generally encourage her to look to the United Kingdom for help. This is one way to meet the target for increased trade on which you and Mr. Gorbachev agreed.

A fuller brief is in the folder.

EDP
CDP

25 July, 1989.

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cc backup
Foreign and Commonwealth Office

London SW1A 2AH

24 July 1989

Dear Charles,

Call by Mrs Biryukova

The DTI are writing to you about commercial and economic questions which the Prime Minister may like to raise with Mrs Biryukova. You may find it helpful to have some suggestions about political questions.

Mrs Biryukova's visit, and that of the Defence Minister Yazov, will be the first to London by senior members of the Soviet leadership since Mr Gorbachev's visit in April and the 19 May expulsions. The Prime Minister may like to reaffirm the Government's support for the Soviet reform programme and her firm commitment to the further strengthening of relations with the Soviet Union.

The key development since late May has been the inaugural session of the Congress of People's Deputies and the Supreme Soviet. The debate in both has frequently been sharp, focussing on sensitive questions such as the leadership, privileges, the KGB and the Army. The Supreme Soviet has (despite its predominantly traditionalist composition) rejected ten ministerial nominations, including that of Mrs Biryukova's former colleague Deputy Prime Minister Kamentsev.

The Prime Minister will wish to congratulate Mrs Biryukova on her own confirmation in office by the Supreme Soviet. She might express admiration for the moderating role played by Mr Gorbachev as Chairman of the Supreme Soviet, and the extent to which his international standing has been enhanced by the widely recognised skill with which he has guided debate.

The Prime Minister may also like to mention our satisfaction that one (and possibly two) delegations of members of the Supreme Soviet will be visiting Britain later in the year, one at the invitation of the IPU.

Finally the Prime Minister may like to mention the invitation to Prime Minister Ryzhkov to visit the UK. She may also wish to encourage Mrs Biryukova to visit "Britain in Kiev" in June 1990. This will include a major exhibition on the British way of life, our freedom of choice and the

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working of the day-to-day economy in Britain. It will be accompanied by a DTI sponsored trade fair (with the emphasis on the food industry and agriculture). The main cultural event will be a visit by the English National Opera.

The Foreign Secretary hopes that the Prime Minister's discussion with both visitors will help to dispel any lingering Soviet suspicions that we are blowing cold on relations with the Soviet Union and on the prospects for perestroika. There is no suggestion that the Prime Minister should play down the challenges facing Gorbachev, but rather that she should send a clear signal of political support and understanding of the pressures which he is confronting.

I am copying this letter to Ben Slocock (DTI).

Yours ever,

Richard Sney

(R H T Gozney)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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the department for Enterprise

cc/c
Backup.

BF
The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

CF
Charles Powell Esq
Private Secretary to
the Prime Minister
10 Downing Street
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Your ref
Date

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PB2BJM

19 July 1989

See Charles

MRS BIRYUKOVA'S VISIT

FAP.
I am writing, as requested in your letter of 14 June, with briefing for the Prime Minister's meeting at 15.00 on 26 July with Mrs Aleksandra Biryukova, Soviet Deputy Prime Minister, Chairman of the State Commission for Social Development and candidate member of the Politburo. The brief has been cleared with the FCO.

Mrs Biryukova is visiting the UK at the invitation of the CBI, as requested by the Soviet Ambassador, but with the full support of my Secretary of State, who met her during his recent visit to the Soviet Union, and with whom she will have discussions in the morning on 26 July. It will be her first visit abroad since her gruelling 17.5 hours defence before the Supreme Soviet of her nomination for the social development portfolio. The Prime Minister could comment initially on the recent Congress of People's Deputies and on the democratic process by which Soviet Ministers are being elected. She could express disappointment in the failure of Mr Vladimir Kamentsev, who accompanied Mr Gorbachev in April, to secure reappointment as Chairman of the State Foreign Economic Commission.

Mrs Biryukova's remit is to improve social wellbeing in the Soviet Union by improving the availability of consumer goods. Her responsibilities therefore go to the heart of perestroika: it is her job to bring tangible benefits, in the form of better supplies of clothing and household goods, to the ordinary Soviet citizen and thereby convince them that perestroika is worth supporting.

Her aims in visiting the UK are to see production processes for making fibres, threads and fabrics, the manufacture of textile machinery, and the production of basic over-the-counter pharmaceuticals and to discuss proposals for British/Soviet co-operation, through joint ventures and joint production. She also wishes to discuss Soviet plans to convert factories from production of defence equipment to consumer goods. In the time available she will have to leave some items to the junior ministers accompanying her but her programme should meet many of her objectives.

The Prime Minister could commend the efforts of the following companies who are participating in her UK programme in their pursuit of projects in the Soviet Union:

- Courtaulds, a company of long experience of the Soviet Union, who are negotiating contracts to modernise acrylic fibre plants at Navoi and Novopolotsk (and have a letter of intent from the Ministry for the Chemical Industry) and a textile factory at Tallinn in Estonia (in discussion with the Ministry for Light Industry); Mrs Biryukova recently met Mr Gordon Campbell, who accompanied my Secretary of State to the USSR;
- Taylor Woodrow, who also have a great deal of experience of the Soviet Union and who recently won a contract to modernise six Soviet artificial fur factories (and who, subject to confirmation of the programme, will have given Mrs Biryukova a presentation just prior to this meeting on their expertise in project managing factory conversions in many different sectors of industry); Mrs Biryukova met Mr Walter Hogbin, who also accompanied my Secretary of State to the USSR;
- Coats Viyella, who are in negotiation with the Kirov Kombinat in Leningrad for a project to make cotton thread;
- Illingworth Morris, whose subsidiary Crombie, in Aberdeen, manufacture both fabric for overcoats and overcoats themselves, which they have supplied to the Kremlin.

She could also mention pharmaceutical companies such as Wellcome Foundation, Glaxo, Beechams and Sterling Winthrop, all of whom manufacture household pharmaceutical products and who have a great deal of experience of the Soviet Union.



the department for Enterprise

One of the recurring problems in trade with the Soviet Union is the shortage of hard currency. Partly for this reason, the Soviets have been actively seeking joint ventures and other forms of co-operation as a way of obtaining technology from the West without having to pay for it in hard currency. They hope that Western companies will help them to export joint venture products to third countries and thereby earn convertible currency profits which will pay for Western investments. Western companies have been cautious in their response, and most joint ventures have been in the service, rather than manufacturing, sector. There are now 34 UK/USSR joint ventures.

An alternative is countertrade. The acrylic fibre projects which Courtaulds are negotiating involve an element of this, in that their contract will require them to take back a certain amount of Soviet chemical fibre. But the opportunities for countertrade in textiles and clothing are limited by the restrictions which the European Community applies to imports from both MFA (Multi-Fibre Arrangement) countries and from non-MFA countries such as the USSR.

The Prime Minister could commend the flexibility of British companies in finding ways of co-operating with Soviet light industry. She could also mention the 14 joint working groups which UK companies and Soviet organisations have established to co-operate in various industrial sectors (eg agriculture, chemicals, instrumentation, medical products, energy, machine tools), which between them cover many aspects of light industry.

She could also mention the consortium of seven British companies (Allied Lyons, APV, Booker Tate, Morgan Grenfell, Taylor Woodrow, Union International Consultants and United Biscuits) which has been formed to co-operate with the Soviet Union in food production projects, where there are very good prospects.

UK exports to the USSR have picked up in recent months, from an average of £35m per month to nearer £55m. But the UK still runs a deficit with the USSR. A short table of statistics is enclosed as background.

Yours ever

BEN SLOCOCK



UK/USSR TRADE

TRADE FIGURES (all figures are in £ m)

	1986	1987	1988	Jan-May 1988	Jan-May 1989
Exports to USSR	543	492	511	235	263
Imports from USSR	702	875	732	244	330
Total trade	1245	1367	1243	479	593
Trade balance	-160	-384	-222	-9	-67

1987 Top 5 Imports into UK

Petroleum & its prods	426
Wood	140
Inorganic chemicals	51
Road vehicles	46
Hides, furskins, etc	40

1988 Top 5 Imports into UK

Petroleum & its prods	314
Wood	137
Road vehicles	67
Inorganic chemicals	36
Wood manufactures	25

1987 Top 5 Exports from UK

Cereals & prepar'ns	97
Inorganic chemicals	57
Chemical materials & products	44
Iron and steel	42
Scientific instruments	31

1988 Top 5 Exports from UK

Scientific instruments	60
Cereals and prepar'ns	49
Iron and steel	46
Inorganic chemicals	38
Chemical materials and products	31

Trade figures: Soviet basis (millions of roubles)

	1986	1987	1988
Imports from UK	515	524	623
Exports to UK	1276	1586	1794
Total trade	1791	2110	2417
Trade balance	-761	-1062	-1171

Soviet Union Sept '83

Visit of Soviet Del PM.

19 JUL 1989



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 June 1989

BFU
Thank you for your letter of 12 June about the visit of Mrs Biryukova in late July. The Prime Minister could see Mrs Biryukova at 1500 on Wednesday 26 July.

I should be grateful for briefing in good time.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office).

C. D. POWELL

Ben Slocock, Esq.
Department of Trade and Industry

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10 DOWNING STREET

~~Amesbury~~

Can I have a
time please

C

Charles

1500 on
Wednesday
26 July.

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the department for Enterprise

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The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
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Prime Minister
Agree to see
her?

CDD
12/6

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Our ref NP5AAH

Your ref

Date 12 June 1989

See Charles

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I am writing to ask if the Prime Minister would be willing to meet Mrs Aleksandra Biryukova, a Soviet Deputy Prime Minister and Chairman of the Commission for Soviet Development, when she visits the UK during the week of 24 July.

Mrs Biryukova is visiting the UK at the invitation of Sir Trevor Holdsworth. A previous invitation in December 1989 (declined in the event) was also made by the private sector and the Soviets have requested a CBI invitation this time. My Secretary of State will also be meeting Mrs Biryukova and will host a dinner in her honour on Wednesday 26 July; he hopes to meet Mrs Biryukova during his visit to Moscow at the end of this month.

Mrs Biryukova has particular responsibility for light industry, distribution of consumer goods and the retail sector. She is also a Candidate Member of the Politburo and therefore ranks senior to Mr Kamentsev, chairman of the State Foreign Economic Commission. She is the most senior female Soviet politician.

During his meeting with businessmen in April, President Gorbachev emphasised the particular importance he attaches to improving the organisation and performance of Soviet light industry. Increasing the availability and quality of consumer goods in the Soviet Union is essential to the



the department for Enterprise

success of perestroika. During Mrs Biryukova's visit to the UK she will meet a number of British companies working with Soviet light industry and will be shown how consumer goods are distributed and sold in this country.

Our request has the full support of the FCO, and I am copying this letter to Stephen Wall.

Yours etc

A handwritten signature in dark ink, appearing to read 'Ben Slocock'.

BEN SLOCOCK
Private Secretary

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the department for Enterprise

cel.f. ②

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary to the
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Your ref
Date 8 February 1989

Dear Charles

VISIT OF MR KAMENTSEV - BANKING PROTOCOL

This is to confirm that the main British banks have acceded to the Soviet request that a general banking protocol should be concluded during Mr Kamentsev's visit. This should be signed this evening before the dinner being given by Lord Young at Lancaster House.

ECGD attended the meeting yesterday between representatives of the Soviet Bank for Foreign Economic Affairs and seven British banks (the four clearers, Morgan Grenfell, Bank of Scotland and Moscow Narodny). The British banks were initially unenthusiastic as the Soviet side had not pursued the £1,000 million offer they had proposed at the Joint Commission meeting last October.

However, the Soviet representatives explained their volte face by arguing that they wished to stimulate interest in bilateral trade before Mr Gorbachev's visit and an assurance of the availability of credit would assist the conclusion of some of the £1.4 billion contracts under negotiation with UK firms. They were not, however, now seeking a commitment of a specific figure and realised that several British banks have existing credit lines in place that have not been fully utilised.

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initiative

The British bank representatives present all agreed to participate subject to the approval of their senior management and agreement on the text. After discussion a fairly innocuous text was agreed. This confirms the interest of both side in arranging finance to support an increased level of UK exports to the USSR. There is no mention of ECGD and the protocol places no formal commitment on the UK banks. The protocol sets some general guidelines, several of which show welcome signs of greater Soviet flexibility (including the desire to set interest rates at a realistic level and make wider use of currencies other than sterling). However it is not intended that the protocol will be followed by a combined UK banking line but will be carried forward by specific credits negotiated by the individual participating banks as business comes forward.

In general the Secretary of State welcomes this development which shows that UK banks are willing to provide finance to support the expansion of trade with the USSR. The absence of such an agreement might have placed UK firms at a disadvantage given the similar agreements already concluded with FRG, France and Italy. However, the Soviet decision to drop the £1,000 million figure is sensible and should help to deflate criticism from the USA and elsewhere that the USSR is over-borrowing. The more flexible guidelines now agreed should also help UK firms to take advantage of the City's expertise in this area.

I am copying this letter to Richard Gozney (FCO) and Carys Evans (Chief Secretary's Office).

Yours

Jeremy

JEREMY GODFREY
Private Secretary

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 February 1989

Dear Neil,

**PRIME MINISTER'S MEETING WITH MR. KAMENTSEV,
DEPUTY CHAIRMAN OF THE USSR COUNCIL OF MINISTERS**

The Prime Minister had a talk this evening with Mr. Vladimir Kamentsev, Deputy Chairman of the Council of Ministers of the USSR. Mr. Kamentsev was accompanied by the Soviet Ambassador and by Mr. Uspensky. HM Ambassador, Moscow was also present.

After a certain amount of reminiscing about the Prime Minister's visit to Tblisi in 1987, on which Mr. Kamentsev had accompanied her, Mr. Kamentsev conveyed greetings from Mr. Gorbachev. He had been asked to say how much Mr. Gorbachev valued the Prime Minister's attitude to the changes which he was introducing in every area of Soviet society. Mr. Kamentsev continued that his own talks were intended to prepare the economic aspects of Mr. Gorbachev's forthcoming visit. The visit would come at a particularly interesting time, immediately after the elections in the Soviet Union, as a result of which a new government would have been formed.

The discussion then turn to trade relations, and followed very much the course of Mr. Kamentsev's earlier talk with Lord Young. I will not therefore record the welter of statistics about Anglo-Soviet trade and prospective contracts with which Mr. Kamentsev entertained us. He also referred to his hope that a credit agreement could be signed during his visit. The Prime Minister, for her part, said that top businessmen in the United Kingdom sometimes came to her and asked how they could help with the modernisation of the Soviet economy. It was not easy to know what to tell them. But in her own opinion the most useful thing they could do was to send teams of experts to the Soviet Union, to gain some direct experience of the scale and nature of the problems and then decide how best they could help. Mr. Kamentsev did not respond directly but referred to action taken by the Soviet government to get rid of some of the constraints on successful cooperation between Soviet firms and their Western counterparts. He also spoke with approval of the forthcoming Soviet/UK trade month in Moscow.

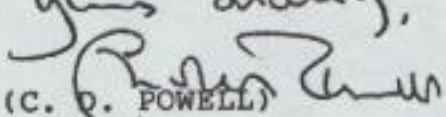
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The Prime Minister then turned to the programme for Mr. Gorbachev's visit. She wondered whether Mr. Gorbachev was satisfied with the programme as planned for December or would like some changes. For instance, he might wish to make a speech or do a television interview. We would be happy to help arrange whatever suited him. But the most important thing was to have plenty of time to talk. There was so much happening which she and Mr. Gorbachev needed to discuss. Mr. Kamentsev said that Mr. Gorbachev was well satisfied with the programme. If he wished to propose any changes he would contact the Prime Minister. He had been disappointed when it had been necessary to cancel the visit planned in December. But he had also been very touched by the Prime Minister's message, which had been the first he had received about the Armenian earthquake. Indeed, Mr. Gorbachev had called in his delegation in New York, had read them the cable and told them that he was certain that the Prime Minister had written it herself because it came from the bottom of her heart. The Soviet people were very grateful for all the assistance they had received following the earthquake in Armenia and in particular the proposal to build a new school.

The Prime Minister asked Mr. Kamentsev to convey her warm regards to both Mr. Gorbachev and Mr. Ryzkhov. She was impressed with the pace of political advance in the Soviet Union. The need now was to achieve greater economic success to match it. Mr. Kamentsev admitted that the Soviet Union was going through a difficult period. There were bound to be difficulties at the beginning of a process of reform. The Soviet authorities understood that the first priority had to be to feed and clothe their people. That was why they were so anxious to extend their economic links with other countries. He hoped the United Kingdom would be ready to take a full part, particularly in such areas as light industry and food processing. The Prime Minister said that we were strong in both areas. We were also providing help with management training. Mr. Kamentsev said that he had detected a strong desire, on the part both of Government and of business in the United Kingdom, to cooperate. That feeling was reciprocated.

The Prime Minister concluded that the meeting had been a useful curtain-raiser for Mr. Gorbachev's visit, to which she was greatly looking forward.

I am copying this letter to Richard Gozney (Foreign and Commonwealth Office), Carys Evans (Chief Secretary's Office), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely,

(C. D. POWELL)

Neil Thornton, Esq.,
Department of Trade and Industry.

Bundy Clark
10 Downing Street
010



With the compliments of

THE PRIVATE SECRETARY

WG Spence
Sandra Phillips
7 Feb 1989

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

CCPC

PROTOCOL OF INTENT

Between the Bank for Foreign Economic Operations of the USSR
(Vneshekonombank USSR), on one side

and

on the other

Taking into account the fact that the period of operation of the permanent inter-governmental Soviet/British Commission on ~~the~~ Scientific-Technological and Commercial-Economic Cooperation, British banks confirmed their readiness to carry out the financing of contracts for the export of British equipment which might be concluded between British firms and Soviet enterprises and organisations,

- and that Vneshekonombank USSR and other interested organisations of the Soviet Union regard this initiative by British banks as a demonstration of their desire to promote the development of Soviet/British foreign economic links, and fully share that desire,

- and that both the Soviet and the British side are interested that, with the aim of successful development of the foreign economic links between the USSR and British, British manufacturers should have equal competitive conditions in presenting their proposals,

The two sides intend to be guided in their mutual relations by the following:

1. The costs of proposals put forward will not include elements of the cost of credit, but the cost of credit will be set at a realistic level. This condition does not exclude the granting in certain circumstances of special conditions which are applied in international practice.
2. For the granting of credit terms as advantageous as possible, various new forms of credit will be used, including credits in various international currencies and multi-currency credits, credits with interest rates reviewable and set at the discretion of the borrower, and others. In this regard, the two sides take into account the fact that ECGD is favourably disposed towards the introduction of such credit methods.
3. In the case of projects requiring repayment conditions not conforming with those normally applicable, the two sides will seek the possibility of resolving the issue in question through the use of existing market practices, such as leasing, ancillary credits, and others.
4. In the event of its being necessary for the implementation of a deal attracting additional credits to pay for the cash element of contracts or for local expenditure, the two sides will make efforts to provide such financial possibilities.

5. Noting the already existing contacts in the field of project financing in third countries, the two sides confirm their interest in the continuation and development of such financial cooperation under mutually acceptable conditions.
6. Being in agreement that there is no necessity for the signature of ^{any} credit agreement at the present time, the two sides are ready, if the need arises for the signature of credit agreements in future on specific deals, to take account of the foregoing provisions on the organisation of financial cooperation.

This Protocol of Intent is signed in duplicate copies in English and in duplicate copies in Russian, both having equal force.

Signed in London

February 1989

For

For the Bank of Foreign
Economic Operations of the
USSR (Vneshekonombank USSR)

*Sov Union Visitor of
Sov Dep Foreign Affairs*

PROTOCOL OF INTENT

Between the Bank for Foreign Economic Affairs of the USSR
(Vneshekonombank USSR), on one side

and

on the other

Taking into account the fact that in the period of operation of the permanent inter-governmental Soviet British Commission on Scientific-Technological and Commercial-Economic Cooperation, the British banks have confirmed their readiness to carry out the financing of contracts for the export of British equipment, which might be concluded between British firms and Soviet enterprises and organisations,

- that Vneshekonombank USSR and other interested organisations of the Soviet Union judge this initiative of the British banks as a demonstration of their wish to facilitate the development of Soviet British foreign economic links, and fully share this wish,
- that as both the Soviet and the British side are interested that, with the aim of successful development of the foreign economic links between the USSR and Britain, British manufacturers should have equal competitive conditions in giving their proposals,

The two sides intend to be guided in their mutual relations by the following.

1. The costs of proposals put forward will not include elements of the cost of credit, but the cost of credit will be set at a realistic level. This condition does not exclude the granting in certain circumstances of basic conditions applicable under international practice.
2. For the granting of more advantageous credit conditions, various new forms of credit will be used, including credits in various international currencies and multi-currency credits, credits with reviewable percentage rates determined at the discretion of lender, and others. In this regard, the two sides take into account the fact that ECGD will address itself positively to the introduction of such credit methods.
3. In the event of projects calling for conditions of termination not conforming to those normally applicable, the two sides will seek the possibility of deciding the given question through the use of existing market practices, such as (leasing?), auxiliary credits, and others.
4. In the event of its being necessary for the implementation of an agreement attracting additional credits for the immediate payment of part of the contracts, or payment of local expenses, the two sides will make efforts to guarantee such financial possibilities.
5. Noting the already existing contacts in the field of the financing of projects in third countries, the two sides confirm their interest in the continuation and development of such financial cooperation under mutually acceptable conditions.

6. Being agreed that there is no necessity of signing any credit agreement at the present time, the two sides are ready in the event that, in the future, signature of credit agreements on specific deals should be necessary, they will take into account the above conditions for the organisation of financial cooperation.

The Protocol of Intent is signed in two copies in English and in two copies in Russian, having equal force.

Signed in London February 1989.

For

For the Bank of Foreign
Economic Affairs of the USSR
(Vneshekonombank USSR)

ПРОТОКОЛ О НАМЕРЕНИЯХ

между Банком внешнеэкономической деятельности СССР
(Внешэкономбанком СССР), с одной стороны

и

- с другой.

Учитывая, что в период работы постоянной межправительственной Советско-Английской Комиссии по научно-техническому и торгово-экономическому сотрудничеству английские банки подтвердили свою готовность осуществлять финансирование контрактов на экспорт английского оборудования, которые могут быть заключены между английскими фирмами и советскими предприятиями и организациями,

- что Внешэкономбанк СССР и другие заинтересованные организации Советского Союза расценивают эту инициативу английских банков как проявление их желания содействовать развитию советско-английских внешнеэкономических связей и полностью разделяют это желание,

- что как советская, так и британская сторона заинтересованы, чтобы в целях успешного развития внешнеэкономических связей между СССР и Англией, английские производители имели равные конкурентные условия при предоставлении своих предложений,

стороны намерены руководствоваться в своих взаимоотношениях следующим.

1. Цены представляемых предложений не будут включать элементов стоимости кредита, а стоимость кредита будет определяться на реалистичном уровне. Это положение не исключает предоставление в определенных случаях применяемых в международной практике особых условий.

2. Для предоставления наиболее льготных условий кредитов будут применяться различные новые формы кредитования, включая кредиты в различных международных валютах и мультивалютные кредиты, кредиты с пересматриваемой процентной ставкой с фиксацией по усмотрению заемщика и другие. При этом стороны учитывают, что ДГЭК положительно относятся к внедрению таких кредитных методов.

3. В случае проектов, требующих условий погашения, несовпадающих с обычно применяемыми, стороны будут изыскивать возможности разрешения данного вопроса с использованием имеющихся рыночных форм, таких как лизинг, вспомогательные кредиты и другие.

4. В случае необходимости для осуществления сделки с привлечением дополнительных кредитов на оплату наличной части контрактов или местных расходов стороны будут предпринимать усилия для обеспечения таких финансовых возможностей.

5. Отмечая уже имеющиеся контакты в области финансирования проектов в третьих странах, стороны подтверждают свою заинтересованность в продолжении и развитии такого финансового сотрудничества на взаимоприемлемых условиях.

6. Будучи согласны в отсутствии необходимости подписания какого-либо кредитного соглашения в настоящее время, стороны готовы в случае необходимости подписания в будущем кредитных соглашений по конкретным сделкам учитывать вышеуказанные положения по организации финансового сотрудничества.

Протокол о намерениях подписан в двух экземплярах на английском и в двух экземплярах на русском языке, имеющих одинаковую силу.

Подписано в Лондоне ____ февраля 1989 года.

За

За Банк внешнеэкономической
деятельности СССР
(Внешэкономбанк СССР)

За



dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
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Department of
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Fax 01-232 2629

Direct line 215 5422
Our ref MM2ABZ
Your ref
Date 7 February 1989

Prime Minister
A report on this
morning's discussions.

CDP
7/2

Dear Charles,

VISIT OF MR KAMENTSEV

Thank you for your letter of 6 February about Mr Kamentsev's visit.

The visit has got off to a good start with the British-Soviet Chamber of Commerce dinner last night setting just the right tone. My Secretary of State's meeting this morning was constructive and positive. Mr Kamentsev spoke at some length on perestroika and the foreign trade reforms, emphasising that their main purpose was to instill in Soviet management and workers a change in attitude towards the economic importance of what they were producing. It was this, rather than decentralisation of decision-making, which was the real objective. He also spoke of the changes in legislation on joint ventures which answered many of the criticisms which had been made by Western countries and which should make the climate for inward investment more favourable.

On bilateral trade, Mr Kamentsev said that progress was being made towards the target of 2.5 billion roubles of two-way trade. It had risen 18% from 1986 to 1987 and had reached a level of 2.39 billion roubles in 1988. My Secretary of State referred to the UK's consistent trade deficit which existed even on Soviet figures and encouraged Mr Kamentsev to place more contracts with the UK, citing as examples those mentioned in Jeremy Godfrey's letter yesterday. He asked about the

the
Enterprise
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status of APV's negotiations for breakfast cereal lines, which he understood to be floundering. Mr Kamentsev said that APV had quoted a price 27% higher than their competitors from Switzerland and Germany. (APV have confirmed that their price is £2.5 million higher per line on a contract worth £120 million, but say that their competition is quoting for equipment much below the Soviet specification.)

On other projects, Mr Kamentsev repeated the point which Mr Kossow had made to you, namely that he would be signing £0.5 billion worth of contracts during his visit. He spelled these out as:

- i) a 250 million rouble paper processing project involving the supply of paper to the UK (we understand that this is a joint venture project being negotiated with Maxwell Satellite Communications (Mr Robert Maxwell's company) involving the supply of Finnish and Canadian machinery to the Soviet Union and the import into the UK of newspaper; there is no UK export content as far as we are aware).
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Mr Kamentsev said that he would like to see the proposals of the British banking community carried forward. This would register the mutual interest in financing increased levels of trade. The Soviet side would be prepared to proceed with such a credit protocol during the visit. My Secretary of State said that he was very interested in the idea and the ECGD would give the initiative its full support. However, the agreement would be with British banks and he hoped that their response would be positive. ECGD would follow the negotiations and report back to him personally.

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My Secretary of State referred to joint ventures and confirmed that there were 12 between UK and Soviet organisations, and another 40 under negotiation including one involving GEC-Plessey Telecommunications wish to install credit card pay phones in Moscow hotels. The Minister for Trade spoke about the importance of consortia in areas such as timber and paper, where British companies could help the Soviet Union to produce more kraft liner paper, for which they had a demand, by supplying the necessary machinery in a self-financing contract, thereby avoiding the problems of hard currency shortages which exist.

Mr Kamentsev referred to the interest which Britain had in opening a British business house. He understood that a commercial protocol had been signed in December on setting it up. He said that the Soviet Union would also be interested in setting up a similar centre in the UK.

The meeting ended with a short discussion about special economic zones which the Soviet Union is considering introducing and about Armenia, where Mr Kamentsev was fulsome in his tribute to UK support on the ground. He also spoke warmly of the Prime Minister's immediate personal telegram to President Gorbachev (Mr Kamentsev had been with the Soviet leader in the United States when the news broke).

I am copying this letter to Stephen Wall (FCO).

Yours aw.

Neil Thornton

NEIL THORNTON
PRINCIPAL PRIVATE SECRETARY



the department for Enterprise

The Rt. Hon. Lord Young of Griffiths
Secretary of State for Trade and Industry

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Neil Thornton

NEIL THORNTON
PRINCIPAL PRIVATE SECRETARY



the department for Enterprise

The Rt. Hon. Lord Young of Graffham
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the department for Enterprise

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I am copying this letter to Stephen Wall (PCO).

Yours ever,

NEIL THORNTON
PRINCIPAL PRIVATE SECRETARY



CONFIDENTIAL

PRIME MINISTER

MEETING WITH MR. KAMENTSEV

The Soviet Deputy Prime Minister, Mr. Kamentsev, is coming to see you tomorrow afternoon. You will remember that he accompanied you at the opening of the British-Soviet Chamber of Commerce Offices in Moscow and on your visit to Tbilisi.

He is responsible for trade questions and his main talks will be with Lord Young. He will also be seeing Cecil Parkinson and visiting a Sainsbury's distribution centre and supermarket.

The main purpose of the visit is to discuss trade issues. Here the outlook is a bit better than expected, with Kamentsev apparently expecting to sign some substantial contracts and a credit agreement (if you have time, you should read the attached note of a discussion with Mr. Kossov). But he will also be here to prepare for Gorbachev's visit.

Points which you might make are:

- recall with pleasure your visit to Moscow and Kamentsev's role in escorting you;
- enquire after Gorbachev and say how much we look forward to his visit. We understand that Mr. Gorbachev envisages basically the same programme as planned for December. Your aim is to have plenty of time for talks. The Queen will of course give a lunch. If Mr. Gorbachev wants to give a speech or do a TV interview, we would be happy to arrange this;
- express condolences for the Armenian earthquake. Refer to our gift of a school for 400 children; and to expertise of British construction companies, which could be used in reconstruction work;

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- 2 -

- ask about progress of perestroika in the economic sphere, recalling your conversation with Mr. Katushev. The most important need is to increase the supply of food products and consumer goods. British companies have a lot to contribute in this sphere;
 - we are ready to help with management training. A course for 20 senior Soviet businessmen will be held at the London Business School in April;
 - ask about his discussions with Lord Young on the credit offered by British banks. We would be happy to see an agreement signed during his visit.
 - refer to the goal of 2.5 billion roubles two way trade which you agreed with Ryzhkov and say you understand that Kamentsev expects to sign specific contracts during his visit. That will be a very welcome development;
 - British companies which have major bids outstanding are:
 - APV - breakfast cereal lines
 - Babcocks - glass fibre plant at Polovsk
 - Courtauld's - modernisation of acrylic fibre plants
 - Davy's - polyester fibre plant
- We hope for progress on all these.
- mention the proposal to build a British-Soviet Trade Centre in Moscow with larger premises. We hope this can be agreed. We would have no objection to the establishment of Soviet-British Trade Centre in the UK.

Fuller notes are in the folder.

C D P
C. D. POWELL

6 February 1989

CONFIDENTIAL



me in 3A12
all

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

6 February 1989

Dear Jeremy,

VISIT OF MR. KAMENTSEV

Mr. Kossov of the Soviet Embassy came down to see me at short notice this evening in connection with Mr. Kamentsev's visit. He said that he had come direct from a briefing meeting with Mr. Kamentsev at the Embassy. What Mr. Kamentsev had said was rather different from the steer which the Soviet Embassy had given us about his visit, in particular in relation to the Soviet attitude to the offer of credit by British banks.

Mr. Kossov continued that the reaction of Soviet bureaucrats to our proposed credit had been negative, on the grounds that the Soviet Union was already too indebted. But the mood seemed to have changed in Moscow after Mr. Kamentsev had been to see Gorbachev to discuss his visit. The Soviets now wanted to sign a paper during Mr. Kamentsev's visit of a sort similar in nature to one recently signed with France. He described it as a Protocol of Intent on Credit Arrangements. He handed over a text in Russian, which I have already sent you for translation. The document would specify the broad areas of agreement already reached between the Soviet Bank of External Trade and British banks on credit arrangements and confirm the basic principles of these arrangements, without mentioning a specific amount. If we were agreeable, it might be signed in the presence of Lord Young and Mr. Kamentsev by representatives of the British banks and of the Soviet Bank of External Trade. The basic reasons for signing such a document were political, to help create a good climate for Gorbachev's visit and to show that Britain was not lagging behind the Soviet Union's other main trade partners in Western Europe. However, if we were not in favour of such a document, no offence would be taken.

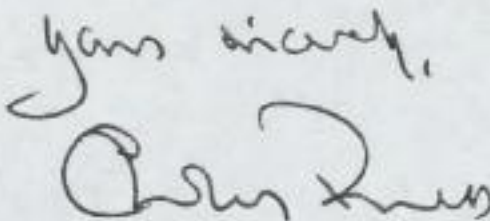
Mr. Kossov went on to say that Mr. Kamentsev had commented that the credit arrangements were important because he expected to sign almost £0.5 billion of contracts with British companies in the next two days. There was, in addition, some £700-800 million of business in the pipeline, where the bids of British companies seemed to be competitive.

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I said that I would inform the DTI and FCO immediately and get the document translated. I added that the news about contracts would be very welcome, if confirmed. But these were all matters to be discussed by Mr. Kamentsev and Lord Young tomorrow.

You will no doubt let me know, following Lord Young's meeting with Mr. Kamentsev tomorrow morning, if there are additional points which you wish the Prime Minister to make in her own meeting with Mr. Kamentsev.

I am copying this letter to Richard Gozney (Foreign and Commonwealth Office) and Carys Evans (Chief Secretary's Office).

Yours sincerely,


C.D. POWELL

Jeremy Godfrey, Esq.,
Department of Trade and Industry.



10 DOWNING STREET

Charles

Re Kamenboer Call

There is now agreement in
principle to sign a
banking protocol document
+ that signing should take
place on Thursday morning

Yours

—



Foreign and Commonwealth Office

London SW1A 2AH

6 February 1989

Dear Charles,

Call on the Prime Minister by Soviet Deputy
Prime Minister: Tuesday 7 February

Kamentsev, the Soviet Deputy Prime Minister responsible for foreign economic relations, will be calling on the Prime Minister at 5.30pm on 7 February.

The DTI are providing briefing on specific issues which the Prime Minister may wish to raise, particularly in the field of Anglo-Soviet trade. The Russians will, however, be looking at Kamentsev's visit in the broader context of the build-up to Mr Gorbachev's visit in April. It would be useful if Kamentsev went back to Moscow not only with a positive report on the significance we attach to the Gorbachev visit, but also of the Prime Minister's continuing close interest in the process of reform in the Soviet Union and in Mr Gorbachev's personal contribution. The visit comes at an important moment in East-West and Anglo-Soviet relations, when new opportunities are opening up in arms control, the search for peaceful settlements to regional conflicts, human rights and bilateral relations.

If the conversation turns to the West's response to perestroika, the Prime Minister might highlight our willingness to do what we can in the important field of management training for Soviet businessmen. A course for 20 senior Soviet managers will take place at the London Business School in April, (funded largely by the FCO) and we hope it will be followed by further courses in the future.

/The..



The Foreign Secretary has not seen this letter in draft; should he have points to add we shall let you know first thing on 7 February.

I am copying this letter to Jeremy Godfrey in the Department of Trade and Industry.

Yours ever,
Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street



the department for Enterprise

CCP
CC/BWP

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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Our ref PBLAPK
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Date 6 February 1989

Dear Charles

MEETING WITH MR KAMENTSEV, DEPUTY CHAIRMAN OF USSR COUNCIL OF
MINISTERS

The Prime Minister will be meeting Mr Vladimir Kamentsev, Deputy Chairman of the Council of Ministers of the USSR and Chairman of the State Foreign Economic Commission, at 17.30 tomorrow, 7 February. Mr Kamentsev will be accompanied by the Soviet Ambassador, Mr Zamyatin, and by an interpreter. Sir Rodric Braithwaite, British Ambassador to Moscow, will also attend.

The State Foreign Economic Commission, created in 1987, is the supervisory body responsible for the planning and management of foreign trade and the organisation of new forms of co-operation. It reports to the Council of Ministers, chaired by Prime Minister Ryzhkov.

Mr Kamentsev is visiting the UK at the invitation of my Secretary of State. The two will be meeting for two hours tomorrow morning to discuss a wide range of trade issues, after which Mr Kamentsev will lunch with the East European Trade Council hosted by Lord Jellicoe. During his visit he will meet the Foreign Secretary and the Secretary of State for Energy. He will have discussions with British industrialists at the CBI under Sir Trevor Holdsworth's chairmanship and will meet British bankers tomorrow night at a dinner hosted by Lord Limerick. Although he will not be meeting individually British companies pursuing contracts during his visit he will be visiting Sainsbury's modern distribution centre in Buntingford, Herts, and their new retail store at Camden, because of his interest in the problems of distribution of food products within the Soviet Union.





the department for Enterprise

The Prime Minister may first wish to express sympathy for those affected by the Armenian earthquake and to reiterate the UK's willingness to help with reconstruction. She could refer to the UK gift of a school for 400 children in Leninakan to replace one of the specialist English schools which were lost. The school would be built with an earthquake-resistant frame in a type of construction which has been found to be suitable in other parts of the world prone to earthquakes. She could also mention the relevant expertise which British construction companies could offer, such as in the construction of schools, hospitals and homes, provided ways could be found to finance their efforts.

The Prime Minister could ask Mr Kamentsev to comment on perestroika and the foreign trade reforms he has been introducing. She could stress that the most important goal, if the economic reforms are to succeed, must be to increase the supply of food products and consumer goods in Soviet shops. British companies could contribute in many ways, by supplying modern food processing machinery (APV, JCB) and agro-chemicals to increase crop yield (ICI, Shell), or machinery for the production of consumer goods (eg Courtaulds and Taylor Woodrow, who are negotiating contracts for the modernisation of textile factories).

The Prime Minister could acknowledge that the shortage of hard currency remains a major obstacle to the development of trade and support the efforts of British companies to find other forms of co-operation. She could comment that the relaxation of Soviet joint venture rules, which will now permit foreign equity participation to be settled by negotiation rather than be set by decree at 49%, and on the appointment of a foreign general manager (previously Soviet), is a step in the right direction. She could refer to the fact that 12 joint ventures have now been signed between UK and Soviet organisations (compared with 8 when she met Mr Katushev in October). She could also say that she understands that Mr Kamentsev and my Secretary of State will have had useful discussions on the development of consortia as a means of bringing buyers and sellers to co-operate in self-financing contracts involving two-way trade in such sectors as timber and paper and the medical sector.

Turning to UK/USSR trade, the Prime Minister could refer to the target of 2.5 billion roubles of two-way trade by 1990 to which she and Mr Ryzhkov agreed to aim during her visit to Moscow in 1987. She could comment that, while there existed a



the department for Enterprise

regular flow of on-going trade, progress towards the target is slowing up and that the most likely means of achieving it would be by awarding further major contracts to UK companies.

She could refer in particular to APV's bid for 15 breakfast cereal lines and express disappointment at news last Friday that the contract seemed unlikely to be awarded to the company. This was one project which we had particularly expected to win. Representatives of the company flew to Moscow at the weekend. Others, such as Babcock's bid to expand a glass fibre plant at Polotsk, Courtaulds' for modernisation of two acrylic fibre plants at Navoi and Novopolotsk and Davy's for a polyester fibre plant at Mogilev, continue to make some progress.

She could also refer to an interesting proposal by GEC and Cable & Wireless for the installation of a fibre-optic communications cable from Japan to Western Europe across the Soviet Union. The companies are discussing this with the Soviet Ministry of Railways and the Ministry of Posts and Telecommunications. It would involve installation alongside the trans-Soviet railway, and GEC would pay the Ministry of Railways rent in hard currency. The cable would not be available for Soviet communications traffic and has yet to be put to COCOM. But if it were to go ahead it would be a major hard currency earner for the Soviet Union.

She could recall opening the British-Soviet Chamber of Commerce offices in Moscow and comment on the steady growth in demand for the Chamber's services, to the point where the Chamber needs larger premises. She could mention the proposal to build a British-Soviet Trade Centre in Moscow, which could rehouse the BSCC and relieve the severe shortage of hotel accommodation in Moscow by providing a facility for visiting British businessmen. She could refer to the proposals which the Carroll Group are negotiating with Mossoviet (Moscow City Council). She could confirm that HMG would have no objection in principle to the establishment of Soviet-British Trade Centre in the UK. The Soviets have told us that the last point is important to further progress on the trade centre in Moscow.

Finally, she could mention the British-Soviet Trade Month in Moscow in April. To be opened by the Secretary of State for



the department for Enterprise

Energy. This will be a major exhibition of more than 250 British companies exhibiting over three weeks and a major demonstration of British willingness to trade with the Soviet Union.

I am sending a copy of this letter to Lyn Parker (FCO).

Yours

Jeremy Godfrey

JEREMY GODFREY
Private Secretary



FILE
DA.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 February 1989

Thank you for sending me the note about management training. I will ensure that the Prime Minister sees this as part of the briefing for her meeting with Mr. Kamentsev next week.

(C.D. POWELL)

The Rt. Hon. Earl Jellicoe, K.B.E., D.S.O., M.C.

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EETC

R3/1.

East European Trade Council

Suite 10, Westminster Palace Gardens, Artillery Row, London SW1P 1RL

Telephone: 01-222 7622

Telex: 291018 EETC G

Chairman: The Rt. Hon. Earl Jellicoe, K.B.E., D.S.O., M.C.

Director: J.A. McNeish

3rd February 1989

Charles D Powell Esq
10 Downing Street,
London SW1A 2AA

Dear Charles.

When I saw David Young at the Reception which he gave at Lancaster House recently to celebrate the anniversary of the Enterprise Initiative, I said that I was worried that the UK might be missing the boat in satisfying the appetite of the East Europeans, the Soviet Union and the Chinese for management training. He said that he would be glad if I were to send him a letter about this. I am enclosing a copy of a deliberately broad brush letter which I have sent to the Secretary of State.

I had lunch with Vladimir Pletnev, the Head of the Soviet Trade Delegation, on Wednesday, and it was quite clear from what was said that Kamentsev will be raising this matter with British Ministers during his visit here next week. I thought you might like to see a copy of my letter to David Young in view of the fact that Kamentsev is being received by the Prime Minister.

All good wishes.

Yours ever

JELlicoe

Geoff

East European Trade Council

Suite 10, Westminster Palace Gardens, Artillery Row, London SW1P 1RL

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Chairman: The Rt. Hon. Earl Jellicoe, K.B.E., D.S.O., M.C.

Director: J.A. McNeish

3rd February 1989

The Rt Hon Lord Young of Graffham
Secretary of State
for Trade and Industry
1 Victoria Street,
London SW1H 0ET

Ian David.

As I mentioned to you at the Reception which you gave at Lancaster House on 17th January, I am concerned at our rather slow, fragmented and inadequate national response to the increasing appetite for management training of the Soviet Union, the other East European countries and, indeed, the People's Republic of China.

In this short letter I wish, as Chairman of the East European Trade Council, to confine myself to the Soviet Union and Eastern Europe.

To put my disquiet in capsule form, I believe that a very special opportunity exists to fill the gap which has been identified by the Soviet Union and indeed most other East European countries - namely the need for their management cadres to acquire all types of management skills from the West. I also believe that the United Kingdom is in danger of losing by default a most valuable opportunity which could reap substantial rewards for British industry and commerce.

As you are aware a modest sum of money (some £50,000 for all of Eastern Europe including the USSR and an additional amount of £15,000 for Poland) has been made available by the BOTB as a pump primer. My own Council is working hard, albeit with limited success, to get British firms involved. At the same time a number of other initiatives are being sponsored by the Foreign & Commonwealth Office, the British Council, and organisations offering management training in the UK, in particular the London Business School. In addition an inter-departmental working party of officials, under Foreign Office leadership, on which my Council is represented, has been established to supervise and seek to co-ordinate the British response.

However, although there is a lot of goodwill, our effort compares very unfavourably with, in particular, that of the West Germans. In my view the whole operation needs a strong lead by a major political figure to ensure the necessary high level co-ordination and to put real drive behind the British effort.

I have no doubt that Mr Kamentsev will wish to discuss this matter with you and with your Ministerial colleagues during his visit to the UK next week. Indeed, I suspect that it could also figure on the Agenda for Mr Gorbachev's visit in April.

My Council is producing a position paper on this matter which I will send to you as soon as it is ready. Meanwhile I wish to convey to you in this brief letter my serious concern that we may be losing out in particular to our West German competitors in a field where we really have a lot to offer if we could only get our act properly

together. I feel that you are better placed than anyone else to help to get our effort on track. I need hardly add that I am naturally at your disposal if at any time you would like to discuss this matter.

I am sending a copy of this letter to William Waldegrave.

Yours Sincerely

George

JELlicoe

P.S.
Many congratulations on your robust & hard-
hitting speech at Dros.



JU677

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

13 October 1983

R B Bone Esq
Private Secretary to the
Secretary of State for Foreign & Commonwealth Affairs
Foreign & Commonwealth Office
London SW1A 2AH

N. F. Leake
I suggest that you have the
press line available to quarantine
Miss Steiner
see below
for his 14/10
done
CS

Dear Roger,

A. J. C. 14/10

Thank you for your letter of 10 October about the visit to the UK of Soviet Deputy Prime Minister Kostandov. I am writing to confirm that we are content with the proposed press line for use in answer to questions that may arise in connection with the visit.

Copies of this letter go to the recipients of yours.

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Yours sincerely,

Ruth Thompson

RUTH THOMPSON
Private Secretary



Foreign and Commonwealth Office

London SW1A 2AH

10 October 1983

Dear Ian Allan,

Visit of Deputy Prime Minister Kostandov

We have commented separately on a request from Sir B Hayes for views on ICI's proposed defensive press line on Kostandov's visit.

I enclose a note setting out the official line we consider should be taken in answering any questions that might arise from Ministerial participation in this visit.

I am sending copies of this letter to Michael Reidy (Department of Energy), Robert Lawson (MAFF), Richard Mottram (Defence) and to John Coles (No 10) and Richard Hatfield (Sir Robert Armstrong's Office) for information.

Yours ever

for

(R B Bone)
Private Secretary

John Hayes

Dr J P Spencer
Department of Trade and Industry
1 Victoria Street
LONDON S W 1

PRESS LINE FOR USE IN ANSWER TO QUESTIONS ON THE VISIT OF
SOVIET DEPUTY PRIME MINISTER KOSTANDOV: 17-23 OCTOBER

Mr Kostandov's visit has been arranged at the invitation of ICI. During his visit, Mr Kostandov will also be seen by a number of Ministers, including those with direct responsibility for the economic sectors covered by Mr Kostandov.

[If asked about the call on Sir G Howe, the FCO Spokesman will say that the Foreign and Commonwealth Secretary intends to take the opportunity of Mr Kostandov's call to put over the Government's strong views on a number of factors affecting the current phase of East/West relations.]

[If asked about the Government's policy on Ministerial contacts with the Soviet Union following the Korean airliner incident]

It is not the Government's policy to interfere with private invitations to visitors from the Soviet Union. As far as Ministerial contacts are concerned, following the Korean airliner incident, the Government has decided each case on its merits. For example, the Foreign and Commonwealth Secretary saw Mr Gromyko in Madrid on 7 September and expressed strong condemnation of Soviet actions in shooting down the Korean airliner. A visit by the Soviet First Deputy Foreign Minister, Kornienko, planned for 14-17 September was, however, postponed. On this occasion it was decided that the balance of advantage lay in Ministers seeing Mr Kostandov.



Foreign and Commonwealth Office

London SW1A 2AH

28 September 1983

Dear Michael,

Visit of Deputy Prime Minister Kostandov

I am very sorry that through an oversight the Foreign and Commonwealth Secretary's minute of 23 September to the Secretary of State for Trade and Industry about Kostandov's visit was not copied to Mr Walker. I now enclose a copy together with a copy of John Coles' letter to me of 24 September.

I am copying this letter to Robert Lowson (MAFF), Richard Mottram (Defence), Richard Hatfield (Sir R Armstrong's Office) and John Coles (No 10).

(R B Bone)
Private Secretary

Michael Reidy Esq
PS/Secretary of State for Energy

SOVIET UNION: Koshland

Sept '83

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 1877

Secretary of State for Trade and Industry

28 September 1983

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

Dear Sir,

Thank you for your letter of 23 September about the proposed visit to the UK in October of the Soviet Deputy Prime Minister, Kostandov. Subject to the views of other colleagues, I agree that the visit, including Ministerial calls, should go ahead. As you know, I shall not be in the country at the time, but Paul Channon intends to use both his meeting, and the dinner which he is hosting (to which a number of senior British businessmen will be invited) to press the interests of British companies.

2 I agree with your assessment that, were Ministerial attention to be withdrawn, the Russians would almost certainly cancel the visit. This would undoubtedly have an adverse effect on our commercial relations and would be detrimental to the prospects of British companies seeking business in the Soviet market, which is worth some £400M a year to our exporters.

3 Copies of this letter go to the Prime Minister, the Minister for Agriculture, Fisheries and Food, the Secretaries of State for Defence and for Energy and to Sir Robert Armstrong.

James *East*
John

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ls

10 DOWNING STREET

From the Private Secretary

24 September, 1983.

Visit of Deputy Prime Minister Kostandov

The Prime Minister has seen Sir Geoffrey Howe's minute of 23 September to the Secretary of State for Trade and Industry. She has noted his conclusion that the visit of Deputy Prime Minister Kostandov should go ahead in accordance with the arrangements described in the minute.

I am sending copies of this letter to Robert Lawson (Ministry of Agriculture, Fisheries and Food), Richard Mottram (Ministry of Defence), and Richard Hatfield (Cabinet Office).

A.J. DOLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

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The Foreign Secretary proposes that
the visit should go ahead.

A.C. $\frac{2}{9}$

MS

FCS/83/181

SECRETARY OF STATE FOR TRADE AND INDUSTRY

Visit of Deputy Prime Minister Kostandov

1. As I said in Cabinet on Thursday, I have been considering, in the light of the Korean airliner disaster, how we should deal with the impending visit in October of Soviet Deputy Prime Minister Kostandov.
2. As you know, our actions, both bilateral and multi-lateral, over the Korean airliner have been concentrated in the civil aviation fields. Our bilateral ban on all airline flights to and from the Soviet Union and Aeroflot flights over the UK is due to end on 28 September. Although normal working contacts at official level have been allowed to continue, contacts at Ministerial level have been decided on their merits. I thought it appropriate to see Gromyko in Madrid on 7 September and tell him exactly what we thought of both the Soviet action and their explanations. A bilateral visit for routine political consultations between Malcolm Rifkind and First Deputy Foreign Minister Kornienko, due on 15/16 September was, however, postponed.
3. Against that background I think we need now to take another look at the Kostandov visit. Formally, he has been invited by ICI (in association with Courtaulds). But as you know the Russians have been told that on 19 October calls have been arranged on yourself, if you are here, and Paul Channon if you are not. (I think we can assume that Kostandov will not choose to regard your possible absence as a significant variation

/unless



unless he is looking for a pretext to put off the visit in any case.) In addition, the Russians have been told that calls have been arranged on Peter Walker and myself, and finally that Paul Channon would host a dinner at Lancaster House which Peggy Fenner would also attend. Arrangements are well under way and the fact of the visit is quite widely known.

4. The basic purpose of the visit is of course commercial. Kostandov supervises the Soviet chemical industry among other things, and ICI have a major stake in the Soviet market. The visit will, however, also provide an opportunity for Ministerial contact with the Russians at a higher level in this country than has been the case since Gromyko's visit in 1976. On balance I am inclined to think that his visit should go ahead. If it does, I would propose to use his call on me to make clear our strong views on a number of factors affecting the current phase of East/West relations, including the airliner incident, and make it known publicly thereafter that I have.

5. I regard it as important that, at a time when the INF debate will be very active in the run up to deployment, we should use every available opportunity to get the Government's views across directly to senior Soviet Ministers, and that we should be seen to be doing so. Jim Callaghan will at that time be in Moscow (17-21 October) and will probably be seeing Gromyko, and possibly even Andropov.

6. If you and colleagues agree, I would be content to go ahead on this basis. If, on the other hand, it was felt preferable for Ministers not to take part in the visit, which would almost certainly lead to its cancellation, then we should tell both ICI and the Russians very soon, before their plans become even firmer than they already are.

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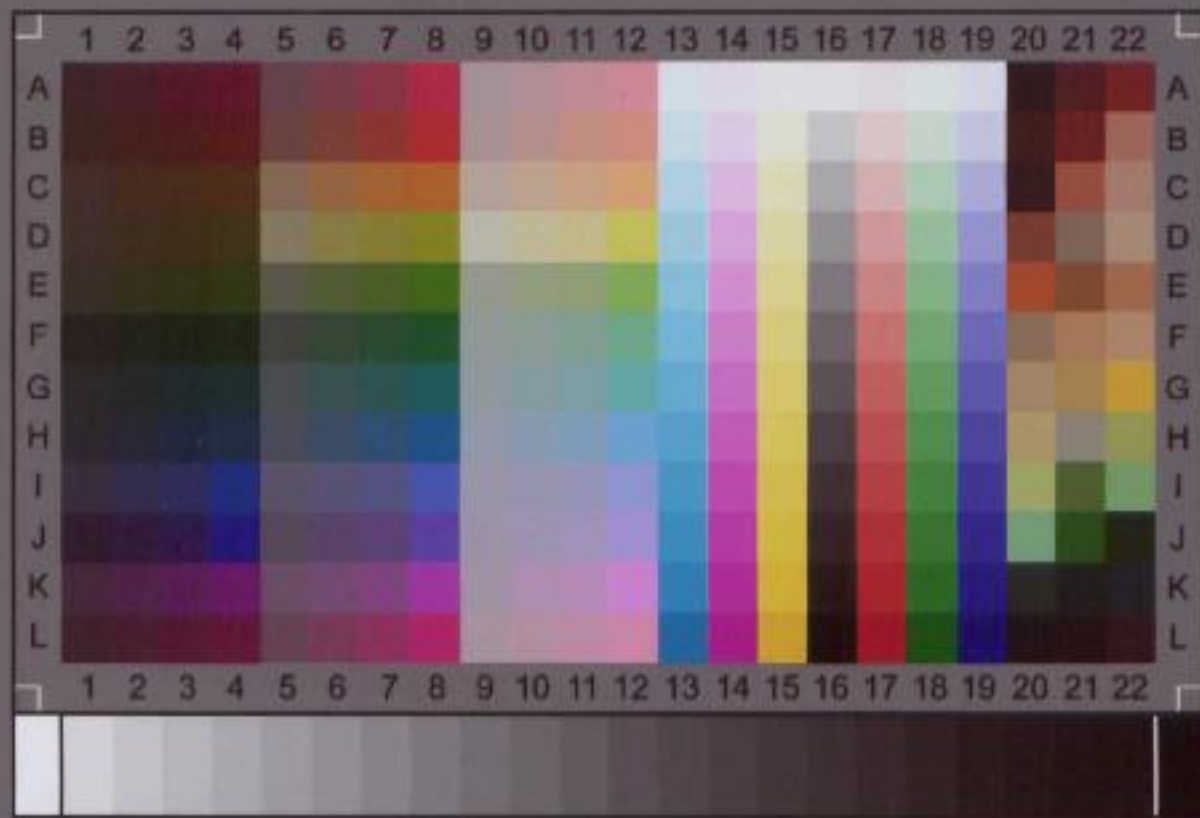
7. I am sending a copy of this minute to the Prime Minister, the Minister for Agriculture, Fisheries and Food, the Secretary of State for Defence and, for his information, Sir R Armstrong.

A handwritten signature in dark ink, appearing to be 'G. H.', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
23 September 1983

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