

PREM 19/3183

Part 17.

CAB ONE

WT.

TOP SECRET

Confidential Filing.

UK / Soviet Relations.

Internal Situation.

SOVIET UNION

Part 1: May 1979

Part 17: June 1990

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PREM 19/3183

PART 17 ends:-

CDP to FCO 31. 8. 90

PART 18 begins:-

Moscow Tel 1680 3. 9. 90

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*the pm
ack*

10 DOWNING STREET . . .

LONDON SW1A 2AA

From the Private Secretary

31 August 1990

ECONOMIC ASSISTANCE FOR THE SOVIET UNION

The Soviet Ambassador has asked to come and see the Prime Minister next week to talk about economic assistance for the Soviet Union. He stressed that he had nothing new to say himself. But the situation was increasingly desperate and he would like to be able to offer Moscow some comfort about our thinking. I said that there was no way the Prime Minister could see him next week because of the recall of Parliament. Moreover, I did not think we had anything very new to say at this stage. But I would consult.

I mentioned this to the Prime Minister, who said she was always ready to see the Soviet Ambassador and could, in principle, do so the week after next. But it would only be worthwhile if we have something substantial to say to him. I should be grateful for advice.

I am copying this letter to John Gieve (H.M. Treasury), Martin Stanley (Department of Trade and Industry) and Eamonn Taylor (Overseas Development Administration).

C. D. POWELL

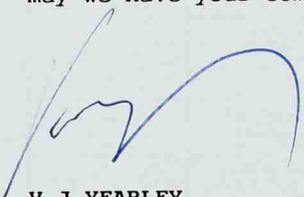
Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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MR POWELL

You will recall that we have had a bid from Alexander Liutyi, Pravda's London correspondent, for a response from the PM to a series of questions on UK/Soviet relations.

I attach the original letter, plus first draft answers from FCO; may we have your comments please.



V J YEARLEY
Press Office

WJY

Alexander G. Liutyi
London Correspondent

22, Cottesmore Court,
Stanford Road,
London W 8.

Telephone:
071 937 0561

Dear Sir,

First and foremost I would like to thank you for the two wonderful opportunities to visit Downing Street, 10 and cover meetings of the Prime Minister with the Soviet schoolchildren.

My present request is as follows.

Mrs Thatcher's speech in Aspen, Colorado, was warmly received in the Soviet Union and aroused a lot of interest among Soviet readers including myself. It is only natural therefore that I as a Pravda correspondent in London am anxious to receive a bit wider explanation and elaboration on some of the major points of the speech.

I would like to write a letter to the Prime Minister - or do it through you - and put just a few questions. I would greatly appreciate if they could be answered in written or oral form - whatever suits the Prime Minister.

The questions centre on her vision of Europe as a community comprising in future not only western european but also eastern european countries.

For example:

- Does this formula envisage accepting at some point in future the Soviet Union into the European Community. And if so on what conditions.

- It is extremely interesting to know a bit more on the Prime Ministers's concept of helping the Soviet economy: why she is reluctant to give direct financial aid; whether she is ready to apply the know-how fund of expert consultations to the Soviet Union; how specifically she sees the problem of identifying a certain sector of the Soviet economy and putting it on the market basis; is there any movement yet on this subject and on the subject of inviting the Soviet Union to the next economic summit.

- It is also important and instructive to have some elaboration on the new european Magna Carta and on the necessity of moving away from inward-looking blocs.

I am very well aware how busy the Prime Minister is. Still I would appreciate very much your help in arranging these answers.

Yours sincerely

Alexander Liutyi, Pravda correspondent
in the UK

22/08/90

QUESTION 1: EC MEMBERSHIP FOR USSR?

The British Government attach great importance to strengthening cooperation with the Soviet Union. This also applies to relations between the European Community and the Soviet Union. We welcomed the signature last December of the EC-USSR Agreement on trade and commercial and economic cooperation and are urging the Commission to make maximum use of the major opportunities opened up by it.

As for the countries of Eastern Europe, it is clear to me that the EC should stand by the commitment in the Treaty of Rome and remain open to their eventual accession to the EC. But much will depend on how quickly individual countries are able to complete their political evolution and introduce the reforms needed to enable their economies to sustain the burdens of membership. In most cases, this is some way off; but we shall certainly be supportive when the time comes, if they choose to apply.

The case of the Soviet Union is different. The sheer size of the Soviet Union would rule out membership of the EC as it is presently defined. But there are other ways in which the Soviet Union can draw closer to the EC as it implements thorough-going political and economic reform: the EC Trade and Cooperation Agreement is only the first step. This should, in time, be expanded to create an equal partnership between the Soviet Union and the EC.

QUESTION 2: HELP FOR THE SOVIET ECONOMY

As I made clear at Aspen I am in no doubt about the importance of the Soviet Union moving ahead successfully with economic reform. We would like to see the Soviet Union develop into a stable and prosperous economy which takes its place in the international economic community. I know that the leaders of other Western nations agree with us: that is reflected in the decisions, taken by the European Council at Dublin and at the Economic Summit in Houston, to study the problems facing the Soviet economy, and to consider ways in which the West can best help the reform process.

I do not believe that the answer is major financial aid. As the Soviet leadership are well aware, the Soviet Union's economic difficulties do not stem from any shortage of resources, but from inefficiencies in management, in distribution, and in the allocation of resources. That is why I believe we can best offer know-how, expertise, and experience. I look forward to the results of the two studies which are under way.

QAAAAU

QUESTION 3: EUROPEAN MAGNA CARTA

This autumn's East-West Summit in Paris offers us a unique opportunity to mould the future of Europe. I want this meeting to agree a historic document which would guarantee those freedoms which we now all consider as central to the true enjoyment of liberty. We should underline the basic rights of the individual citizen - his right to voice his own opinions, to worship freely, to maintain his own sense of national identity, and to buy, sell and produce without undue interference.

We should see these individual rights within constitutional systems which guarantee genuinely free and fair elections and a legal system independent of political pressures. I want the Summit declaration to underscore these principles.

I agree that we must look to a future Europe free from the tensions and conflicts which have bedevilled relations in the past. I see the CSCE process as making an increasingly important contribution to achieving this goal: CSCE is the only forum which brings together the Soviet Union and the North American democracies, as well as all the countries of Europe, on an equal footing. It offers unparalleled scope for constructive discussion of the sort of Europe we wish to see. This is why I have suggested that the Paris Summit should mark the beginning of a new era in which political consultations among all 35 CSCE nations will be the norm, not the exception.

(2)



10 DOWNING STREET

Prime Minister

You may like

to see these

two very

interesting papers by

Chris Donnelly,

which he has ^{sent}

sent me.

(He is David Hart's
main source).

CDP:z/p

DE L'ATLANTIQUE NORD



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NOTES FOR POLITICAL COMMITTEE

CURRENT POLITICAL OPINIONS AND ATTITUDES IN THE USSR

1. There seem to me to be three important political groupings in the USSR at the moment:
 - (a) The conservatives, who break down into:
 - (i) Party traditionalists - important because they provide bureaucratic inertia; and
 - (ii) Nationalists - a growing and vociferous group.
 - (b) The 'reform communists' - led by Gorbachev. Architects of the current reform programme; and
 - (c) The radicals, who take an anti-communist line. Led by Yeltsin, with Popov and Sobchak (Mayors of Moscow and Leningrad) as key players.

2. The general consensus of these groupings (with the exception of Party traditionalists, who act as a brake), is that:
 - (a) The USSR will decommunize rapidly and adopt a market economy; and
 - (b) Russia must be rebuilt as a great power.

NB: I have no confidence that any of the senior advisers in each group really have an understanding of what a 'market economy' means.

3. The current debate between the groups centres around:
 - (a) The shape of a post-communist USSR;
 - (b) The speed and extent of reform;
 - (c) What role the 'reform communists' should play;
 - (d) The relationship of Russia to the other national republics of the USSR.

4. The radical grouping hold that the only way ahead is to 'grasp the nettle', viz:
 - (a) The non-Russian nationalities must be allowed to choose their own path immediately.
 - (b) There should be immediate progress towards a convertible currency and a market economy.

-2-

- (c) A fully democratic political process must be achieved quickly.

The radical grouping does not see any significant role for the reform Communists in the post-Communist political establishment in the USSR.

5. The 'reform communist' grouping wants a gradual reform process. They:

- (a) Accept the ultimate inevitability of redrawing the relationship between Moscow and the non-Russian republics, but:

(i) Wish to move slowly and gracefully so as to avoid conflict;

(ii) Think that there will be various levels of relationship and that some republics will wish to be closer to Moscow than others;

- (iii) Include the Ukraine and Belorussia as Russian;

(iv) Fear that the large Russian population in non-Russian areas, and border disputes between the republics, may so complicate this process of separation that it will be impossible to accomplish peacefully;

- (b) Fear that rapid introduction of a market economy will cause national revolt;

- (c) Hope to introduce democracy gradually and in a limited way, and to play a leading role in the running of the post-communist USSR.

6. The conservatives are really two groups:

- (a) The Party conservatives are demoralized and, with the exception of some truly committed ideologists for whom the current reforms are pure heresy, they seem to play a passive role, albeit important. They will dominate the bureaucracy and have a lot of power to slow down the course of reforms and sometimes to thwart the efforts of the leadership altogether.

- (b) The nationalist conservatives, whilst unlikely to take power in a future government, are very vocal, and their influence is growing in Slav areas because they express deeply-held Slav - and especially Russian - values. These values are, at least in part, held by many Russians otherwise belonging to different political groups. These views are as follows:

-2-

-3-

- (i) They have a very robust attitude to non-Slav nationality problems, and hold that the current problems are caused by lack of discipline. However, as their commitment is to a revival of Russian/Slav values and fortunes, they could accept the loss of non-Russian areas if this became inevitable;
- (ii) They are concerned to see economic recovery, and are therefore prepared to accept a move towards a market economy, but fear the adoption of economic institutions which do not fit with Russian tradition;
- (c) The nationalists were prepared to support the CPSU as long as that had popular credibility as serving Russian interests. As the CPSU loses credibility, the nationalists will abandon it in favour of other institutions which reflect Russian needs;
- (d) ~~The nationalist conservatives have a concept of a new international order as follows: there is an ongoing struggle of civilizations and their organizing principles. This sees Western societies as gregarious, cosmopolitan and multi-ethnic. They are opposed by civilizations which are homogeneous, self-directed (even if market economy) and monolithic.~~

The most current example used has been that of China/Japan vs USA in the Pacific.

This is a cultural conflict, and is the product of traditional Slavic thinking, reflecting the Slav-Western debates of the 19th Century.

Russia, in this view, is not a Western nation.

7. This dichotomy goes some way towards explaining the contradictions in Soviet foreign relations. ~~Conservatives~~ playing the 'Westernizing' game, of the attempt to go the multi-national path of the UN, common and collective security, etc., in the Gulf crisis.

~~The conservative view is to find strength and influence in developing national institutions.~~

11 In the view of the Soviet conservative nationalists, the Soviet Army is the main repository today of Russian nationalist ideas. The Church is also important. Recent developments in Army-Church relations are evidence of this.

8. The Soviet military is not uniform in its opinions. There are the major divisions:

-3-

-4-

- (a) There are very few military supporters of the reform communist wing;
- (b) There is widespread but rapidly falling military support for traditional communism;
- (c) There is substantial and growing support in the lower officer ranks for the radical cause;
- (d) There is an influential mid-level group of officers calling for radical military reform but not political reform;
- (e) The overwhelming bulk of senior officers support the conservative nationalist cause;
- (f) There is a strong element of Russian nationalism even amongst military supporters of other political positions.
- (g) The General Staff has an inherent fear of radical political and economic reform. This is because the introduction of a liberal democracy and a market economy would remove the basis of current Soviet military control of industry and mobilization potential. This has always been seen as their greatest advantage over liberal democracies in war-fighting terms; it has been the major offset to compensate for Western overall technological and economic superiority.

NOTES FOR POLITICAL COMMITTEE

SOVIET POLICY IN THE CURRENT GULF CRISIS

1. There is a vast gulf between the foreign policy views of the bulk of the senior officer corps and the Soviet leadership (Gorbachev and Shevardnadze).
2. In the build-up to the current crisis, the Soviet leadership has been preoccupied with domestic concerns, viz: the CPSU Congress et al; the economic crisis; and the nationalities issue. This has distracted Gorbachev and Shevardnadze from the developing Middle Eastern crisis, and the ~~running of~~ relations with Saddam Hussein has been left to initiative of minor Foreign Ministry officials. These men may not have appreciated the significance of political developments, which consequently probably went unnoticed until Saddam Hussein took the initiative into his own hands and invaded Kuwait.
3. High-level lack of interest and an inability to recognize the international implications of what was happening until it was too late also left the way open for the Soviet military to conduct their own policy towards Iraq. The Soviet Armed Forces has had a very high level of commitment to Iraq for a long time - over 2,000 advisers in recent years. The current Military Advisory Group (said to be ~~just~~ under 200 strong) is led by General A. Bannikov, an extremely competent general staff officer. Given this fact, plus the fact that KGB and GRU advisers have been instrumental in setting up Iraq's intelligence organization and must be expected to have established a network of informers, it must be regarded as virtually certain that the Soviet General Staff would have known beforehand about the proposed invasion of Kuwait, even if their advisers had no hand in actually planning the operation. However, given the current differences of opinion that exist, it is ~~not~~ certain that this information would have been passed on to the Foreign Ministry.
4. If, as was reported recently in the press, Col. Gen. Sergei Makashov did indeed visit Iraq from 17 July to 18 August, this would be further confirmation of General Staff foreknowledge. The rapid and fervent decision, first by the Foreign Ministry and then by the MoD that this visit took place shows just how sensitive the leadership is to the suggestion⁽¹⁾.
5. Gorbachev's priorities are Soviet national survival and economic recovery. For the latter, he cannot do without Western support, and therefore he cannot afford to alienate the west by his attitude to the Gulf crisis.

-2-

However, Gorbachev has other factors to consider which seriously complicate the approach he must take to the Middle East crisis. The most important are: (a) loss of long-term Soviet influence in the Middle East; and (b) ethnic nationalist conflict in the southern USSR.

6. The US and allied action in the Gulf has alarmed Moscow on several counts:
- They were immensely impressed by the firm political will and military efficiency which brought about the rapid commitment of forces to the Gulf area. The Soviet military exercise in the Odessa area can be seen as a somewhat unconvincing attempt by the Soviet General Staff to demonstrate (to Gorbachev?) that they too could have made a similarly efficient move at short notice.
 - The Western position, if it is ultimately successful, threatens to replace Soviet influence in several Arab states, and to diminish Soviet influence in the region generally. To counteract this, it is important for the USSR to keep as many doors open as possible to Arab States. This would provide some of the basis for leaving military advisers in Iraq - so that if the crisis blows over, the USSR would have maintained its position of influence there.
 - Western military activity may spark off conflict which would create a long period of instability in the Middle East, and which would inflame the already tense situation prevailing in the USSR's southern states. At this point, the recent Armenian declaration of self-determination is very important because it claims the right to maintain a national Armenian army. This is nothing less than a resurgence of the national concept of 'Greater Armenia', bringing the Armenians not just into further conflict with their Shi-ite Arab neighbours, but also potentially with Turkey, whose borders include land which Soviet Armenians consider to be Armenian.

The fact that US aircraft based in Turkey might be used in a conflict with Iraq, with the potential for retaliation on Turkish soil, adds, in Soviet eyes, to the potential for serious escalation in event of conflict.

7. A further complicating factor, from Gorbachev's point of view, is the presence of Pakistani forces in the Gulf. Given the Soviet view that Indo-Pakistan conflict over Kashmir is very likely and indeed imminent, and that the Soviet Union's firm ties to support India, it would have serious implications for Soviet-Pakistan relations in a full-scale Gulf conflict.

-3-

8. The unstable situation of the western position in the Gulf also gives the Russians cause to worry. ~~Without any~~ West's ability to sustain the burden of an effective blockade for very long, and point to the extreme political pressures in the West - especially the US - which might push the US forces and their allies to rapid escalation of the crisis, if only out of frustration.
9. Furthermore, the Soviets are particularly afraid of being involved in a hostage crisis which allows the Arab world to equate them with Westerners. Much of their influence in the Arab world is based on their claim that they are not to be identified with the 'Great Satan' of the USA or its Western allies, but are somehow different.

If they find themselves in the same hostage boat as the UK and the US, this claim will be disproved, and this will have an adverse impact on Moscow's image not only in the Arab world but also among its own Muslim nationalities.

10. If ~~Arab leaders~~ ~~see~~ ~~US~~ ~~Western~~ ~~attack~~ ~~on~~ ~~Iraq~~ ~~by~~ ~~launching~~ a military offensive too, this will tend to compound the ~~Arab~~ ~~problem~~ very seriously. It would make much easier Saddam Hussein's task of convincing undecided Arab opinion that the Western intervention was essentially cause for a 'jihad'. Consequently, we should expect ~~the~~ ~~USA~~ ~~to~~ ~~discourage~~ ~~Israel~~ from any precipitated Western military action in the Gulf. Gorbachev is likely to try and get Soviet civilians evacuated from Iraq but to leave his military advisers (a) as hostages themselves; and (b) as a foot in the door for future political links.
11. Gorbachev would like to see Iraq leave Kuwait, but not at the expense of war. He wishes to avoid war at all possible, as this would be detrimental to his policy interests in all ways.
12. Consequently, we must expect Gorbachev to lean heavily on his 'international' ~~base~~, supporting action concerted by the UN, trying to tie the USA into an international network of agreements and collective authority which will at the same time:
- Resist US capability to profit by increasing its influence in the region at Soviet cost;
 - Limit the US freedom of action to legitimate supplies, thus keeping the situation predictable;
 - Deliver him of the charge of co-operating with the 'Great Satan' etc; or enabling Soviet forces to form part of a multi-national (including Arab) force.

Soviet support for enforcement of sanctions is not even an option. Abstinence from the voting at the UN would have the desired effect here.

13. In other words, Gorbachev is not playing a double game with the West, but trying to have his cake and eat it, i.e., keep friends with the west but keep his influence in Iraq. Attempts to keep Iraq as a neutral ally as an adviser as fulfilling their contracts also as seen as a gimmick to appeal to what the Soviets see as Western mercantile interests. Saddam Hussein's fear of Soviet reprisals (perhaps against him personally, in any case the crisis must have encouraged him to play along with the Russians to some degree on this point.

14. The Soviet military situation may up to now have been based on a different strategy. Firstly, their long-term plan with the Iraqis was not so easily broken. Secondly, the nationalist conservative intelligentsia could not be put off indefinitely. Thirdly, precipitation of US military action in the Gulf would support their case that Gorbachev had misled them and the USA is not a reliable partner. Fourthly, the control of oil enables the Soviet Armed Forces to obtain the arms reductions which they desire. It has indeed been made in a recent leading article in the Daily paper 'The Red Star'.

15. However, there is no reason why the Soviet Army should be reluctant to co-operate with the West in their tactical changes, and if the collaboration is attainable which is what national UN efforts involving other Arab States imply, that the Armed Forces have been playing their own game. It would now does not mean to say that they will not be allowed to do so, with impunity, that they have not been forced to take charge of the situation.

16. If the USSR vetoes the enforcement of sanctions at the UN it would be a strong indication of US weakness. It would be a general publicist problem as was vis-a-vis the military. However, this seems to be the event to watch.

[Handwritten signature and scribbles]

ENDNOTE:

1.

The main problem... Alexander... civil... policy... Voice... one... Haddock... of... offensive... in... March...

... of the... leadership...

R2618

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3. High-level lack of interest and an inability to recognize the international implications of what was happening until it was too late also left the way open for the Soviet military to conduct their own policy towards Iraq. The Soviet Armed Forces has had a very high level of commitment to Iraq for a long time - over 2,000 advisers in recent years. The current Military Advisory Group (said to be just under 200-strong) is led by General A. Bannikov, an extremely competent General Staff officer. Given this fact, plus the fact that KGB and GRU advisers have been instrumental in setting up Iraqi's intelligence organization and must be expected to have established a network of informers, it must be regarded as virtually certain that the Soviet General Staff would have known beforehand about the proposed invasion of Kuwait, even if their advisers had no hand in actually planning the operation. However, given the current differences of opinion that exist, it is by no means certain that this information would have been passed on to the Foreign Ministry.
4. If, as was reported recently in the press, Colonel Albert Makashov did indeed visit Iraq from 17 July to 13 August, this would be further confirmation of General Staff foreknowledge. The rapid and fervent denial, first by the Foreign Ministry and then by the MoD that this visit took place shows just how sensitive the leadership is to the suggestion⁽¹⁾.
5. Gorbachev's priorities are Soviet national survival and economic recovery. For the latter, he cannot do without Western support, and therefore he cannot afford to alienate the West by his attitude to the Gulf crisis.

-2-

However, Gorbachev has other factors to consider which seriously complicate the approach he must take to the Middle East crisis. The most important are: (a) loss of long-term Soviet influence in the Middle East; and (b) ethnic nationalist conflict in the southern USSR.

6. The US and allied action in the Gulf has alarmed Moscow on several counts:

- (a) They were immensely impressed by the firm political will and military efficiency which brought about the rapid commitment of forces to the Gulf area. The Soviet military exercise in the Odessa area can be seen as a somewhat unconvincing attempt by the Soviet General Staff to demonstrate (to Gorbachev?) that they too could have made a similarly efficient move at short notice;
- (b) The Western action if it is ultimately successful, threatens to replace Soviet influence in several Gulf states, and to diminish Soviet influence in the region generally. To counteract this, it is important for the USSR to keep as many doors open as possible to Arab States. This would provide some of the basis for leaving military advisers in Iraq - so that if the crisis blows over, the USSR would have maintained its position of influence there.
- (c) Western military activity may spark off conflict which would create a long period of instability in the Middle East, and which would inflame the already tense situation prevailing in the USSR's southern states. On this point, the recent Armenian declaration of self-determination is very important because it claims the right to maintain a national Armenian army. This is nothing less than a resurgence of the national concept of 'Greater Armenia', bringing the Armenians not just into further conflict with their Shi-ite Azeri neighbours, but also potentially with Turkey, whose borders include land which Soviet Armenians consider to be Armenian.

The fact that US aircraft based in Turkey might be used in a conflict with Iraq, with the potential for retaliation on to Turkish soil, adds, in Soviet eyes, to the potential for serious escalation in event of conflict.

7. A further complicating factor, from Gorbachev's point of view, is the presence of Pakistani forces in the Gulf. Given the Soviet view that Indo-Pakistan conflict over Kashmir is very likely and indeed imminent, and given the Soviet Union's firm ties to support India, it would make Soviet-Pakistani relations in a Gulf conflict very awkward.

-2-

-3-

8. The unstable situation of the western position in the Gulf also gives the Russians cause to worry. ~~They doubt the West's ability to sustain the burden of an effective blockade for very long, and point to the extreme political pressures in the West - especially the US - which might push the US forces and their allies to rapid escalation of the crisis, if only out of frustration.~~
9. ~~Furthermore, the Soviets are particularly afraid of being involved in a hostage crisis, which allows the Arab world to equate them with westerners. Much of their influence in the Arab world is based on their claim that they are not to be identified with the 'Great Satan' of the USA or its Western allies, but are somehow different.~~

If they find themselves in the same hostage boat as the UK and the US, this claim will be disproved, and this will have an adverse impact on Moscow's image not only in the Arab world but also among its own Muslim nationalities.

10. ~~If Israel decides to a US/Western attack on Iraq by launching a military offensive too, this will tend to compound the Arab problem very seriously. It would make much easier Saddam Hussein's task of convincing undecided Arab opinion that the Western intervention was essentially caused for a 'Jihad'. Consequently, we should expect the US to distance itself from any precipitated Western military action in the Arab world. Gorbachev is likely to try and get Soviet civilians evacuated from Iraq but to leave his military advisers (a) as hostages themselves; and (b) as a foot in the door for future political links.~~
11. ~~Gorbachev would like to see Iraq leave Kuwait, but not at the expense of war. He wishes to avoid war at all possible, as this would be detrimental to his policy interests in all ways.~~
12. ~~Consequently, we must expect Gorbachev to lean heavily on his 'international' card, supporting action concerted by the UN, trying to tie the USA into an international network of agreements and collective authority which will at one and the same time:~~
- (a) Restrict US capability to profit by increasing its influence in the region at Soviet cost;
 - (b) Limit the US freedom of action to initiate conflict, thus keeping the situation predictable;
 - (c) Deliver him of the charge of co-operating with the Great Satan et al by enabling Soviet forces to act as part of a multi-national (including Arab) armed forces.

-3-

Soviet support for enforcement of sanctions - or even abstention from the voting at the UN would have the desired effect here.

- 13. In other words, Gorbachev is not playing a 'double game' with the West, but trying to 'have his cake and eat it too' i.e. keep friends with the West but keep his influence in Iraq. Attempts to pass off the withdrawal of military advisers as 'fulfilling their contracts' must be seen as a gimmick to appeal to what the Soviets see as Western mercantile attitudes. Saddam Hussein's fear of Soviet reprisals (perhaps against him personally) in any hostage crisis must have encouraged him to play along with the Russians to some degree on this point.
- 14. The Soviet military's action may up to now have been based on different criteria. Firstly, their long term links with the Iraqis are not so easily broken. Secondly, the nationalist-conservative ideology sees a "colourful" crisis as being in the long run inevitable, and not to be put off indefinitely. Thirdly, precipitation US military action in the Gulf would support that case that Gorbachev has misled them and the USA is not a suitable partner. Fourthly, any conflict will enable the Soviet Armed Forces to claim that arms reductions would be essential. This case has indeed been made in a recent leading article in the Army daily paper 'The Red Star'.
- 15. However, there is no reason why the Soviet Army should be too reluctant to co-operate with the West if these factors change, and if the collaboration is strictly seen as being a multi-national UN effort involving other Arab nations. The fact that the Armed Forces have been playing their own game up until now does not mean to say that they will continue to be allowed to do so, with impunity, now that Gorbachev has been forced to take charge of the situation.
- 16. If the USSR vetoes the enforcement of blockade within the UN it would be a strong indication of just how weak Gorbachev's internal political position was vis-à-vis the military. However, this seems at the moment to be unlikely.

Handwritten signature or initials, possibly 'M', with a long horizontal stroke extending to the left and a vertical stroke extending upwards.

-5-

ENDNOTE:

1. The main proponent for the extreme nationalist cause is Alexander Yakovlev. He is widely published in military and civil journals, and his comments on domestic and foreign policy affairs. Col. Gen. Albert Makashov, Commander of the 1st Guards Military District, is another extreme nationalist. Makashov is very popular in the Soviet Armed Forces and is very competent. He commanded an Army in the Group of Soviet Forces in East Germany (designated for high-speed offensive operations) and replaced Gamsarov in the Caucasus in 1988 when the former's policy of negotiation had failed. Makashov applied a much firmer concept of control.

Makashov has been outspoken in his criticism of the current Soviet leadership as "letting the country go".

-5-

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me

all

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 August 1990

Dear Sir,

VISITS BY BALTIC MINISTERS

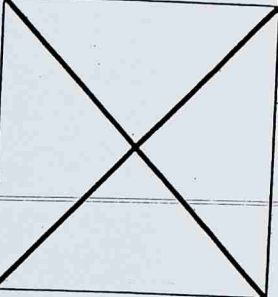
Thank you for your letter of 21 August about possible visits by the President of Lithuania and the Prime Minister of Latvia. The Prime Minister would in principle be willing to see them.

CHARLES POWELL

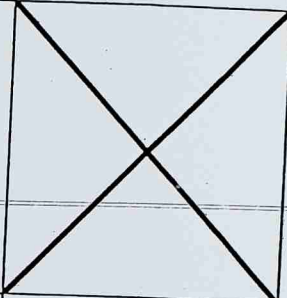
Simon Gass, Esq.,
Foreign and Commonwealth Office

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INFO ROUTINE UKDEL NATO, ACTOR

INFO SAVING OTHER CSCE POSTS, TOKYO, PEKING, UKMIS NEW YORK

MIPT: GORBACHEV'S SPEECH TO THE MILITARY, 17 AUGUST: INTERNAL ASPECTS

SUMMARY

1. DEFENCE OF 'SOCIALIST PERESTROIKA' AGAINST ATTACKS FROM BOTH TRADITIONALISTS AND ANTI-SOCIALISTS. MAIN FOCUS OF EFFORT CURRENTLY ON TRANSFER OF ECONOMY TO A REGULATED MARKET. OWNERSHIP A KEY ISSUE. COMMITMENT TO POLITICAL FREEDOMS. NEW UNION TREATY TO BE CONCLUDED BY END OF 1990: UNDEMOCRATIC CALLS FOR SECESSION WERE HAMPERING THE PROCESS. ISOLATIONISM RAN AGAINST GLOBAL TENDENCIES AND ANY RATIONAL ASSESSMENT OF THE INTERESTS OF THE SOVIET PEOPLE.

DETAIL

GORBACHEV SAID THE COUNTRY WAS ON THE THRESHOLD OF FUNDAMENTAL ECONOMIC CHANGES. THE PREPARATORY PHASE OF PERESTROIKA WAS NOW OVER, AND A NEW PHASE OF DECISIVE CHANGES WAS BEGINNING. CONSERVATIVE FORCES HAD ATTEMPTED TO FRIGHTEN THE PEOPLE BY SUGGESTING THAT THE TRANSFER TO A REGULATED MARKET WOULD MEAN A MOVE AWAY FROM SOCIALISM AND A LOWERING OF LIVING STANDARDS. BUT THEIR MOTIVES WERE TRANSPARENT: THEY WERE MAKING A LAST ATTEMPT TO PROLONG THE COMMAND-ADMINISTRATIVE SYSTEM SO AS TO PRESERVE THEIR OWN POSITIONS.

3. NO LESS DANGEROUS WERE ATTACKS ON PERESTROIKA FROM THOSE WHO SAID THAT THE NATURE OF THE ECONOMY WAS IRRELEVANT, AS LONG AS PEOPLE LIVED WELL. THIS WAS A SIMPLISTIC ATTEMPT TO DISCREDIT AND BURY SOCIALISM, AND TO CHANGE THE COURSE OF PERESTROIKA BY TAKING ADVANTAGE OF CURRENT DIFFICULTIES.

SOCIALISM

4. ATTACKS FROM BOTH SIDES WOULD INCREASE AS THE TRANSFORMATIONS BEGAN TO BE REALIZED. BUT FOR THE MAJORITY OF PEOPLE, PERESTROIKA MEANT THE REALIZATION OF THE SOCIALIST IDEA, THE RENEWAL OF SOCIALISM THROUGH FAR-REACHING ECONOMIC AND POLITICAL REFORM. THE AIM WAS TO

PROVIDE CONDITIONS FOR PEOPLE TO FULFIL THEIR HUMAN POTENTIAL. THE SOCIALIST IDEA ITSELF WAS NOT DEFEATED, ONLY THAT UTOPIAN LEFT-RADICAL WAR COMMUNISM, ULTIMATELY REJECTED BY LENIN, WHICH HAD FALSELY GIVEN ITSELF THE NAME OF SOCIALISM. ON THE BASIS OF SOVIET AND WORLD EXPERIENCE, SOCIALISM WAS NOW UNDERSTOOD TO BE A GREAT HUMANISTIC CONCEPT. IT WAS NOT A CLOSED, FIXED SYSTEM, BUT A MOVING PROCESS, THE BASIS OF WHICH LAY IN THE STRUGGLE FOR PEOPLES' RIGHTS AND ECONOMIC AND POLITICAL DEMOCRACY.

ECONOMY

5. THE CENTRE OF GRAVITY OF CURRENT WORK FOR THE REALIZATION OF SOCIALISM WAS THE ECONOMY. THE STATE MONOPOLY OF PROPERTY HAD BEEN THE MAIN REASON FOR THE CURRENT CRISIS AND THE DIFFICULTY OF FINDING A WAY OUT, IT WAS NOW CLEAR THAT ALL ATTEMPT TO CREATE A NORMAL MARKET ECONOMY, WHILE THE STATE PRESERVED ITS MONOPOLY ON OWNERSHIP, WERE DOOMED. PRIVATISATION AND THE LIQUIDATION OF THE MONOPOLY WERE PRIORITY TASKS. WORKER BUY-OUTS AND OTHER FORMS OF TRANSFERRING PROPERTY TO WORKERS-COOPERATIVES, LEASING ARRANGEMENTS, SOCIETIES OF SHAREHOLDERS - WOULD CREATE A SYSTEM WHERE ECONOMIC INTEREST AND INITIATIVE WERE PARAMOUNT, WHILST THOSE WHO WERE IN NEED WERE PROTECTED. SMALL AND MEDIUM-SIZED ENTERPRISES WOULD HAVE A SPECIAL PLACE. THESE CHANGES WOULD LEAD TO A 'BROAD ECONOMIC EXPANSE, A FULL-BLOODED MARKET, REGULATED BY A DEMOCRATIC STATE '. THEY HAD TO BE ACCOMPANIED BY IMMEDIATE TRANSFORMATIONS IN THE ECONOMIC INFRASTRUCTURE, ESPECIALLY BANKING, FINANCE AND TAX REFORMS.

6. THE MARKET WAS NOT SIMPLY A QUESTION OF LEGISLATION - IT DEMANDED HARD WORK, HIGH QUALIFICATIONS AND A CHANGE IN POPULAR CONCIUSNESS. SOVIET ENGINEERS AND MANAGERS LAGGED FAR BEHIND COUNTERPARTS IN DEVELOPED COUNTRIES. THE MARKET MEANT INITIATIVE, INVENTIVENESS - AND RISK. THE SOCIALIST CHOICE COULD ONLY BE REALIZED ON THE BASIS OF LABOUR, BY UNITING SOCIALISM WITH PEOPLES' SELF-INTEREST, AND OPENING OUT THE LABOUR POTENTIAL OF EACH PERSON.

7. THE COMING MONTHS WOULD SEE A MASSIVE AMOUNT OF WORK TO PREPARE FOR THE MARKET. SERIOUS MEASURES WOULD BE TAKEN TO STABILIZE THE CONSUMER MARKET.

POLITICAL

8. THE ENVISAGED SOCIALIST VARIANT MEANT 'SOCIALISM WITH FREEDOM'. THE DEMOCRATISATION OF POLITICAL AND SOCIAL STRUCTURES WOULD CREATE EQUAL OPPORTUNITIES FOR CITIZENS TO PARTICIPATE IN STATE AFFAIRS AT

ALL LEVELS. THE SOCIALIST NATURE OF POLICY, AND CONTROL OF THE ECONOMY, WOULD BE GUARANTEED BY FREE ELECTIONS TO ALL ORGANS OF POWER. THE BIRTH OF THE WORKERS' AND PEASANTS' MOVEMENTS WAS A FEATURE OF THE SOCIALIST, DEMOCRATIC CHARACTER OF PERESTROIKA. THESE PROCESSES WERE IN THEIR INFANCY, BUT WERE OF CRUCIAL IMPORTANCE.

THE UNION TREATY

9. THE FATE OF THE UNION WAS NO LESS A PREOCCUPATION. THE SOVIET UNION COULD NOT GO ON AS IT HAD EXISTED UNTIL NOW. BUT THAT WAS NO REASON FOR ITS DOWNFALL, OR FOR SEPARATISM: RATHER, IT SHOULD BE A STIMULUS FOR THE RECONSTRUCTION OF THE UNION ON NEW PRINCIPLES, IN THE PREPARATION OF THE NEW UNION TREATY, ALL OPINIONS AND INTERESTS WERE BEING TAKEN INTO ACCOUNT. BUT PROCESSES OF NATIONAL REBIRTH WERE NOT GOING AHEAD IN A CONSTRUCTIVE SPIRIT. NATIONAL TENSIONS WERE STILL RISING, AND THE SITUATION WAS BEING EXPLOITED. IT WAS WRONG TO SAY, AS SOME WERE DOING, THAT THERE WAS NO NEED TO HURRY FORWARD WORK ON THE NEW UNION TREATY. CENTRIFUGAL FORCES WERE CREATING A DEEP CRISIS. NATURALLY THE NEW UNION TREATY WOULD NOT IN ITSELF BE A SINGLE SOLUTION, BUT IT WOULD HAVE A CRUCIAL ROLE TO PLAY IN WHAT WOULD BE A LONG AND DIFFICULT PROCESS, IN THE CONTEXT OF DEMANDS FOR A NEW CONSTITUTION. ALL EFFORTS SHOULD THEREFORE BE MADE TO HAVE THE TREATY CONCLUDED BY THE END OF 1990. A MASSIVE AMOUNT OF WORK WAS BEING DONE TO DRAW UP A DRAFT WHICH WOULD BE FAIR, AND ACCEPTABLE TO ALL. THE COUNTRY'S POSITIVE HISTORICAL EXPERIENCE AS A MULTI-NATIONAL STATE WOULD PLAY A ROLE. ARTIFICIAL ATTEMPTS FORCIBLY TO CHANGE THE COUNTRY'S COMPLEX DEMOGRAPHIC STRUCTURE WOULD END IN A SEA OF TEARS AND BLOOD. IN THOSE REPUBLICS WHICH HAD DECLARED AN INTENTION TO SECEDE THERE HAD BEEN NO REFERENDUM. NO POLITICAL OR LEGAL GAMES WOULD BRING ABOUT THOSE PEOPLES' NATURAL SOVEREIGN RIGHTS.

10. IN THE DEVELOPMENT OF THE COUNTRY'S SINGLE ECONOMIC COMPLEX, THERE HAD NATURALLY BEEN MISTAKES AND DEFORMATIONS. BUT THE COUNTRY'S CONSTITUENT UNITS WERE CLOSELY INTERTWINED, AND ECONOMIC ISOLATIONISM WAS NO WAY OUT: IT WOULD RUN AGAINST CURRENT WORLD ECONOMIC TRENDS, ESPECIALLY THOSE IN EUROPE, AND WAS PROFOUNDLY MISCONCEIVED. FOREIGNERS COULD HARDLY UNDERSTAND WHY SOME OF THE REPUBLICS WERE TRYING TO WEAKEN AND BRING ABOUT THE DISINTEGRATION OF SUCH A GREAT WORLD POWER AS THE SOVIET UNION, NOR WHY THE COUNTRY APPEARED TO BE SHUNNING THE CREATION OF AN INTEGRATED COMMON MARKET.

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Foreign and Commonwealth Office

London SW1A 2AH

21 August 1990

Dear Charles

Prime Minister

Agree in principle

Visits by Baltic Ministers to see them,

The Lithuanians and Latvians have separately raised with us the idea of visits to the United Kingdom by the President of Lithuania and the Prime Minister of Latvia. President Landsbergis is apparently planning to attend a seminar on Lithuania in the House of Lords in the late autumn. Before making firm plans they are looking for reassurance that they will be received at a suitably high level. The Lithuanian representative in London has specifically asked whether Landsbergis might meet the Prime Minister as Mrs Prunskiene did when she was here in May. The Latvian approach was couched in more general terms.

subject to diary?
(wsp would need to warn Mr. Ambassador)
COP
22/8

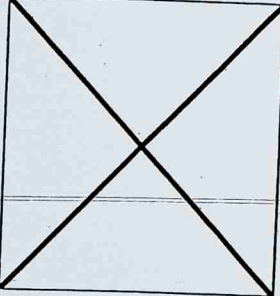
The Foreign Secretary believes that it would be worthwhile for the Prime Minister to see both Landsbergis and the Latvian Prime Minister. This would allow the Prime Minister to have at first hand an account of the position in the Baltic States. It would demonstrate our continuing interest in and support for Baltic aspirations. It might also give her the chance to offer the Balts some timely advice on their negotiations with the Russians. We would not of course want to be dragged into a mediatory role. But there is no-one better placed than the Prime Minister to speak frankly and helpfully to both sides.

If the Prime Minister were willing in principle to see the two Balts, I would write again when we have an indication of the likely timing of their visit.

[Signature]
(S. L. Gass)
Private Secretary

C D Powell Esq
10 Downing Street

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Secret

JR 1091

MR MORRIS

c Sir Robin Butler

Already in file
Prime Minister

As if Mr Gorbachev does not have enough troubles!

dm

SOVIET BALANCE OF PAYMENTS: CRISIS POINT

1. We have received a report of a worrying development in the Soviet Union's balance of payments (attached). It warns that the Bank for Foreign Trade (VEB), hitherto regarded as the guardian of Soviet creditworthiness and punctilious in meeting its obligations, has suspended all import and "currency" (presumably debt service) payments as of 14 August.
2. We assess the report to be credible on economic and political grounds; in particular, our review of the balance of payments developments in 1990 has identified a sharp deterioration in the first half of the year. Moscow will find it difficult to arrest or finance this in the second half of the year (notwithstanding the benefits the Iraq crisis might generate).
3. VEB's action is serious. When the news leaks it will precipitate a crisis of confidence among Moscow's creditors and trading partners. Trade will be disrupted; new credits will dry up and existing credit lines may be cancelled. This will complicate Soviet negotiations with the EC and IMF on the need for longer-term assistance. It will also complicate Gorbachev's efforts to reform the economy.
4. We shall assess the situation more fully on 21 August.

[Signature]
PERCY CRADOCK

17 August 1990

LEDGER

***SECRET**

• Add "TOP" if appropriate

CX Report

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- FCO - PUSD, SOVIET - MR R STAGG, ECONOMIC ADVISERS - JANE DARBY
- RESEARCH AND ANALYSIS DEPARTMENT - SOVIET - JANET GUNN
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CX 90/14306(R/SOV/TECH/2) OF 17 AUGUST 1990 (GTN 3501 EXT 522)

/REPORT NO...

PAGE TWO UK SECRET/DELICATE SOURCE/UK/US/AUS/CAN EYES ONLY
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REPORT NO: 90/14306 (R/SOV/TECH/2)

TITLE: USSR:
VEB SUSPENDS ALL CURRENCY PAYMENTS AND CREDIT
FOR IMPORTS

DATE OF INFORMATION: MID AUGUST 1990

SOURCE: A REGULAR AND RELIABLE SOURCE WITH GOOD ACCESS.

ON 14 AUGUST 1990 THE SOVIET BANK FOR FOREIGN ECONOMIC AFFAIRS (VEB) AGREED THAT, AS A CONSEQUENCE OF THE RESOLUTION OF THE PRESIDIUM OF THE RSFSR SUPREME SOVIET PASSED FIVE DAYS EARLIER, IT WOULD WITH IMMEDIATE EFFECT SUSPEND ALL CURRENCY PAYMENTS AND CREDIT FOR IMPORTS. THIS DECISION WOULD NOT BE ANNOUNCED PUBLICLY.

DESK COMMENT

1. THE 9 AUGUST RESOLUTION OF THE PRESIDIUM OF THE RSFSR SUPREME SOVIET STATED THAT ALL INTER-REPUBLICAN AND FOREIGN STRATEGIC RAW MATERIALS EXPORT AGREEMENTS CONCLUDED AFTER THE REPUBLIC'S SOVEREIGNTY DECLARATION IN JUNE WERE INVALID UNLESS THEY WERE APPROVED BY THE REPUBLICAN AUTHORITIES. THE STRATEGIC RAW MATERIALS AFFECTED BY THE RESOLUTION INCLUDE DIAMONDS, GOLD, PLATINUM, PRECIOUS STONES, OIL, GAS, COAL, URANIUM, FERROUS AND NON-FERROUS METALS, WOOD AND GRAIN PRODUCTS.

2. IT IS NOT CLEAR WHETHER THE VEB DECISION REPRESENTS A SURRENDER BY THE CENTRAL AUTHORITIES OR A DETERMINATION ON THEIR PART TO BRING TO A HEAD AND RESOLVE THE CRISIS.

BRITISH AUTHORITIES INFORMED: MOSCOW
INTELLIGENCE ALLIES INFORMED: AUSTRALIA (ASHS) CANADA (MACLO)
UNITED STATES (CIA LONDON)
GRS 00394
NNNN

JF 1091

MR MORRIS

c Sir Robin Butler

*Already
in file
Prime Minister*

*As if Mr Gorbachev does
not have enough troubles!*

SOVIET BALANCE OF PAYMENTS: CRISIS POINT

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4. We shall assess the situation more fully on 21 August.

Per
PERCY CRADOCK

17 August 1990

LEDOER

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REQUIREMENTS: 1RU1E9

TO: BANK OF ENGLAND - MR T WILSON-WHITE OR MR N JAGGERS
DEPT OF TRADE AND INDUSTRY - MR M MCKINNON
FCO - PUSD, SOVIET - MR R STAGG, ECONOMIC ADVISERS -
JANE DARBY
RESEARCH AND ANALYSIS DEPARTMENT - SOVIET - JANET GUNN
MOD DI(WP)ECON - MR C YOUNGER
CABINET OFFICE - JIC (ASSESSMENTS STAFF) - MR P SHORT
GCHO - (Z10A2)
AUSTRALIA - ASIS (SANITIZED VERSION)
CANADA - MACLO (SANITIZED VERSION)
UNITED STATES - CIA LONDON (SANITIZED VERSION)

CX 90/14306(R/SOV/TECH/2) OF 17 AUGUST 1990 (GTN 3501 EXT 522)

/REPORT NO...

PAGE TWO UK SECRET/DELICATE SOURCE/UK/US/AUS/CAN EYES ONLY
WASHINGTON ONLY/AXINE/OTTAWA ONLY/CANBERRA ONLY

REPORT NO: 90/14306 (R/30V/TECH/2)

TITLE: USSR:
VEB SUSPENDS ALL CURRENCY PAYMENTS AND CREDIT
FOR IMPORTS

DATE OF
INFORMATION: MID AUGUST 1990

SOURCE: A REGULAR AND RELIABLE SOURCE WITH GOOD ACCESS.

ON 14 AUGUST 1990 THE SOVIET BANK FOR FOREIGN ECONOMIC AFFAIRS (VEB) AGREED THAT, AS A CONSEQUENCE OF THE RESOLUTION OF THE PRESIDIUM OF THE RSFSR SUPREME SOVIET PASSED FIVE DAYS EARLIER, IT WOULD WITH IMMEDIATE EFFECT SUSPEND ALL CURRENCY PAYMENTS AND CREDIT FOR IMPORTS. THIS DECISION WOULD NOT BE ANNOUNCED PUBLICLY.

DESK COMMENT

1. THE 9 AUGUST RESOLUTION OF THE PRESIDIUM OF THE RSFSR SUPREME SOVIET STATED THAT ALL INTER-REPUBLICAN AND FOREIGN STRATEGIC RAW MATERIALS EXPORT AGREEMENTS CONCLUDED AFTER THE REPUBLIC'S SOVEREIGNTY DECLARATION IN JUNE WERE INVALID UNLESS THEY WERE APPROVED BY THE REPUBLICAN AUTHORITIES. THE STRATEGIC RAW MATERIALS AFFECTED BY THE RESOLUTION INCLUDE DIAMONDS, GOLD, PLATINUM, PRECIOUS STONES, OIL, GAS, COAL, URANIUM, FERROUS AND NON-FERROUS METALS, WOOD AND GRAIN PRODUCTS.

2. IT IS NOT CLEAR WHETHER THE VEB DECISION REPRESENTS A SURRENDER BY THE CENTRAL AUTHORITIES OR A DETERMINATION ON THEIR PART TO BRING TO A HEAD AND RESOLVE THE CRISIS.

BRITISH AUTHORITIES INFORMED: MOSCOW
INTELLIGENCE ALLIES INFORMED: AUSTRALIA (ASIS) CANADA (IACLO)
UNITED STATES (CIA LONDON)
GRS 00394
NNNN



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

14 August 1990

Dear Chairman Ryzhkov

Thank you for your letter of 3 August, which your Finance Minister, Mr Pavlov delivered to Mr Maude, Financial Secretary to the Treasury, during his visit to London on 7 August.

We shall of course consider your request for urgent financial assistance very carefully. With Mr Pavlov's agreement, we have already started to discuss it with officials at the International Monetary Fund. It is particularly useful that the Fund's latest mission left for Moscow on 13 August. I understand that one of their priorities will be to discuss your immediate payments position with your officials. This will give us a better understanding of the figures, and may avoid the need for us to send a separate mission of our own to Moscow. We shall also need time to discuss your request with some of our friends in other governments, to whom you have sent similar requests. I shall reply to your letter in more detail as soon as these consultations are complete.

Yours sincerely
Nagant Shalita

His Excellency Mr Nikolai Ivanovich Ryzhkov



faxed 14/8

10 DOWNING STREET
LONDON SW1A 2AA

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14 August 1990

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Yours sincerely
Margaret Thatcher

His Excellency Mr Nikolai Ivanovich Ryzhkov

CONFIDENTIAL

FILE

?



to PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 August 1990

Dear Kate,

SOVIET REQUEST FOR BRITISH FINANCIAL ASSISTANCE

Thank you for your letter of 13 August covering a draft reply from the Prime Minister to Mr Ryzhkov's recent letter. The Prime Minister is content for the message to issue in her name. You will wish to adjust the third sentence of paragraph two appropriately. There will be no signed original.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), Martin Stanley (Department of Trade and Industry) and Paul Tucker (Bank of England).

Yours sincerely,

CHARLES POWELL

Ms Kate Gaseltine
HM Treasury

CONFIDENTIAL

Handwritten mark

CCPC



Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

13 August 1990

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

~~Prime Minister~~

Agree to

send proposed
Reply

CD 13/0

Dear Charles

SOVIET REQUEST FOR BRITISH FINANCIAL ASSISTANCE

With his letter of 7 August ^{has} to Charles Powell, Steven Flanagan forwarded Mr Ryzhkov's letter to the Prime Minister which was delivered to the Financial Secretary by the Soviet Finance Minister earlier that day.

We have since checked with the IMF and with Bonn, Paris and Rome. It is clear that similar requests have been made to France and Italy; the FRG has of course already provided a very big DM5 billion loan with a Federal guarantee. We know that the United States has not been asked for help. We believe Japan has, though it seems unlikely that they would respond favourably. Surprisingly Korea is also believed to be considering help, possibly of a long term nature.

The present request seems rather different from the proposals for Western Financial support for economic reform, which led to the decisions of the Dublin and Houston summits to commission reports on the Soviet economy by the Commission and by the IMF, IBRD, OECD and EBRD. These two studies are now under way, but are aimed at medium term structural adjustment and the possible need for Western aid to support it.

By contrast the present request seems mainly prompted by Russian fears of an emerging short term liquidity crisis (though Ryzhkov's letter muddles the two up). As you know, payment delays to trade creditors, and arrears to banks, have been building up for some months, and are now beginning to affect guaranteed export credits as well. (The Head of ECGD, as the President of Berne Union of



export credit insurers, has just been to Moscow to press for clearance of arrears to official agencies.) At first, these delays seemed to be an accidental product of the decentralisation of foreign currency payments in the USSR. It is now beginning to look as though the problems could be more serious.

With Pavlov's permission, we discussed the Soviet request with Alan Whittome of the IMF, who has been placed in charge of the Fund's study of the Soviet economy. He was in London on Friday at the end of a tour of European capitals, following his and Camdessus' visit to Moscow. His staff are leaving for Moscow again today.

His preliminary view is that "there is the smell of a liquidity crisis here". But he says that the balance of payments projections, and the USSR's hard-currency reserves, are very unclear. He hopes some progress can be made next week in sorting out the numbers. Our officials believe it would be much better to use the Fund team, who have a flying start, to do this, than to accept Ryzhkov's offer of bilateral talks among experts.

Unless the Fund report that a crisis (meaning a suspension of payments) is likely within the next two or three weeks, we then plan to review the Fund's figures with other G7 Finance Ministries at a meeting already set up for early September in Paris, to which the French have invited the IMF (we shall urge them to include the Commission too). After that we shall be in a better position to make recommendations.

Meanwhile, it would be right to send an interim reply to Ryzhkov's letter. (The Embassy here have already been fishing for our reactions.) I attach a possible draft.

...

I am sending copies of this letter and enclosure to Stephen Wall (FCO), Martin Stanley (DIT) and Paul Tucker (Bank of England).

Yours sincerely
Kate Gaseltine

MISS K GASELTINE
Assistant Private Secretary

DRAFT LETTER TO

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Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

*They want us
to loan them money
to pay for them
on income*

13 August 1990

Prime Minister

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Agree to

*and proposed
Reply*

*Agree
only
not*

Dear Charles

C of B/8

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Spence *lets*
not

CCP/

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(009)
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B/8



Treasury Chambers, Parliament Street, SW1P 3AG

071-270 3000

*They want us
to loan them money
but want to pay
our money*

13 August 1990

Prime Minister

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Agree to

*Agree
reply
not*

*held proposed
reply*

Dear Charles

CDF 13/8

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Yours sincerely
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MISS K GASELTINE
Assistant Private Secretary

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Ague *llls*
not

CONFIDENTIAL
FM MOSCOW
TO IMMEDIATE FCO
TELNO U/N
OF 100557Z AUGUST 90

INFO IMMEDIATE UKDEL IMF/IBRD, PARIS, BONN, WASHINGTON
INFO IMMEDIATE ROME, UKREP BRUSSELS

YOUR TELNOS 1399 AND 1400: SOVIET REQUEST FOR BRITISH FINANCIAL ASSISTANCE

GORBACHEV/ELTSIN

1. THE GORBACHEV/ELTSIN REFORM AGREEMENT FURTHER INCREASES THE CHANCES THAT THE SOVIET UNION OVER THE NEXT TWO YEARS WILL UNDERTAKE REAL MARKET REFORMS BASED ON ELTSIN'S '500 DAYS' PROGRAMME. IT ALSO INCREASES THE CHANCES THAT AT LEAST A MAJORITY OF THE 15 REPUBLICS WILL FOLLOW THE SAME REFORM PROGRAMME. BUT THERE IS STILL A LONG WAY TO GO. RELATIONS BETWEEN THE REPUBLICS AND THE CENTRE WILL COME UNDER RENEWED PRESSURE IN THE AUTUMN WHEN THE QUESTION OF THEIR CONTRIBUTION TO NEXT YEAR'S UNION BUDGET COMES UP FOR DISCUSSION. IT MAY WELL PROVE DIFFICULT TO GET SOME OF THE NECESSARY LEGISLATIVE UNDERPINNING FOR THE REFORM PROGRAMME THROUGH THE USSR SUPREME SOVIET. THE PICTURE WILL BE CLEARER BY OCTOBER WHEN THE EC COMMISSION TEAM ARE DUE TO REPORT. BUT A COMPREHENSIVE ASSESSMENT OF THE CHANCES FOR SUCCESS MAY NOT BE POSSIBLE UNTIL THE END OF THE YEAR. THE AUTUMN SESSION OF THE SUPREME SOVIET WILL ALSO HAVE TO GRAPPLE WITH THE COMPLEX AND HIGHLY CONTROVERSIAL ISSUE OF THE NEW UNION TREATY: MUCH OF THE REFORM LEGISLATION THEREFORE MAY NOT GET THROUGH THE SUPREME SOVIET UNTIL NOVEMBER/DECEMBER.

2. DETAILS OF THE '500 DAYS' PROGRAMME - WHICH IS NOW LIKELY TO FORM THE BASIS OF REFORM PLANS - WERE SET OUT IN OUR TELNOS 1276 AND 1277 OF 12 JULY. THE LIKELY TIMETABLE IS FOR A START TO BE MADE WITH PRIVATISATION AND DISMANTLING MINISTERIAL MONOPOLIES THIS YEAR, WITH THE REALLY PAINFUL PARTS OF THE REFORM PROCESS - CLOSING OF INEFFICIENT ENTERPRISES, PRICE REFORM, ETC - BEGINNING IN EARNEST FROM MID-1991. FINANCIAL ASSISTANCE DESIGNED TO ASSIST THE ACTUAL PROCESS OF REFORM THEREFORE IS LIKELY TO BE PREMATURE IF OFFERED MUCH BEFORE THIS DATE. THE POSITION NOW REMAINS AS IT WAS IN THE RUN UP TO THE DUBLIN AND HOUSTON SUMMITS: IE THAT THE SOVIET ECONOMY IS NOT YET IN A POSITION EFFICIENTLY TO ABSORB WESTERN ASSISTANCE. A SOVIET TRADE OFFICIAL TOLD US RECENTLY THAT THE USSR HAD OVER POUNDS 1.5 BILLION WORTH OF UNINSTALLED FOREIGN EQUIPMENT IN THE CHEMICAL SECTOR

*If this is to keep our
own businesses going then
at this time it would be wise
to consider it.
On the other hand there would be a
suffer from large sanctions not*

ALONE. IF ANYTHING INCREASED REPUBLIC ASSERTIVENESS IS MAKING THE SITUATION EVEN MORE UNCERTAIN : VIZ THE RECENT DISPUTE OVER CONTROL OF BANKS.

3. WE APPRECIATE THAT THERE IS AN IMPORTANT DISTINCTION BETWEEN THE HOUSTON DISCUSSION/IMF AND EC EXERCISES AND RZYHKOV'S REQUEST FOR IMMEDIATE FINANCIAL ASSISTANCE. AS SEEN FROM HERE, THE CASE FOR A POSITIVE RESPONSE TO THE LATTER RESTS ON:

(A) THE ASSUMPTION THAT, WITHOUT IT, THE SOVIET UNION WILL NOT HAVE SUFFICIENT BREATHING SPACE TO PREPARE THE REFORMS:

(B) THAT WITHOUT ASSISTANCE THE USSR WILL BE FORCED TO REQUEST FORMAL TALKS ON DEBT RESCHEDULING: (THERE WAS SOME SPECULATION IN THE WESTERN PRESS RECENTLY ON THIS SUBJECT FOLLOWING SOME HINTS IN A GORBACHEV SPEECH):

(C) THE BILATERAL CASE FOR INCREASING TRADE AND BALING OUT UK COMPANIES.

4. YOU WILL HAVE BEEN LOOKING AT THE ARGUMENTS FOR AND AGAINST THESE PROPOSITIONS IN THE RUN-UP TO DUBLIN AND HOUSTON. OUR CONTACTS SUGGEST THAT MANY SOVIET ECONOMISTS OPPOSE THE IDEA OF UNITED FINANCIAL ASSISTANCE. THEY ARE AWARE OF THE POLISH PRECEDENT AND BELIEVE THAT SUCH ASSISTANCE WOULD INCREASE THE DEBT BURDEN BUT DO NOTHING TO RESTORE THE COUNTRY'S DEEP SEATED ECONOMIC PROBLEMS.

5. WE FIND IT DIFFICULT TO JUDGE THE REAL SERIOUSNESS OF THE SOVIET SHORT-TERM BALANCE OF PAYMENTS PROBLEM. IN THE PAST FEW WEEKS THEIR PUBLIC STATEMENTS SUGGEST INCREASING ANXIETY. GORBACHEV, RYZHKOV AND OTHERS HAVE ON MORE THAN ONE OCCASION, SAID, A PROPOS OF THIS YEAR'S HARVEST, THAT THE SOVIET UNION HAS NO MONEY FOR ANY ADDITIONAL GRAIN PURCHASES. SITARYAN, A DEPUTY CHAIRMAN OF THE USSR COUNCIL OF MINISTERS, SAID TWO WEEKS AGO THAT THE SOVIET UNION'S HARD CURRENCY DEBT TOTALLED 36 BILLION HARD ROUBLES (IE APPROXIMATELY POUNDS 36 MILLION). THE PREVIOUS HIGHEST FIGURE WE HAD SEEN A FEW MONTHS EARLIER WAS 34 BILLION ROUBLES. GERASHENKO, HEAD OF THE USSR STATE BANK, SAID AT A SEPARATE PRESS CONFERENCE THAT THE DEBT-SERVICE RATIO WAS WORSENING - HE DECLINED TO GIVE PRECISE FIGURES.

REACTIONS OF OTHER WESTERN COUNTRIES

6. APART FROM THE FRG'S DM5 BILLION LOAN AND REPORTED OFFERS FROM THE ITALIANS (WHICH INDICATIONS SUGGEST ARE ALSO TO BE TIED TO BILATERAL BUSINESS) WE HAVE BEEN TOLD BY A DANISH BUSINESSMAN THAT HIS GOVERNMENT IS CONSIDERING GUARANTEEING A POUNDS 60 MILLION LOAN TO ENABLE THE SOVIET GOVERNMENT TO SETTLE DEBTS WITH DANISH

COMPANIES. (THIS INFORMATION MAY OR MAY NOT BE ACCURATE IN DETAIL.)

LATEST POSITION ON INDEBTEDNESS TO THE UK

7. WE ARE IN TOUCH WITH OVER 30 COMPANIES WITH DEBT PROBLEMS TOTALLING APPROXIMATELY POUNDS 50 MILLION. ECGD IS IN TOUCH WITH A FURTHER GROUP OF COMPANIES. TOTAL UK DEBT MAY BE AROUND POUNDS 80 - 100 MILLION.

8. THESE DEBTS ARE CURRENTLY BEING PAID OFF AT A VERY SLOW RATE AND SEVERAL COMPANIES ARE FACING IMMINENT BANKRUPTCY. THE RYZHKOV PROPOSAL COULD BE SEEN AS A REQUEST TO CONVERT THESE PRIVATE OUTSTANDINGS TO STATE DEBT AND, IN A SENSE, THEREFORE, TO RESCHEDULE IT.

KNOW-HOW FUND

9. IF THE SUBSTANTIVE RESPONSE TO RYZHKOV IS TO BE NEGATIVE, WE ASSUME THAT EVERYTHING POSSIBLE WILL BE DONE TO COUCH THIS IN AS SUPPORTIVE LANGUAGE AS POSSIBLE. THIS COULD DRAW ON IDEAS FROM THE PARTNERSHIP PROGRAMME WORKED UP IN PREPARATION FOR THE PRIME MINISTER'S VISIT BUT NOT PURSUED AT THE TIME BECAUSE OF DOUBTS ABOUT THE FUTURE OF THE SOVIET UNION REFORM PROGRAMME. THIS COULD INCLUDE THE SORT OF IDEAS INCLUDED IN THE NON-PAPER LISTING AREAS IN WHICH THE US WOULD BE PREPARED TO OFFER TECHNICAL CO-OPERATION WHICH BAKER GAVE SHEVARDNADZE IN PARIS. THIS WOULD HAVE TO AVOID THE RISK OF PREEMPTING THE EVENTUAL UK RESPONSE TO THE RECOMMENDATIONS OF THE COMMISSION AND THE IMF.

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MAIN 125

MONETARY SOVIET D [-]

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CONFIDENTIAL



1990 (2)
Prime Minister
Re Enquiries
increasingly identifying
us as back-matters
on the question of
assistance.
7 August 1990
COP
SP

Treasury Chambers, Parliament Street, SW1P 3AG

C D Powell Esq
PS/Prime Minister
10 Downing Street
LONDON SW1A 2AA

Dear Charles,

SOVIET REQUEST FOR BILATERAL AID

Mr Pavlov, the Soviet Finance Minister, came to see the Financial Secretary this afternoon. He brought with him a letter from Mr Ryzhkov to the Prime Minister. This is attached along with an unofficial translation provided by the Soviet Embassy. Mr Mountfield of our Aid and Export Finance group was present, as was Mr Karasin of the Soviet Embassy.

Mr Pavlov stressed that the problem of foreign-currency payments was urgent. He said that the Soviet Union was co-operating with the teams drawing up reports for the IMF and the European Commission. There were bilateral contacts with Mr Kohl and the French government, although he could not report specific results yet. He felt he had to note a slowness in the British approach to Soviet requests for specific help. Despite press reports, Soviet external debt was actually decreasing. But the withdrawal of credits by British banks was creating severe problems. The Soviets were paying German companies with money from German banks guaranteed by the German government (this was a condition of the credit the Germans provided), and paying Italian companies with money from Italian sources. There would be difficulties paying British companies.

The Financial Secretary said that the UK was very closely associated with the position reached by the EC at Dublin and the G7 at Houston. We were not hostile to the idea of providing assistance, but wanted a thorough analysis done. So far as payments to UK companies went, an economy which wants foreign investment and foreign trade must be able to show that it will meet its debts.

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Mr Pavlov said that if British and other banks continued to withdraw deposits and credits, the Soviet government would have no choice but to introduce a moratorium on payments, even before the Commission and IMF teams had reported. It was not clear whether or not this implied a selective moratorium aimed at British creditors alone. He did not underestimate the political consequences, but the loss of around \$5 billion would be a serious blow even in better times (this seems to refer to the deterioration in the USSR current account between last year and this). He expected the Soviet leadership to discuss very soon a possible moratorium.

Mr Mountfield said that we had not realized that Soviet current account position was as bad as Mr Pavlov suggested. If we were to evaluate his request we would need to know:

- the latest Soviet forecast of the current account for this year and next;
- the effects of the oil price increase;
- what other finance was available;
- the position of individual Soviet banks;
- the state of the USSR's reserves, including gold.

Mr Pavlov said that, if the UK government was prepared to agree to the principle of assistance, he could provide a team of experts, or receive British officials in Moscow. As a preliminary step, he agreed that the Treasury could discuss these matters with the IMF team, who will be in London this week.

We will be able to provide advice for the Prime Minister after that meeting.

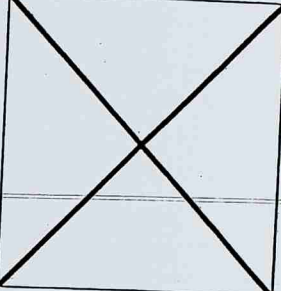

I am copying this letter to John Gieve in the Chancellor's office, Stephen Wall at the FCO, and to Clive Briaut at the Bank of England.

Yours sincerely,

S J FLANAGAN
Private Secretary

CONFIDENTIAL

A The National Archives

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>3183</i> (one piece/item number)	Date and sign
Extract details: <i>letter and attachment from Slazcock to Powell dated 6 August 1990</i>	
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NUMBER NOT USED	
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DOCUMENT PUT IN PLACE (TNA USE ONLY)	

Moscow

3 August 1990

Dear Mrs. Thatcher,

It is with a feeling of satisfaction that I recall our recent conversation and an interesting exchange of views on the ways of further development of reforms in the Soviet Union.

We in the Soviet Union followed with considerable interest the meetings in Dublin and Houston, and were pleased to note the support given to the USSR President proposal on establishing continuous dialogue between the Soviet Union and the leaders of the seven leading countries of the West, in the same fashion as it exists with the European Community.

We highly value the readiness, expressed in Houston, to assist the Soviet Union in transition to a market-oriented economy. On a more specific plane, we have already had contacts with Mr. J. Delors and Mrs. M. Camdessus, IMF Managing Director. These contacts resulted in setting up the joint work of the experts of the two bodies and representatives of the Soviet government bodies on the reports to be presented to the "seven". The reports will provide the basis for the specific recommendations on the multilateral assistance to the Soviet Union in carrying out the reforms.

At the same time, being interested in further development of the bilateral Soviet-British economic relations, we would be grateful to you, Mrs. Thatcher, if you could consider the possibility of granting to the Soviet government long-term financial assistance of the form and size, acceptable for your government.

We mean to use this assistance both to resolve the short-term requirements, primarily to finance the payments to the British companies supplying goods for the Soviet market, and to facilitate the long-term cooperation between the Soviet Union and Great Britain.

In case of your positive reaction to this request, appropriate officials authorized by the Soviet government could begin specific discussions at any time, convenient for the British side.

Yours respectfully,

N.RYZHKOV

Chairman of the USSR
Council of Ministers

Москва, 3 августа 1990 г.

Уважаемая госпожа Тэтчер,

С удовлетворением вспоминаю состоявшуюся недавно беседу с Вами и интересный обмен мнениями о дальнейших путях развития реформы в Советском Союзе. В прошедшие два месяца произошли важные события.

Мы в Советском Союзе с большой заинтересованностью следили за встречами в Дублине и Хьюстоне, с удовлетворением отметили, что предложение Президента СССР об установлении постоянного диалога с главами государств и правительств семи ведущих стран Запада, так же, как и с Экономическим Сообществом, получило поддержку.

Мы высоко ценим выраженную в Хьюстоне готовность оказать помощь Советскому Союзу в переходе к экономике, ориентированной на рынок. В плане конкретизации этих решений уже имели место контакты с Председателем Комиссии Европейских Сообществ Ж.Делором и директором-распорядителем Международного Валютного фонда М.Камдессю. В результате этих контактов организована совместная работа экспертов указанных организаций и советских министерств и ведомств над составлением докладов, которые будут представлены "семерке",

Ее превосходительству
госпоже М.Тэтчер
Премьер-Министру Великобритании
г.Лондон

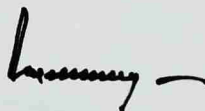
и на основе которых могут быть выработаны конкретные рекомендации по оказанию Советскому Союзу содействия на многосторонней основе в осуществлении реформ.

В то же время, заинтересованные в дальнейшем развитии двусторонних советско-британских экономических отношений, мы были бы признательны Вам, госпожа Тэтчер, если бы Вы рассмотрели возможность оказания Советскому правительству долгосрочной финансовой помощи в приемлемых для Вашего Правительства форме и объемах.

Имеется в виду использовать эту помощь как для решения краткосрочных потребностей нашей страны, прежде всего для осуществления расчетов с британскими фирмами, поставляющими товары на советский рынок, так и для обеспечения долгосрочного сотрудничества между Советским Союзом и Великобританией.

В случае Вашего положительного отношения к этой просьбе уполномоченные Советским правительством лица могли бы приступить к конкретным переговорам в любое удобное для Британской Стороны время.

С уважением



Н. Рыжков

Председатель
Совета Министров СССР

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ITALIAN - SOVIET RELATIONS : VISIT TO MOSCOW BY ANDREOTTI AND DE MICHELIS, 25-26 JULY

SUMMARY

1. ITALIAN PRESS REPORTS OF ANDREOTTI'S VISIT TO MOSCOW SUGGEST THAT HE WILL TRY TO ACCELERATE CONSIDERATION OF AN EC AID PACKAGE FOR THE SOVIET UNION SO THAT A DECISION CAN BE TAKEN AT THE EXTRAORDINARY EUROPEAN COUNCIL ON 27 OCTOBER.

DETAIL

2. THE ITALIAN MFA AS YET HAVE NO ACCOUNT OF THE ANDREOTTI-GORBACHEV OR DE MICHELIS-SHEVARDNADZE TALKS IN MOSCOW ON 26 JULY, BEYOND THE EXTENSIVE ITALIAN PRESS REPORTS. DE MICHELIS WENT ON FROM MOSCOW TO TURKEY AND WILL NOT RETURN TO ROME UNTIL NEXT WEEK. WE HAVE BEEN PROMISED AN EARLY BRIEFING. MEANWHILE, THE FOLLOWING ARE THE MAIN POINTS FROM THE PRESS:

(I) ANDREOTTI HAD THREE AND A HALF HOURS OF TALKS WITH GORBACHEV, WHILE DE MICHELIS AND SHEVARDNADZE HAD A PARALLEL MEETING OF SIMILAR LENGTH.

(II) GORBACHEV IS REPORTED TO HAVE SAID THAT FROM 1 JANUARY, FOLLOWING THE ENTRY INTO FORCE OF NEW LEGISLATION, THE SOVIET ECONOMY WOULD BE OPEN TO MARKET FORCES, THIS WOULD LEAD TO TWO DIFFICULT YEARS OF TRANSITION, DURING WHICH WESTERN ECONOMIC HELP WOULD BE IMPORTANT. HE TOLD ANDREOTTI THAT HIS REFORM PLANS INCLUDED MEASURES TO ENCOURAGE AND SAFEGUARD FOREIGN INVESTMENT, NEW BANKING LAWS AND AGRICULTURAL REFORM.

(III) ANDREOTTI IN RETURN IS REPORTED TO HAVE PROMISED TO TRY TO ACCELERATE THE CONSIDERATION OF AN EC PACKAGE OF ECONOMIC ASSISTANCE. HE APPARENTLY ENVISAGES THE COMPLETION OF THE EC STUDY OF THE SOVIET ECONOMY WITHIN SEPTEMBER AND A FINAL DECISION AT THE EXTRAORDINARY EUROPEAN COUNCIL IN ROME ON 27 OCTOBER. HE COMMENTED AT HIS MOSCOW PRESS CONFERENCE THAT 'THE SUCCESS OF PERESTROIKA IS

VITAL NOT ONLY FOR THE SOVIET PEOPLE BUT ALSO FOR EUROPE'.

(IV) MEANWHILE, OFFICIAL SOURCES ARE QUOTED AS SAYING THAT A NEW ITALIAN CREDIT LINE TO THE SOVIET UNION OF A BILLION DOLLARS IS UNDER CONSIDERATION.

(V) DE MICHELIS AND SHEVARDNADZE ARE REPORTED TO HAVE RESOLVED THE PROBLEM OF SOVIET DEBTS TO ITALIAN COMPANIES (CURRENTLY AMOUNTING TO ABOUT 220 MILLION DOLLARS, AND A CONSIDERABLE WORRY TO FOREIGN TRADE MINISTER RUGGIERO), AND TO HAVE LAID THE FOUNDATIONS FOR A NEW ECONOMIC COOPERATION AGREEMENT.

(VI) DE MICHELIS WILL APPARENTLY RETURN TO MOSCOW IN SEPTEMBER TO PREPARE THE WAY FOR AN OFFICIAL VISIT BY ANDREOTTI IN NOVEMBER, AND TO DISCUSS EC HELP FOR SOVIET ECONOMIC RECONSTRUCTION.

WOOD

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CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 071-270 0101

From the Secretary of the Cabinet and Head of the Home Civil Service
Sir Robin Butler KCB CVO

Ref.A090/ 1845

CR 27 July 1990

29/2

My dear Patrick,

Telephone Communications with Moscow

Thank you for your letter of 11 July. I gather that our experts and yours have been discussing the operational aspects of the proposed link and that your people have agreed to produce schematic and circuit descriptions for the two ends of the link. I am also advised that both sides agreed to postpone the question of encryption until the circuit arrangements have been agreed.

I am content to proceed in this way, although I agree with you and Charles Powell that if the extra cost of encryption turns out to be as high as suggested in your letter, we should do without it.

I am copying this letter to Charles Powell.

Your ever,

Robin

Sir Patrick Wright GCMG
Foreign and Commonwealth Office

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Sov. Union: relations pr 17





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10 DOWNING STREET
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CFW

From the Private Secretary

26 July 1990

Thank you for your faxed memoranda of 3 and 11 July about Western aid to the Soviet Union.

As you will certainly have heard, the Dublin European Council and Houston Economic Summit commissioned studies on how the Soviet Union might benefit from Western assistance. We shall await the outcome of these before considering any large-scale commitments designed to help the Soviet Union in converting to a market economy. But we are continuing our smaller-scale help in areas such as management training and very much welcome your own efforts in this field, in particular the jointly funded scholarships at Oxford and elsewhere.

CHARLES POWELL

Mr George Soros

②

Five Minutes
The Chairman of De Beers gave me this. It is a fascinating example of how the Soviets are working with precious metals as collateral for

Wednesday, 25 July 1990

DE BEERS CENTENARY AG AND THE SOVIET UNION'S DIAMOND INDUSTRY SIGN BILLION DOLLAR LOAN AND 5-YEAR SALES AGREEMENTS

Loans. COO 247
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The Swiss-based company, De Beers Centenary AG, has concluded an exclusive contract with Glavalmazoloto of the USSR, the Main Administration for Precious Metals and Diamonds under the USSR Council of Ministers, for the export and sale of the Soviet Union's production of rough diamonds for the next five years. The marketing of these diamonds will take place in London and Lucerne.

Centenary Holdings SA, De Beers Centenary's Luxembourg-based subsidiary, has also agreed to make a secured advance of \$1 billion against future diamond deliveries. Repayment will be made over five years beginning in November 1990.

As one of the world's biggest producers of gem diamonds, the Soviet Union has always marketed its rough diamonds in a way that would not disrupt the stability of a sensitive and complex industry. De Beers Centenary is pleased that the USSR now joins other major producers in marketing its rough diamond production in association with De Beers Centenary AG. This sales contract will have an estimated value of more than \$5 billion over the length of the contract.

The agreement was signed today by Mr V Roudakov, Head of Glavalmazoloto of the USSR and by Mr N F Oppenheimer, Deputy Chairman of De Beers Centenary AG.

This agreement with one of the world's largest producers will ensure the continued stability of the world diamond industry.

Possible questions that could arise out of the Glavalmaz / Centenary Sales Agreement

- 1 Is this the real reason why Centenary AG was formed, ie to facilitate business with the Soviet Union?

Glavalmazoloto is not dealing with a South African company, but with a Swiss company. The creation of De Beers Centenary was nearly two years in the planning, and the main reason for its establishment was to give physical expression to the fact that the major part of De Beers' profits and assets are made and held outside South Africa.

- 2 Does this mean the Soviet Union is abandoning its own sanctions against doing business with South Africa?

Soviet sanctions against South Africa are not relevant here. Glavalmaz is satisfied that Centenary is a Swiss company and, as such, is happy to do business with it, as are the other major producers who have contracts with De Beers Centenary - Botswana, Tanzania, Zaire, Australia and Namibia. This does not reflect any change in the Soviet Union's political stance towards South Africa or South African companies.

- 3 Is the Soviet Union not undermining the ANC by doing business with a South African-owned company?

The Soviet Union knows that De Beers Centenary is a Swiss company, with contracts with diamond producers throughout the world. The Soviet Union is not behaving any differently to Botswana, Tanzania, Zaire or Australia, all of whom have contracts with De Beers Centenary.

- 4 The CSO has always said it sells 85 per cent of the world's production. Does this not mean that you have always done business with the Soviets?

We have had no direct contract with the Soviet Union since the 1960's. The Soviet Union's rough diamond production was marketed in a way that did not undermine prices, and demonstrated that it understood the complexity and sensitivity of the diamond market. Nevertheless it was obvious, as we have always said, that as we market 80+ per cent of the world's production, some of the Soviet diamond production found its way to us via third parties.

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AND TO PRIORITY HM TREASURY, BANK OF ENGLAND
INFO PRIORITY MOSCOW, UKREP BRUSSELS

HM TREASURY FOR PICKERING AND LAZAR, BANK OF ENGLAND FOR WARE,
FCO FOR BONE (ERD)

IMF: STUDY OF THE USSR ECONOMY

1. IN A RESTRICTED SESSION, THE MANAGING DIRECTOR REPORTED ON HIS MEETING IN NEW YORK ON SATURDAY WITH THE IBRD, OECD AND EBRD. A REPRESENTATIVE FROM THE EC HAD ALSO BEEN PRESENT.

DIVISION OF RESPONSIBILITIES

2. ONE IMPORTANT ISSUE HAD BEEN THE DIVISION OF RESPONSIBILITIES. CAMDESSUS REFERRED AGAIN TO THE IMPORTANCE OF MAKING EFFECTIVE USE OF COMPARATIVE ADVANTAGES GIVEN THE SHORT TIME AVAILABLE TO COMPLETE THE STUDY. DECISIONS HAD BEEN TAKEN ON THIS THOUGH CAMDESSUS DID NOT ELABORATE (AND THERE WAS NO REAL OPPORTUNITY TO QUESTION HIM). AS MIGHT BE EXPECTED, HOWEVER, THE IMF WILL COVER MACROECONOMIC POLICY, TAX REFORM AND CENTRAL BANKING. WHITTOME (WHO HAS APPARENTLY BEEN PERSUADED TO POSTPONE HIS RETIREMENT) IS TO BE THE FUND'S SENIOR CO-ORDINATOR. CAMDESSUS SAID HE HAD BEEN KEEN TO ENSURE THAT FUND CONVENTIONS CONCERNING 'DISCIPLINE AND METHODOLOGY' WOULD BE OBSERVED. HE WAS FAIRLY CONFIDENT OF THE CO-OPERATION OF THE SOVIET AUTHORITIES (THOUGH SEE PARA. 6 BELOW).

TIMING

3. THE STUDY IS TO TAKE PLACE IN TWO STAGES. MISSIONS WILL BE SENT TO MOSCOW QUICKLY TO GATHER BASIC DATA AND INFORMATION. A PROGRESS REPORT WILL BE MADE BY THE TIME OF THE ANNUAL MEETINGS (CAMDESSUS WAS NOT SPECIFIC ABOUT WHAT FORM THIS WOULD TAKE, THOUGH HE PROMISED REGULAR REPORTS TO THE BOARD). AFTER THE ANNUAL MEETINGS THE STUDY WOULD FOCUS ON STRATEGIC ISSUES AND PROSPECTS FOR REFORM.

RELATION TO EC STUDY

4. CAMDESSUS REFERRED SEVERAL TIMES TO THE EC STUDY BEING CARRIED OUT FOLLOWING THE DUBLIN REMIT. HE SAID THE FUND AND ITS PARTNERS WOULD CONSULT THE EC AS APPROPRIATE. HE ANTICIPATED NO DIFFICULTY ABOUT SHARING INFORMATION AND DISCUSSING CONCLUSIONS THOUGH THE EC WOULD BE CONCLUDING THEIR STUDY WHEN THE FUND AND PARTNERS WERE JUST EMBARKING ON THE SECOND STAGE.

SOVIET ATTITUDES

5. CAMDESSUS REPORTED (IN CONFIDENCE) HIS UNDERSTANDING OF SOME OF THE IMPRESSIONS FORMED BY DELORS DURING HIS VISIT TO MOSCOW. (THESE ECHO THOSE REPORTED IN MOSCOW TELNOS 1338 AND 1339). DELORS HAD BEEN IMPRESSED BY GORBACHEV'S COMMITMENT TO REFORM AND THOUGHT THAT THE SOVIET AUTHORITIES' VIEWS ON NECESSARY MEASURES WERE BETTER FOCUSSED THAN IN THE PAST. IN PARTICULAR THEY WERE CONVINCED THAT ECONOMIC AND CONSTITUTIONAL REFORM HAD TO GO HAND IN HAND. DELORS HAD APPARENTLY STRESSED THE IMPORTANCE OF A UNIFIED MONETARY POLICY IN THE USSR. (IN REPORTING THIS, CAMDESSUS HIMSELF MADE SOME RATHER GLOOMY REMARKS ABOUT THE FORMIDABLE PROBLEMS OF ACHIEVING PRICE REFORM AND A COHERENT MONETARY POLICY.)

6. THE SOVIET AUTHORITIES WERE APPARENTLY PREPARED TO CO-OPERATE WITH BOTH STUDIES BUT WERE DISTINCTLY UNENTHUSIASTIC ABOUT THE FUND'S INVOLVEMENT. GORBACHEV HAD DECLARED HIMSELF UNWILLING TO HAVE CONDITIONS DICTATED BY THE IMF. CAMDESSUS ACKNOWLEDGED THAT A SELLING JOB WOULD BE NECESSARY IF THE SOVIET PERCEPTION OF THE FUND AND ITS ROLE WERE NOT TO BE A MAJOR DIFFICULTY.

PRESS BLACKOUT

7. FINALLY, IT HAD BEEN AGREED AT SATURDAY'S MEETING THAT NO INFORMATION WOULD BE GIVEN TO THE PRESS ABOUT THE STUDY WHILE IT WAS IN PROGRESS. THE RESPONSE TO ALL ENQUIRIES WOULD BE A FIRM NO COMMENT.

PERETZ

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Foreign and Commonwealth Office
London SW1A 2AH

23 July 1990

NT

Dear Charles,

Aid to the Soviet Union *Acw*

Thank you for your letter of 12 July enclosing a second memo from George Soros, dated 11 July. We had not previously seen Soros' pre-Houston memo of 3 July.

Mr Soros' views on aid to the Soviet Union and how it might be deployed are seen here as something of a curate's egg. It would not be very useful to enter into a detailed correspondence when the studies commissioned at Dublin and Houston are just getting under way. We recommend a brief reply. I enclose a draft.

Copies of this letter go to John Gieve (Treasury) and Eamonn Taylor (ODA).

Yours ever,

Richard Gozney
(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

Draft Reply from Private Secretary

To: George Soros Esq
888 Seventh Avenue
Suite 3301
NY, NY10106
USA

Thank you for your faxed memoranda of 3 and 11 July about Western aid to the Soviet Union.

As you ^{will certainly} have ~~probably~~ heard, the Dublin European Council and Houston Economic Summit commissioned studies on how the Soviet Union might benefit from Western assistance. We ~~are~~ ^{shall} awaiting the outcome of these before considering any large-scale commitments designed to help the Soviet Union in converting to a market economy. ^{or} We are ~~also~~ continuing our smaller-scale help in areas such as management training. ^{yes} We ~~continue~~ to welcome your own efforts in this field, in particular the jointly funded scholarships at Oxford and elsewhere.

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USSR : CALL ON ABALKIN

1. I HAD A MEETING ON 20 JULY WITH ABALKIN, THE DEPUTY PRIME MINISTER AND CHAIRMAN OF THE ECONOMIC REFORM COMMISSION. WE DISCUSSED THE SOVIET ECONOMIC REFORM PROGRAMME AND EAST/WEST ECONOMIC RELATIONS POST-DUBLIN AND HOUSTON. ABALKIN ALSO TALKED ABOUT THE DELORS VISIT (ON WHICH SEE MY MIFT).

ECONOMIC REFORM

2. ON THE ECONOMIC REFORM, ABALKIN ADDED LITTLE TO WHAT WE KNEW ALREADY, NAMELY THAT THE GOVERNMENT WOULD BE WORKING THROUGH THE SUMMER HOLIDAY ON A PACKAGE OF LAWS FOR PRESENTATION TO THE SUPREME SOVIET AT THE BEGINNING OF SEPTEMBER. THESE WOULD BE DESIGNED TO CREATE PROPER ECONOMIC INSTITUTIONS, INCLUDING GENUINE SYSTEMS FOR BANKING, TAXATION AND MONETARY POLICY. THE PROPOSALS WERE BEING DISCUSSED BY THE PRESIDENTIAL COUNCIL TODAY, AND WOULD BE PUT TO THE COUNCIL OF MINISTERS NEXT WEEK. THEY WOULD PROVIDE FOR PRIVATISATION OF LARGE ENTERPRISES, AND THE BREAKING UP OF EXISTING INDUSTRIAL MINISTRIES, WITHOUT CREATING NEW MONOPOLIES. THE NEW MEASURES WOULD COME INTO FORCE ON 1 JANUARY, AND WOULD BE ACCOMPANIED BY NEW PRICES AND TAX RATES.

3. ABALKIN'S PARTICULAR PREOCCUPATION AT THE MOMENT WAS THE DANGER POSED BY 'REPUBLICAN SEPARATISM'. THE REPUBLICS WERE REVISING PRICES INDEPENDENTLY OF THE CENTRE, AND THEREBY INCREASING THE OPPORTUNITIES FOR THE BLACK MARKET. THEY WERE TRYING TO SECURE CONTROL OF THEIR OWN HARD CURRENCY EARNINGS AS WELL. BUT AS LONG AS SOVIET INDUSTRY COULD NOT COMPETE IN WESTERN MARKETS, AND AS LONG AS THE SOVIET UNION HAD TO SPEND LARGE SUMS OF CURRENCY TO IMPORT GRAIN, A MEASURE OF CENTRAL CONTROL OVER HARD CURRENCY WOULD REMAIN UNAVOIDABLE. THESE REMARKS (APART FROM THE INTRINSIC JUSTIFICATION) WERE OBVIOUSLY DIRECTED AT YELTSIN, AMONGST OTHERS.

4. I ASKED WHETHER THE PUBLIC WOULD BE MORE INCLINED THAN IN THE SPRING TO ACCEPT THE PROPOSED REFORMS. ABALKIN SAID A CONSIDERABLE EFFORT WAS NOW BEING PUT INTO PERSUADING SENIOR AND MEDIUM LEVEL OFFICIALS IN THE PROVINCES AS WELL AS MOSCOW, AND REPRESENTATIVES OF

PAGE 1
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THE WORKERS, THAT REFORM WAS INESCAPABLE. SUCH EFFORTS HAD SWUNG THE VOTE IN THE CONGRESS. HE THOUGHT THAT ORDINARY PEOPLE WERE NOW RECONCILED TO THE PROSPECT OF PRICE RISES, AND WOULD INDEED LIKE TO GET THEM OVER QUICKLY. EVEN THE ASPIRATIONS OF RADICAL POLITICIANS - SUCH AS THE NEW MAYORS OF MOSCOW AND LENINGRAD - TO ECONOMIC AUTONOMY HAD SOME USE : NOW THEY WERE THEMSELVES HAVING TO TAKE RESPONSIBILITY FOR THE PRACTICAL PROBLEMS OF RUNNING GREAT CITIES AND WHOLE REPUBLICS, THEIR PRONOUNCEMENTS WERE BECOMING NOTICEABLY MORE SOBER.

ECONOMIC RELATIONS WITH THE WEST

5. ABALKIN SAID THAT THE SOVIET GOVERNMENT WELCOMED THE OUTCOME OF DUBLIN AND HOUSTON: WESTERN CONTRIBUTIONS IN THE FORM OF MANAGEMENT EXPERTISE AND TRAINING, SUPPORT FOR SMALL ENTERPRISES, AND CAPITAL INVESTMENT FOR LONG-TERM PROJECTS, WOULD ALL BE VALUABLE. IT WOULD ALSO BE POLITICALLY CONVENIENT IF WESTERN FINANCE WERE MADE AVAILABLE ON A SHORTER TERM BASIS FOR THE IMPORTATION OF CONSUMER GOODS.

6. HOWEVER, ABALKIN EMPHASISED THAT THE WEST SHOULD NOT TREAT THE SOVIET UNION AS IF IT WAS MERELY ANOTHER EAST EUROPEAN COUNTRY. ITS SIZE, AND ITS POLITICAL, ECONOMIC AND STRATEGIC IMPORTANCE, MADE THE SOVIET UNION AN ENTIRELY DIFFERENT PROPOSITION. ONE COULD GIVE 'AID' TO HUNGARY. BUT THE USSR WAS AND WOULD REMAIN A GREAT POWER. TALK OF 'AID' WOULD OFFEND PUBLIC OPINION AND NATIONAL PRIDE, AND IT WOULD BE COUNTER-PRODUCTIVE. NOR SHOULD THERE BE ANY TALK OF CONDITIONALITY, WHETHER POLITICAL OR EVEN ECONOMIC. THIS WAS UNACCEPTABLE. SUGGESTIONS THAT WITHOUT CONDITIONALITY WESTERN ASSISTANCE WOULD SIMPLY REINFORCE THE OLD STRUCTURE AND ASSIST REACTIONARIES WERE BASED ON IGNORANCE OF THE REAL SITUATION (ABALKIN - WHO SHOWED UNCHARACTERISTIC EMOTION AT THIS STAGE - DESCRIBED SUCH SUGGESTIONS AS 'UNPROFESSIONAL'. THIS IS STRONG LANGUAGE IN THE VOCABULARY OF THE GORBACHEV ENTOURAGE). THE SOVIET GOVERNMENT HAD IRREVOCABLY DECIDED THAT A TRANSFER TO MARKET PRINCIPLES WAS THE ONLY WAY OUT OF THEIR DIFFICULTIES. GORBACHEV DID NOT NEED THE WEST TO TELL HIM THIS. HE HAD SHOWN HIS COMMITMENT TO THE MARKET AT THE PARTY CONGRESS WHERE - DESPITE THE NOISY OPPOSITION - HE HAD MADE NO CONCESSIONS. HE WOULD PRESS AHEAD WITH HIS REFORMS WHATEVER HAPPENED OVER WESTERN SUPPORT.

7. ABALKIN EMPHASISED THAT NONE OF THIS MEANT THAT THE SOVIET UNION WAS NOT STRONGLY INTERESTED IN ECONOMIC COOPERATION WITH THE WEST AS BETWEEN EQUALS. PRACTICAL ECONOMIC COOPERATION, ON A SOUND COMMERCIAL AND ECONOMIC BASIS, WOULD EXERT ITS OWN DISCIPLINE ON THE PROCESS OF ECONOMIC REFORM. HE AND HIS MINISTERIAL COLLEAGUES HAD MET FOR THREE HOURS WITH DELORS ON 19 JULY. THEY HAD AGREED TO SET

UP A JOINT WORKING GROUP TO HELP PREPARE AN ASSESSMENT OF THE SOVIET ECONOMY. THEY WOULD PROVIDE THE GROUP WITH ALL THE INFORMATION IT NEEDED, EG ON THE EXTENT OF THE SOVIET DEBT. THEY WERE ALSO PROVIDING IT WITH COPIES OF PLANNED NEW LEGISLATION. ABALKIN SAID THAT HE HAD INCIDENTALLY BEEN VERY INTERESTED BY DELORS' ARGUMENT THAT THE RUSSIANS SHOULD NOT RUSH AHEAD WITH DISMANTLING CMEA. DELORS HAD SAID THAT MODERNISATION OF THE EASTERN EUROPEAN ECONOMICS WOULD TAKE TIME. IN THIS TRANSITIONAL PERIOD THEY WOULD CONTINUE TO NEED ONE ANOTHER AS MARKETS FOR THEIR (UNCOMPETITIVE) GOODS.

8. I AM REPORTING SEPARATELY ON WHAT DELORS TOLD THE COMMUNITY AMBASSADORS ABOUT HIS VISIT. ABALKIN OBVIOUSLY SAW THE PROSPECT OF A DEVELOPING RELATIONSHIP WITH THE COMMUNITY AS POTENTIALLY VALUABLE. BY CONTRAST HE WAS RATHER SOUR ABOUT THE IMF

BRAITHWAITE

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SOVIET INTERNAL
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SEE MIPT: VISIT BY MR DELORS

1. DELORS BRIEFED THE COMMUNITY AMBASSADORS ON 20 JULY OVER LUNCH, TO WHICH HE HAD ARRIVED LATE BECAUSE OF AN EXTENDED MEETING WITH DEPUTY PRIME MINISTER SITARYAN AND A NUMBER OF OTHER SOVIET OFFICIALS.
2. DELORS SAID THAT HE HAD EMPHASISED TO ALL HIS RUSSIAN INTERLOCUTORS THAT HIS PRESENT EXERCISE WAS RUNNING TO A VERY TIGHT TIMETABLE. THE COMMISSION HAD TO REPORT TO THE EUROPEAN COUNCIL IN OCTOBER. BETWEEN THEN AND THE END OF THE YEAR THERE WOULD BE A NUMBER OF OTHER HIGHLY RELEVANT POLITICAL EVENTS: THE CSCE SUMMIT, GERMAN UNIFICATION, AND THE COMMUNITY'S INTERGOVERNMENTAL CONFERENCE ON EUROPEAN UNION. FOR THESE REASONS, HE HAD TOLD HIS INTERLOCUTORS, IT WAS VITAL THAT THE SOVIET PROPOSALS FOR ECONOMIC REFORM SHOULD BE SEEN TO MAKE SENSE, AND TO HAVE SOME PROSPECT OF RAPID ADOPTION, WHEN THEY WERE INTRODUCED TO THE SUPREME SOVIET AT THE BEGINNING OF SEPTEMBER. BOTH THE COMMISSION'S JUDGEMENT, AND THE DECISIONS OF THE EUROPEAN COUNCIL, WOULD BE MUCH AFFECTED THEREBY.
3. GORBACHEV HAD TOLD HIM THAT, FOLLOWING THE SUCCESSFUL PARTY CONGRESS AND THE UNBLOCKING OF THE GERMAN ISSUE, THE SOVIET GOVERNMENT NOW HAD A CLEAR WAY FORWARD FOR ECONOMIC AND INSTITUTIONAL REFORM. THE TWO WERE CLEARLY INTIMATELY LINKED. DELORS HAD THOUGHT THAT GORBACHEV HAD A FAR BETTER UNDERSTANDING OF THE TRUE NATURE OF MARKET ECONOMY THAN RYZHKOV OR EVEN ABALKIN. THOUGH HE FELT THAT THE LITHUANIAN PROBLEM WAS ON A WAY TO A SOLUTION, HE WAS PREOCCUPIED BY DEVELOPMENTS IN THE RSFSR. HE HAD BEEN VERY CRITICAL OF THE REFERENCES TO 'CONDITIONALITY' AT HOUSTON. HE HAD WELL UNDERSTOOD THAT THE AMERICANS HAD BEEN PLAYING ELECTORAL POLITICS. BUT HE HAD RESENTED THE ARGUMENT THAT SHORT TERM HELP WOULD WEAKEN HIS WILL TO REFORM THE SOVIET ECONOMY. THE SOVIET UNION WAS NOT A THIRD WORLD COUNTRY. THEY DID NOT INTEND TO SUBJECT THEMSELVES TO THE KIND OF DISCIPLINES IMPOSED BY THE IMF. NEVERTHELESS, HE INDICATED THAT HE WOULD WELCOME SHORT TERM ASSISTANCE TO HELP WITH THE TRANSITIONAL PERIOD. IN GENERAL, GORBACHEV HAD SHOWN CONSIDERABLE UNDERSTANDING THE SYMPATHY FOR THE EUROPEAN COMMUNITY AND THE MOVE THERE TOWARDS

CLOSER POLITICAL AND ECONOMIC UNITY. HE SAID THAT HE WOULD USE THE COMMUNITY AS AN EXAMPLE IN HIS FORTHCOMING DISCUSSIONS WITH THE SOVIET REPUBLICS ABOUT THE PROPOSED NEW UNION TREATY.

4. DELORS HAD DISCUSSED WITH GORBACHEV AND OTHERS THE DEVELOPMENT OF ECONOMIC RELATIONS WITHIN EASTERN EUROPE AS A WHOLE. DELORS HAD EXPRESSED THE VIEW THAT CMEA REMAINED IMPORTANT. THE RUSSIANS HAD CLEARLY BEEN MUCH PREOCCUPIED WITH THE ECONOMIC CONSEQUENCES OF GERMAN REUNIFICATION, FOLLOWING THE ABSORPTION OF THE GDR ECONOMY INTO THE WEST. THEY WERE CLEARLY VERY ANXIOUS AT THE PROSPECT THAT THEY MIGHT FIND THEMSELVES ISOLATED ON THE MARGIN OF EUROPE.

5. CONCLUDING, DELORS REMARKED THAT THE TEST FOR THE SOVIET ECONOMIC REFORM WOULD BE WHETHER IT MANAGED TO INITIATE AN IRREVERSIBLE VIRTUOUS CIRCLE. THE COMMISSION'S OWN STUDY OF THESE COMPLEX ISSUES INVOLVED WOULD BE VERY DIFFICULT TO CONDUCT. THE COMMISSION HAD NOT HAD MUCH TIME TO COMPLETE IT, AND RISKED DAMAGING ITS REPUTATION FOR PROFESSIONALISM BY A HALF-BAKED REPORT. ANDRIESEN TOLD ME SEPARATELY THAT HE AND DELORS WERE CONSIDERING BRINGING IN OUTSIDE EXPERTS. I SAID THAT A NUMBER OF WESTERN, INCLUDING BRITISH ECONOMISTS, HAD HAD INTERMITTENT DISCUSSIONS WITH THE RUSSIANS ABOUT RATHER FAR REACHING PROPOSALS FOR REFORM OVER THE LAST FEW YEARS: THE OUTSIDE EXPERTISE WAS CERTAINLY AVAILABLE (I HAD IN MIND THE SOROS STUDY, WHICH WAS PATRONISED BY RYZHKOV, AND IN WHICH PHILIP HANSON AND THE AMERICAN, ED HEWITT, HAD PARTICIPATED).

BRAITHWAITE

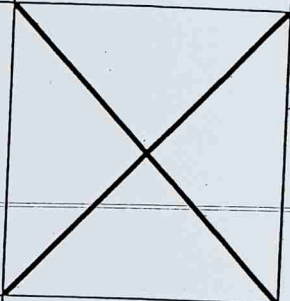
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A The National Archives

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SUMMARY

1. FALIN DISCUSSES WHY THE RUSSIANS DROPPED THEIR OBJECTIONS TO GERMANY IN NATO. PROBLEMS OF POPULAR OPINION. HIS ATTITUDE TO WESTERN AID, AND THE INTRODUCTION OF THE MARKET. THE OUTCOME OF THE CONGRESS, AND THE FUTURE OF THE PARTY. HE WAS HIS USUAL APOCALYPTIC SELF, BUT MADE SOME INTERESTING POINTS.

DETAIL

2. I CALLED ON VALENTIN FALIN, HEAD OF THE INTERNATIONAL DEPARTMENT, AND A NEWLY ELECTED MEMBER OF THE CPSU SECRETARIAT ON 19 JULY. WE HAD A WIDE-RANGING DISCUSSION, DURING WHICH FALIN WAS RELAXED AND FRANK ABOUT HIS OWN IDEAS.

GERMANY.

3. GERMANY WAS TOP OF OUR AGENDA. FALIN NOTED THAT THE DECISION TO LEAVE THE QUESTION OF NATO MEMBERSHIP TO THE GERMANS THEMSELVES "HAD BEEN TAKEN AND WAS NOW PUBLIC." IT WAS NOT A NEW POSITION: GORBACHEV HAD RAISED IT WITH BUSH IN WASHINGTON. FALIN THOUGHT THE GERMAN PEOPLE SHOULD BE CONSULTED BY REFERENDUM, SINCE POLLS SHOWED A MAJORITY OF THE GERMANS WERE AGAINST MEMBERSHIP OF EITHER ALLIANCE. BUT NO DOUBT IT WOULD BE THE GERMAN GOVERNMENT WHICH TOOK THE DECISION.

4. FALIN EXPLAINED WHY THE SOVIET GOVERNMENT HAD ALTERED THEIR PREVIOUS POSITIONS AND HAD FELT ABLE TO TAKE THIS DECISION NOW. THE NATO SUMMIT AND THE LONDON DECLARATION HAD BEEN DECISIVE. THE DECLARATION STILL CONTAINED A NUMBER OF CONDITIONS. BUT THE ESSENTIAL, AND DECISIVE, POINT HAD BEEN THE STATEMENT THAT NATO NO LONGER REGARDED THE SOVIET UNION AS AN ENEMY.

5. THE RUSSIANS HAD ALSO TAKEN ACCOUNT OF DEVELOPMENTS INSIDE GERMANY ITSELF. KOHL AND DE MAIZIERE HAD AGREED TO A TIMETABLE. IT

WAS ESSENTIAL TO HAVE THE TWO PLUS FOUR PROCESS OUT OF THE WAY BEFORE ALL-GERMAN ELECTIONS IN DECEMBER. THE STRAINS OF GEMU COULD FEED THE GROWTH OF RIGHT-WING MOVEMENTS, PARTICULARLY IN THE GDR, WHICH OFFERED THEM MORE FERTILE GROUND THAN THE STABLE AND DEMOCRATIC FEDERAL REPUBLIC. THE RUSSIANS BELIEVED THAT KOHL HIMSELF WAS HONEST WHEN HE SAID THAT TYING GERMANY INTO WESTERN ORGANISATIONS WOULD ACT AS A CONSTRAINT ON THE EMERGENCE OF A RIGHT WING.

6. BUT THE RUSSIANS HAD EVIDENCE THAT SOME OF THE PEOPLE AROUND KOHL WERE THINKING DIFFERENTLY. THEY WERE TALKING OF A TIME, SAY TEN YEARS HENCE, WHEN GERMANY COULD HOPE TO RENEGOTIATE ITS EASTERN BORDERS, AND SEEK COMPENSATION FOR POLAND IN BELORUSSIA AND THE UKRAINE, WHICH WOULD BY THEN BE LESS SECURELY TIED INTO THE SOVIET UNION. SUCH A GERMANY COULD WELL BREAK LOOSE OF ITS OWN ACCORD, FROM THE TIES OF NATO AND THE COMMUNITY. HE DID NOT HIMSELF PARTICULARLY CREDIT THIS SCENARIO, BUT IT DID REINFORCE THE ARGUMENT FOR DEVELOPING PAN-EUROPEAN STRUCTURES AS A FORM OF INSURANCE.

7. I ASKED HOW POPULAR OPINION WOULD REACT TO THE LATEST GERMAN AGREEMENTS. FALIN THOUGHT THE PEOPLE WOULD NOT LIKE IT. THEIR MEMORIES, NOT JUST OF THE WAR, WERE STRONG. THEY FELT THEY HAD BEEN DUPED IN 1939. WHEN THE TWO PLUS FOUR AGREEMENT CAME TO BE RATIFIED, THE GOVERNMENT WOULD BE ASKED ABOUT GUARANTEES. HE RECALLED THAT AFTER THE 1970 MOSCOW TREATY HAD BEEN SIGNED THERE HAD BEEN A WAVE OF PANIC-BUYING IN BELORUSSIA, THE FAR NORTH AND THE URALS. FOR THESE PEOPLE A TREATY WITH THE GERMANS WAS AN OMEN OF A COMING WAR. THAT WOULD MAKE FOR A DIFFICULT RATIFICATION DEBATE IN THE SUPREME SOVIET, THOUGH FALIN WAS CONFIDENT THE DIFFICULTIES WOULD BE OVERCOME.

ECONOMIC ASSISTANCE

8. I SAID THAT NOW THAT GERMAN UNIFICATION WAS A FOREGONE CONCLUSION, WE SHOULD LOOK AHEAD TO A MORE COOPERATIVE EUROPE, IN THE ECONOMIC SPHERE, JUST AS MUCH AS SECURITY. THE DUBLIN AND HOUSTON DECISIONS HAD BEEN SIGNIFICANT, PRACTICAL AND - I HOPED - WELCOME TO THE SOVIET UNION. NOW DELORS HAD ARRIVED IN MOSCOW. IT WAS IMPORTANT THAT THE EUROPEAN COMMISSION - AND THE OFFICIALS FROM THE IMF WHO WOULD DOUBTLESS TURN UP SOON - UNDERSTOOD THE NATURE OF PERESTROIKA AND WHERE COOPERATION WOULD BE WELCOMED AND HELPFUL. FALIN SEIZED ON THE WORD COOPERATION. LARGE CREDITS, DISHED OUT WITHOUT CONDITIONS COULD BE POSITIVELY HARMFUL. THEY WOULD INCREASE THE SOVIET DEBT BURDEN WITHOUT PRODUCING ANY QUALITATIVE CHANGE IN THE SOVIET ECONOMIC SYSTEM. CREDITS COULD BE USEFUL, PROVIDED THEY WERE GIVEN TO SPECIFIC PROJECTS, WORKED OUT BY MUTUAL AGREEMENT AND KEPT UNDER JOINT CONTROL. I RECALLED THAT THE MARSHALL PLAN, TO

WHICH PEOPLE SO OFTEN REFERRED, HAD BEGUN NOT WITH A MASSIVE AMERICAN HANDOUT, BUT BY THE CREATION OF THE ORGANISATION FOR EUROPEAN ECONOMIC COOPERATION, WHICH HAD ENABLED ALL CONCERNED TO DEFINE THE PROBLEMS, AND WORK OUT SENSIBLE SOLUTIONS, ALL ON A BASIS OF EQUALITY AND MUTUAL RESPECT, BEFORE A CENT HAD BEEN DISBURSED.

9. FALIN AGREED THAT THERE SHOULD BE CAREFUL DISCUSSION OF WHERE WESTERN INPUTS WOULD DO MOST GOOD. THE IDEOLOGICAL STRUGGLE FOR ECONOMIC AS WELL AS POLITICAL PERESTROIKA HAD BEEN WON BUT THE GOVERNMENT WAS UNDER CONSIDERABLE TIME-PRESSURE. ANY PROCESS OF RADICAL CHANGE HAD TO GO THROUGH A CRISIS, WHICH WAS WHERE PERESTROIKA WAS NOW. THE DIFFICULTIES WERE IN PART BECAUSE OF THE SCALE OF THE PROBLEM, BUT MORE A SHORTAGE OF ABLE PEOPLE TO IMPLEMENT THEM. THEY HAD BEEN COMPOUNDED BY THE BUREAUCRATS WHO HAD BEEN ACTIVELY INTERFERING IN ORDER TO PROVE THAT THE ECONOMIC SYSTEM COULD NOT FUNCTION WITHOUT THEIR COMAND ROLE. IN FALIN'S VIEW, THE GOVERNMENT HAD TO DEMONSTRATE THAT THE MARKET WORKED. IF THEY COULD BOOST OUTPUT IN ONE OR TWO SECTORS, THIS WOULD DRAG UP PERFORMANCE IN OTHERS.

10. HE ADDED THAT THE GOVERNMENT HAD THROWN AWAY THE CHANCE OF GAINING POPULAR SUPPORT FOR THE REFORMS. RYZHKOV'S SPEECH IN MAY, SHOULD HAVE CONCENTRATED ON THE ADVANTAGES OF THE MARKET, NOT ITS PROBLEMS. HE, FALIN, HAD TOLD MASLYUKOV IMMEDIATELY AFTER THE SPEECH THAT THEY HAD BLOWN IT.

11. FALIN SAID THAT, IN HIS VIEW, THE IDEA OF A CONVERTIBLE ROUBLE ONLY HAD MEANING IF SOVIET GOODS WERE COMPETITIVE ON THE WORLD MARKET. AS LONG AS THEY WERE NOT, THE ROUBLE PRICE WOULD REMAIN ARBITRARY. HE COMMENTED THAT HIS ECONOMIC VIEWS WERE LONG-HELD, BUT HE HAD ALWAYS BEEN OUTSIDE THE SOVIET ECONOMIC MAINSTREAM.

THE CONGRESS

12. FALIN SAID THAT THE MAIN OUTCOME OF THE CONGRESS HAD BEEN TO GRANT THE PRESIDENT MORE FREEDOM OF ACTION. HE WOULD NO LONGER HAVE THE PARTY ORTHODOX ON HIS BACK. THE CONGRESS HAD ALSO LIMITED THE ABILITY OF THE PARTY APPARATUS TO BLOCK THE PATH OF REFORM. WE WOULD HAVE TO SEE WHAT GORBACHEV WAS ABLE TO DO WITH THIS NEW FOUND FREEDOM.

13. THE SECOND MAIN RESULT HAD BEEN TO REALISE THE SEPARATION OF PARTY AND STATE. THIS HAD BEEN DECLARED AT THE 19TH PARTY CONFERENCE, BUT HAD NOT BEEN OBSERVED EXCEPT IN A FEW AREAS, SUCH AS FOREIGN POLICY. SHEVARDNADZE AND THE FOREIGN MINISTRY HAD COMPLETE

AUTHORITY FOR THE CONDUCT OF SOVIET POLICY. YAKOVLEV, FALIN AND THE INTERNATIONAL DEPARTMENT HAD OTHER TASKS AND RESPONSIBILITIES. THIS SEPARATION HAD NOT BEEN OBSERVED IN THE ECONOMIC FIELD. NOW IT WOULD BE.

14. THE PARTY APPARATUS HAD ALREADY BEEN CUT BY 40PERCENT SINCE THE 19TH PARTY CONFERENCE. AFTER THE CONGRESS, IT WOULD BE CUT BY A FURTEHR 40PERCENT. THIS REFLECTED A DECREASE IN ITS FUNCTIONS, BUT ALSO THAT THE CPSU BUDGET HAD SHRUNK BY 46 PERCENT.

THE FUTURE OF THE PARTY

15. THESE CHANGES WOULD ENABLE THE CPSU TO ADAPT TO NEW CIRCUMSTANCES. FROM NOW ON IT WOULD BE ONLY ONE OF SEVERAL PARTIES. THE NEXT NATIONAL ELECTIONS WOULD BE FOUGHT ON THE BASIS OF PARTY LISTS. THE ELECTIONS IN THE UKRAINE, MOLDAVIA, MOSCOW AND LENINGRAD HAD ALREADY SHOWN THAT THE CPSU WENT INTO MULTIPARTY ELECTIONS WITH A CONSIDERABLE HANDICAP OF THEIR PAST RECORD.

16. HOWEVER, THE SURVIVAL OF THE CPSU WAS IN EVERYONE'S INTEREST, INCLUDING THE WESTS. THE PARTY WAS THE ONLY GROUPING WHICH FULLY SUPPORTED PERESTROIKA AS A PEACEFUL PROCESS. CHANGE WAS NOW INEVITABLE, BUT WITHOUT THE INFLUENCE OF THE PARTY IT COULD BE A LOT LESS ORDERLY. ALREADY THE ARMY HAD BEEN DRAWN INTO A NEW ROLE, PARTLY BECAUSE IT HAD BECOME INVOLVED IN POLICING INTER-ETHNIC CONFLICT. IF CHANGE BEGAN TO RUN OUT OF CONTROL, BOTH THE ARMY AND THE KGB WOULD BE TEMPTED TO USE THEIR INFLUENCE TO RESTORE ORDER, AND PLAY A MORE OVERTLY PARTISAN ROLE. HE THEREFORE FAVOURED THE DEPOLITICISATION OF THE ARMY. THIS WAS NOT REALLY A MATTER OF ABOLISHING THE PARTY CELLS, BUT OF ENSURING THAT THE ARMY WAS CONSTITUTIONALLY APOLITICAL. IN BRITAIN OR AMERICA, OFFICERS WHO HAD SPOKEN OUT AGAINST THEIR SUPREME COMMANDER AS GENERALS MAKASHOV AND LEBEDEV HAD DONE, WOULD HAVE BEEN REGARDED AS UNFIT FOR COMMAND, AND WOULD HAVE BEEN REMOVED. (COMMENT: MAKASHOV IS NOTORIOUS - MY TELNO 1152 - BUT WE ARE NOT AWARE OF LEBEDEV'S CRITICISM).

BRAITHWAITE

YYYY

dti

the department for Enterprise

ccpc.

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

Dominic Morris Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000


Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071-215 5622
Our ref TJW006
Your ref
Date 19 July 1990

Dear Dominic

The Secretary of State has asked me to thank you for your letter of 11 July enclosing one from The Rt Hon The Lord Joseph CH PC concerning COCOM.

In fact, the matters raised are the responsibility of the Cabinet Office and I am therefore sending the papers on for reply.

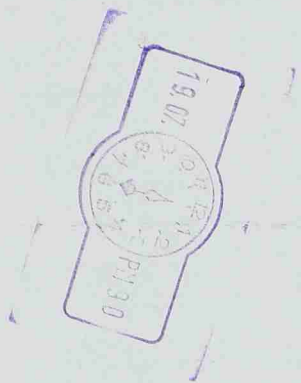
Yours sincerely,


ADRIAN TIPPER
Assistant Private Secretary



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CONSERVATION



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MR POWELL

MARATHON

No further
reply needed -
see Lord
Joseph's letter
of 11 July
ad

Mr Morris's letter of 11 July to the Private Secretary to the Trade and Industry Secretary requested a draft reply to Lord Joseph's letter of 11 July to the Prime Minister. Lord Joseph's letter follows up an earlier one of 28 June, to which the Prime Minister replied on 16 July (copies are attached).

2. The reply to the second letter need only say that the subjects Lord Joseph mentions will be the subject of Mr Meadway's discussions with the Marathon partners. A draft is attached.

3. I am sending a copy of this minute to the Private Secretary to the Trade and Industry Secretary.

L V Appleyard
L V Appleyard

Cabinet Office
19 July 1990

Draft reply from the Prime Minister to

The Rt Hon The Lord Joseph CH

Thank you for your letter of 11 July. As you know from my letter of 16 July, Mr Meadway from the Department of Trade and Industry is arranging a meeting with the Marathon partners, at which the issues you raise can be discussed in detail.



The Rt Hon. Mrs Margaret Thatcher MP
The Prime Minister
10 Downing Street
SW1A 0AA

28 June 1990

CONFIDENTIAL

Dear Margaret,

Marathon - not

Thank you for your letter of 5th June, which I found puzzling.

I appreciate that there are delicate complexities in the situation but there seems to be a worrying discrepancy between the content of your letter and the developments both in COCOM and in the USA.

As to the new COCOM regime, Governments may permit administrative exceptions for systems at 45 Mbits and with a wavelength of 1320nm without notifying COCOM. However, our understanding is that HMG does not intend to allow exports of this type of equipment under the discretion which it has agreed in COCOM. This opens the door to other suppliers and operators to bypass our national and broader Western interests and obtain commercial advantages denied to British companies.

Secondly, it appears from advice that the Marathon partners have received from the US - and the fact that they have been approached over the last two weeks by US suppliers and contractors with good connections with the US Administration for a stake in Marathon - that the US Government may be less hostile to the project than we were advised by Whitehall.

Given these ambiguities and difficulties it would be very helpful if you would be willing to arrange for a senior official fully au fait with the situation to meet as soon as possible representatives of the Marathon partners so as to clarify the position.

I would be most grateful if this might be authorised by you.

Yours as ever,

Kevin



10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

CABINET OFFICE	16 July 1990
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17 JUL 1990	
FILE INSTRUCTIONS	
FILE NO.	

Dear Keith,

Thank you for your letter of 28 June about the Marathon project.

The Government's decision not to approve the export licence application for the Marathon project was taken after the most careful consideration of all the issues. We remain in close touch with the United States Government to ensure that we both take a consistent position. We are also in contact with the other principal Western governments bilaterally and through COCOM. I see no reason to change the decision which we reached.

Nevertheless, I agree that it would be useful for a senior official to discuss the full range of issues raised in your letter with representatives of the Marathon partners. I have asked Mr. Meadway, an Under Secretary in the Department of Trade and Industry, to do this. He will be in touch with the companies to arrange a meeting.

Yours ever
Joseph

The Right Honourable The Lord Joseph, C.H.

SOVIET UNION - Relations PT 17

FROM: The Rt Hon. The Lord Joseph CH PC



CS. Cabinet Office
CBO
19/7.

The Rt Hon. Margaret Thatcher 18 July 1990
The Prime Minister MP
10 Downing Street
SW1A 2AA

**PERSONAL
IN CONFIDENCE**

Dear Margaret.

MARATHON

Thank you for your letter of 16th July and for arranging for Mr Meadway to discuss the full range of issues involved with representatives of the MARATHON partners. This is much appreciated.

Yours as ever,

Kevin



Foreign and Commonwealth Office

London SW1A 2AH

RESTRICTED

18 July 1990

No need
COP 1077.

Dear Charles,

Re-Election of Mr Gorbachev

As the Prime Minister has sent a message of congratulations to Vladimir Ivashko on his election as Deputy General Secretary, you may want to consider a message to Mr Gorbachev on his re-election as General Secretary. I enclose a draft.

You may, however, feel that this is now rather old news, and overtaken by this week's German-Russian agreement, on which the Prime Minister has already congratulated President Gorbachev.

Yours ever,

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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RE-ELECTION OF MR GORBACHEV AS GENERAL SECRETARY

1. Please pass the following message from the Prime Minister to Mr Gorbachev. Signed original follows by bag.

Begins

Dear Mr Gorbachev

I send you my warm congratulations on your re-election as General Secretary. I am sure that this will strengthen the cause of reform which, as you know, has my full and continuing support.

With my best wishes

Yours sincerely

Margaret Thatcher

Ends

HURD

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S N P HEMANS

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A The National Archives

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VISIT OF KOHL TO USSR : FINANCIAL AID

SUMMARY

1. GORBACHEV REJECTS FINANCIAL AID WITH STRINGS ATTACHED.

DETAIL

2. TODAY'S PRAVDA CARRIES A SUMMARY OF THE PRESS CONFERENCE HELD IN MOSCOW ON 15 JULY BY PRESIDENT GORBACHEV AND CHACELLOR KOHL ON THE EVE OF THEIR DEPARTURE TO STAVROPOL. IN ANSWER TO A QUESTION ABOUT PROVISION OF FINANCIAL AID TO THE SOVIET UNION, GORBACHEV RECALLED THAT WHEN HUNGARY HAD TURNED TO THE IMF FOR HELP SEVERAL YEARS AGO, THE IMF HAD LAID DOWN A LIST OF CONDITIONS FOR KADAR TO OBSERVE. A SIMILAR APPROACH TO THE SOVIET UNION WOULD BE UNACCEPTABLE. THE SOVIET UNION WAS NOT IN ANY CASE ASKING FOR CHARITY. IT WAS UNDERTAKING A FUNDAMENTAL RE-ORIENTATION OF ITS DOMESTIC ECONOMY - A MOVE THAT HAD WIDE IMPLICATIONS FOR ALL OTHER COUNTRIES. THE PRESENT POLITICAL LEADERSHIP WAS CAPABLE OF DEALING WITH WHAT WAS AN HISTORICAL OPPORTUNITY FOR THE COUNTRY.

3. RADICAL POLITICAL COMMENTATOR ALEXNADR BOVIN, WRITING ON THE RESULTS OF THE SUMMIT IN FRIDAY'S IZVESTIYA, WARNS OF THE DANGERS OF ACCEPTING LARGE AMOUNTS OF CREDIT WHICH COULD ONLY ADD TO THE COUNTRY'S FOREIGN DEBT PROBLEM. WESTERN AID MIGHT IN THE END DO MORE TO HINDER THAN TO HELP THE ADVANCE OF PERESTROIKA IN THE COUNTRY. BUT HE THEN GOES ON TO ECHO GORBACHEV'S REJECTION OF 'OUTSIDE INTERFERENCE' IN THE SOVIET UNION'S AFFAIRS BY MEANS OF LINKING CREDIT WITH CONDITIONS OF USE.

BRAITHWAITE

YYYY

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MED	MR P J WESTON
CONSULAR D	MR TOMKYS
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JAU/EED	MR TAIT
ECONOMIC ADVISERS	MR GOULDEN
ERD	MR MILES
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NEWS D	MR GREENSTOCK
PPD	MR LING
PUSD	MR MOSS
PLANNERS	MR KERR

ADDITIONAL 14

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THE 28TH CONGRESS OF THE CPSU, 2-13 JULY: COMMENT

1. GORBACHEV'S MANAGEMENT OF THE CONGRESS WAS A BRAVURA PERFORMANCE IN HIS OLD STYLE. HE DECISIVELY REESTABLISHED HIS AUTHORITY IN THE PARTY. HE HELD PARTY POLICY TO HIS OWN COURSE OF MODERATE REFORM, DREW THE TEETH OF THE RIGHT WING, AND AVOIDED A MASSIVE EXODUS OF THE LEFT. HE REMODELLED - AND EMASCULATED - THE INSTITUTIONS OF THE PARTY: FOR THE FIRST TIME SINCE 1918 NO MEMBER OF THE POLITBURO (APART FROM HIMSELF) NOW HOLDS OFFICE IN THE CENTRAL ORGANS OF THE STATE. HE DID CONCEDE THAT PARTY CELLS SHOULD REMAIN IN THE FACTORIES, THE ARMY, AND THE KGB. BUT HE GAVE THE REACTIONARIES NO ASSURANCE THAT HE WOULD NOT ABANDON THEM ON THIS ISSUE, AS HE HAD OVER THE PARTY'S PRIVILEGED POSITION UNDER ARTICLE 6 OF THE CONSTITUTION. YET FOR ALL THE DRAMA, THE CONGRESS SEEMED TO MANY ORDINARY PEOPLE INCREASINGLY IRRELEVANT TO THE REAL LIFE OF THE COUNTRY. THAT GORBACHEV HAS CHOSEN TO REMAIN GENERAL SECRETARY OF A PARTY IN DECLINE, FOR WANT OF A BETTER PLACE TO GO, IS NOT IN ITSELF A SIGN OF STRENGTH.

2. GORBACHEV'S STRATEGY OVER THE PAST TWO YEARS HAS BEEN TO BREAK THE COMMUNIST PARTY'S STRANGLEHOLD OVER THE LIFE OF THE COUNTRY, TO STRENGTHEN THE ORGANS OF THE STATE, AND TO REPLACE OPPONENTS OF REFORM IN GOVERNMENT AND STATE BODIES. HIS CHOSEN INSTRUMENT HAS BEEN TO ACCELERATE THE DEMOCRATISATION OF PUBLIC LIFE. BY THE BEGINNING OF THIS YEAR THERE WAS LITTLE DOUBT THAT HE INTENDED AT THE FORTHCOMING CONGRESS TO TRANSFER HIS FLAG FROM THE GENERAL SECRETARYSHIP OF THE PARTY TO THE EXECUTIVE PRESIDENCY OF THE UNION. HIS CLOSE ADVISERS WERE CONTEMPLATING WITH EQUANIMITY THE PROSPECT OF A MAJOR SPLIT IN THE PARTY.

3. BUT A SERIES OF MISHAPS AND MISJUDGEMENTS IN THE FIRST HALF OF THE YEAR DAMAGED HIS AUTHORITY AND COMPELLED HIM TO MODIFY THIS PLAN. HIS HALF-BAKED ECONOMIC REFORM WAS STALLED BY POPULAR HOSTILITY. HIS TOUGH LINE OVER LITHUANIA HAD FAILED TO SLOW DOWN THE DISINTEGRATION OF THE UNION. HE SEEMED INCREASINGLY BAFFLED BY THE

PAGE 1
CONFIDENTIAL

MANIFESTATIONS OF PLURALISM WHICH HE HIMSELF HAD ENCOURAGED: THE POPULAR DEMONSTRATIONS ON THE STREETS, THE RISE OF INDEPENDENT MUNICIPALITIES IN MOSCOW, LENINGRAD AND ELSEWHERE, AND ABOVE ALL BY THE SUCCESS OF HIS RIVAL, ELTSIN, IN THE RUSSIAN FEDERATION. THE CREATION OF THE RUSSIAN COMMUNIST PARTY IN THE MIDDLE OF JUNE, AND THE HOSTILITY EXPRESSED THERE BY MILITARY AS WELL AS CIVILIAN REACTIONARIES, SEEM TO HAVE PUT HIM INTO A PANIC. I HAVE LITTLE DOUBT THAT THE LAST-MINUTE RUMOURS THAT THE CONGRESS WOULD BE POSTPONED EMANATED FROM HIS IMMEDIATE ENTOURAGE.

4. BUT HE RECOVERED HIS NERVE TO MAKE A FIGHTING COME-BACK. HE CAME TO THE CONGRESS WITH FIVE AIMS:

A) TO REASSERT HIS AUTHORITY:

B) TO REMAIN AS GENERAL SECRETARY, BECAUSE THE PARTY WAS STILL THE ONLY POLITICAL ORGANISATION WITH SIGNIFICANT NATIONWIDE POWER: AND BECAUSE THE NEW ORGANS OF STATE POWER WHICH HE FAVOURED, ESPECIALLY THE EXECUTIVE PRESIDENCY, WERE STILL NOT PROPERLY IN PLACE:

C) TO SUSTAIN HIS LINE OF MARKET-ORIENTED LIBERAL REFORM AGAINST RADICAL CRITICS WHO ARGUED THAT IT WAS INADEQUATE, AND REACTIONARIES WHO SAW IT AS A BETRAYAL OF MARXISM-LENINISM:

D) TO REMODEL THE INSTITUTION OF THE PARTY TO REDUCE THEIR CAPACITY TO INTERFERE WITH THE WORKING OF THE STATE AND THREATEN HIS OWN POSITION:

E) TO PREVENT A MAJOR SPLIT, WHICH COULD PROVIDE HIS RIVALS ON THE RIGHT OR THE LEFT WITH A BASE FOR INDEPENDENT POLITICAL ACTIVITY.

5. GORBACHEV'S OPENING SPEECH SET THE TONE. IT LAID OUT HIS LIBERALISING PROGRAMME AT LENGTH, WITH NO MORE THAN A FEW VERBAL CONCESSIONS TO HIS CRITICS ON THE RIGHT. IT WAS NOT IN ITSELF A FIGHTING, OR EVEN A BRILLIANT SPEECH. AND IT WAS LISTENED TO WITH NO MORE THAN SULLEN RESPECT BY THE RIGHT WING MAJORITY IN THE HALL. THE FIRST BIT OF DRAMA WAS PROVIDED BY YAKOVLEV, GORBACHEV'S CLOSE POLITICAL ADVISER AND COLLEAGUE IN THE POLITBURO, WHOSE POWERFUL DEFENCE OF HIS LIBERAL PRINCIPLES DREW APPLAUSE EVEN FROM HIS OPPONENTS. SHEVARDNADZE FOLLOWED WITH A SCORNFUL ATTACK ON THOSE WHO BELIEVED THAT THE SOVIET WITHDRAWAL FROM EASTERN EUROPE WAS A CONCESSION TO ANYTHING OTHER THAN REALISM AND COMMON SENSE. BOTH MEN COMPELLED ATTENTION BY THEIR OBVIOUS SINCERITY, BY CONTRAST WITH THE GREY AND FACELESS FIGURES WHO ALSO SPOKE. BY THE END OF THE CONGRESS GORBACHEV TOO WAS SPEAKING WITH HIS OLD PASSION AND FORCE, AND WAS MASTERING AN INCREASINGLY DOCILE MAJORITY.

6. ALTHOUGH THE RIGHT WINGERS CLAIMED A MAJORITY OF THE CONGRESS DELEGATES, THEY FAILED TO EXPLOIT THEIR ADVANTAGE. THEY WERE NOISEY

AND OCCASIONALLY ABUSIVE. THEY GAINED A NUMBER OF PRODECURAL VICTORIES EARLY ON. BUT THEIR ELDERLY LEADER, LIGACHEV, DEPLOYED NO CONSTRUCTIVE OR COMMANDING IDEAS. AND HE WAS CLEARLY NO MATCH FOR GORBACHEV IN THE BACKSTAGE INTRIGUES TO MUSTER SUPPORT IN THE CRUCIAL VOTES TOWARDS THE END. HIS DEFEAT IN THE CONTEST FOR THE POST OF GORBACHEV'S DEPUTY, AT THE HANDS OF THE UNCHARISMATIC AND UNPOPULAR IVASHKO, PRESUMABLY MARKS THE END OF HIS ACTIVE POLITICAL CAREER.

7. BUT GORBACHEV'S TACTICAL SKILL AT THE CONGRESS WAS NOT THE FUNDAMENTAL REASON FOR THE DEFEAT OF THE RIGHT THERE. IT BECAME INCREASINGLY CLEAR AS THE DAYS PASSED THAT THE RIGHT REPRESENTED LITTLE MORE THAN THEMSELVES: THE MIDDLE RANKING PARTY OFFICIALS WHO RUN THE PARTY COMMITTEES IN THE PROVINCES AND THE CITIES. THESE MEN STILL CONTROL THE INSTRUMENTS OF LOCAL POWER: THE OFFICES, THE TELEPHONES, THE LOCAL PRESS AND, FOR THE TIME BEING, TV. THEY SHOULD NOT BE UNDERESTIMATED IN DEFEAT. BUT EVEN AT THE CONGRESS THEY GOT LITTLE SUPPORT FROM THE ORDINARY DELEGATES, THE DUE-PAYING PARTY MEMBERS THEY HAVE BULLIED AND MANIPULATED FOR SO LONG: A WEAKNESS WHICH GORBACHEV EXPLOITED TO THE FULL. AND IN THE COUNTRY AT LARGE THEY ARE RESENTED AND DESPISED, EVEN MORE THAN THEY ARE - NOWADAYS - FEARED. EVEN AS THE CONGRESS WAS REACING ITS HEIGHT THE MINERS - THOSE VERY WORKERS ON WHOSE BEHALF THE RIGHT WING WERE CLAIMING TO SPEAK - WERE STRIKING TO DEMANDS THAT THE PARTY LEAVE THE FACTORIES, THE ARMY AND THE KGB.

8. FOR THE PARTY AS A WHOLE, THE LAST MONTH HAS SHOWN THAT, WHETHER THEY MANOEUVRE TO LEFT OR TO RIGHT, THEY CAN NO LONGER HOPE TO REGAIN THE CONFIDENCE OR RESPECT OF THE PEOPLE. ELTSIN'S DRAMATIC DEPARTURE FROM THE PARTY WILL ENCOURAGE ALL THOSE WHO HAVE DELAYED HANDING IN THEIR PARTY CARDS FOR FEAR OF LOSING THEIR JOBS OR WORSE. THE NEXT MONTHS WILL SEE A MASSIVE HAEMORRHAGE OF MEMBERS. THOSE WHO BELEIVE THAT THE PARTY HAS JUST HELD ITS LAST ALL-UNION CONGRESS COULD BE RIGHT.

9. BUT IF THE PARTY HAS FAILED TO ESTABLISH ITSELF, SO HAS THE OPPOSITION. THE PARTY DID NOT SPLIT AT THE CONGRESS. BUT THE 'DEMOCRATIC PLATFORM' OF LIBERAL COMMUNISTS DID. THE OPPOSITION THROUGHOUT THE COUNTRY IS DIVIDED AMONG WARRING GROUPS FOR WHOM WORDS SEEM MORE IMPORTANT THAN DEEDS. SOVIET POLITICS SEEMS INCREASINGLY DOMINATED NOT BY A ONE-PARTY SYSTEM, NOR BY A SYSTEM IN WHICH A FEW EFFECTIVELY ORGANISED DEMOCRATIC PARTIES COMPETE FREELY FOR POWER, BUT BY A REGIONALISATION OF POLITICS IN WHICH NATIONALIST PRINCIPLES ARE AT LEAST AS IMPORTANT AS DEMOCRATIC ONES. THE RISE OF RUSSIA UNDER ELTSIN WILL BE AS IMPORTANT A DEVELOPMENT OVER THE NEXT YEAR AS

THE PRESERVATION OF THE COMMUNIST PARTY UNDER GORBACHEV.

10. FOR ALL THAT, THE OUTCOME OF THE CONGRESS HAS BEEN A WELCOME RELIEF FOR GORBACHEV. HE NOW HAS LITTLE REASON TO FEAR THAT HIS OWN POSITION WILL BE UNDERMINED BY RIGHT-WING COMMUNISTS. HE CAN RESUME HIS POLICY OF SECULARISING THE POLITICAL SYSTEMS BY BUILDING UP THE MACHINERY OF GOVERNMENT. HE CAN BEGIN TO NEGOTIATE A NEW RELATIONSHIP WITH ELTSIN'S RUSSIA, AND WITH THE OTHER REPUBLICS (MORE THAN HALF THE TOTAL AT THE LAST COUNT) WHO HAVE DECLARED THEIR SOVEREIGN INDEPENDENCE OF THE UNION. ABOVE ALL HE CAN - WE MUST HOPE - ASSUME THE EFFECTIVE PERSONAL RESPONSIBILITY FOR THE ECONOMY WHICH HE HAS SO FAR PREFERRED TO SHUFFLE OFF ONTO THE UNFORTUNATE RYZHKOV. THESE ARE FORMIDABLE TRIALS AHEAD. BUT THOSE IN THE WESTERN PRESS WHO WERE WRITING GORBACHEV'S POLITICAL OBITUARY A FEW WEEKS AGO WERE (AS MARK TWAIN WOULD HAVE SAID) NEVERTHELESS EXAGGERATING, TO SAY THE LEAST

BRAITHWAITE

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ADDITIONAL 14

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SOVIET INTERNAL/SOVIET ECONOMY

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21



cc FLO
MOD
DTI
LV. Appleyard (CO)

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

16 July 1990

Dear Keith,

Thank you for your letter of 28 June about the Marathon project.

The Government's decision not to approve the export licence application for the Marathon project was taken after the most careful consideration of all the issues. We remain in close touch with the United States Government to ensure that we both take a consistent position. We are also in contact with the other principal Western governments bilaterally and through COCOM. I see no reason to change the decision which we reached.

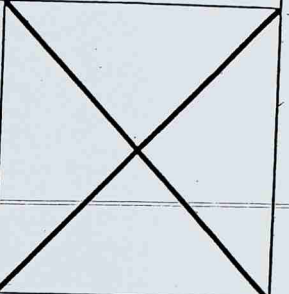
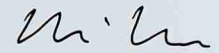
Nevertheless, I agree that it would be useful for a senior official to discuss the full range of issues raised in your letter with representatives of the Marathon partners. I have asked Mr. Meadway, an Under Secretary in the Department of Trade and Industry, to do this. He will be in touch with the companies to arrange a meeting.

Yours ever
Joseph

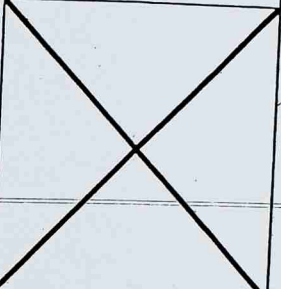
The Right Honourable The Lord Joseph, C.H.

21

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DEPARTMENT/SERIES	Date and sign
..... <i>REM 19</i>	
PIECE/ITEM <i>3183</i> (one piece/item number)	
Extract details: <i>minute from Powell to Macrae dated 15 July 1990</i>	
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MR POWELL

cc Sir Robin Butler

Robin Butler

CDP 137

mt

THE SPLIT IN THE SOVIET COMMUNIST PARTY

1. Yeltsin's resignation from the CPSU and the Democratic Platform's announcement of its departure yesterday (both towards the end of the 28th Party Congress), are in a sense historic: this is the first split since the Bolsheviks broke with the Mensheviks at the second Party Congress in Brussels in 1903. But it is typical of current Soviet politics that matters are in fact by no means so clear-cut.

2. Yeltsin's resignation was not part of the Democratic Platform's move. He will not be joining the Democratic Platform or any other political grouping. Having carried out his mandate as a delegate to the Congress, he is now (so he says) fulfilling his commitment as president of the Russian Federation to act above party.

3. The Democratic Platform are dividing the CPSU, but are not exactly leaving it. Their spokesman, Shostakovsky (strikingly, the Head of the Party's Higher Ideological School), announced that they were forming an independent democratic parliamentary party. But at the same time, he called on members not to resign from the CPSU individually, nor to surrender their Party cards. The intention appears to be threefold. By acting as a block, the Platform can lay claim to a proportion of the Party's assets. Secondly, rather than going meekly, they will force the majority in the Party damagingly to expel them. Thirdly, they may hope to attract more of the Party over to their side. They have said that they will continue to work with sympathisers who wish to remain

within the Party, as well as with "democratic forces" outside the Party.

4. But the Democratic Platform are themselves split. At the Congress yesterday, some members denounced the break-away. They vowed to continue to fight for reform of the Party from within. Over 20% of those who attended the Platform's caucus last month favoured this course. Even among those breaking away, discipline is poor: the Mayors of Moscow and Leningrad today announced their individual resignations from the Party.

5. The exact nature of the split in the Party therefore remains uncertain. The Democratic Platform had very few delegates at the Congress: so the split is not yet highly visible. However, they claim to have support from 40% of grassroots Party members: so some haemorrhaging in Party membership is very likely in the coming weeks. But the Platform will not attract anything like 40% to support their line unless they can patch up their own numerous disagreements and form a coherent alternative to the CPSU. On the face of it, they are likely to do better in attracting Party members if they do not cast their net too wide to the many other "democratic" parties now being formed. But they are proposing that all democratic parties and movements should hold a congress this autumn to form a broad political coalition. It is not clear whether this will be the same as the Democratic Platform's own parliamentary party.

6. None of this leaves the remainder of the Party in good shape. The conservative atmospherics of the Congress clashed with the mood in the country. This is likely to have reinforced public disillusionment with the Party and with Gorbachev. Even on Soviet official statistics, over 40% of Soviet mines ignored appeals from the Congress and went on strike yesterday in an impressively disciplined display of hostility to the Party and government. Numerous other enterprises, mostly in mining regions, struck in sympathy.

7. The Party is also again in sharp internal dispute over the freedom that should be given to its republican branches. Like their three Baltic counterparts, the Moldavian and Georgian parties are now insisting that they must have real independence from the centre if they are to stand any chance of remaining significant political forces in their republics. But the Congress, by a narrow margin, has taken a restrictive view in its new rules.

8. In the elections by the Congress to the new CPSU Central Committee, Gorbachev is trying to stack the future political balance somewhat in his favour by nominating at least 85 of the 396 seats up for election. But although he may partially succeed in keeping the Party a centrist one, he may now be asking himself how much longer real multi-party parliamentary politics can be deferred.

9. We shall be writing a paper on the upshot of the Congress for the JIC next week.

Christopher MacRae

A C D S MacRAE

13 July 1990



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 July 1990

MESSAGE TO VLADIMIR IVASHKO

Thank you for your letter of 13 July enclosing a draft message from the Prime Minister to Mr. Ivashko. I should be grateful if this could be despatched.

bc. 11

C.D. POWELL

J.S. Wall, Esq., LVO,
Foreign and Commonwealth Office.

CCPC



Foreign and Commonwealth Office

London SW1A 2AH

13 July 1990

Dear Charles,

Message to Vladimir Ivashko

FILE WITH COP

In your letter of ~~12~~ July you asked for a draft message congratulating Ivashko on his election as Deputy General Secretary of the Soviet Communist Party. I enclose a draft.

Jans

Stephen Wall

(J S Wall)

Private Secretary

C D Powell Esq
10 Downing Street

OUT TELEGRAM

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Caveat

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TO 5 TO IMMEDIATE MOSCOW
TELNO 6 TELNO
OF 7 OF 121445Z JULY 90
AND TO 8

9
10 1. Please arrange for following message to be passed to new
11 Deputy General Secretary Ivashko from the Prime Minister.
12 Signed original follows by bag.

13 Begins

14 Dear Mr Ivashko

15 I send you warm congratulations on your election as Deputy
16 General Secretary, and wish you success in furthering the all
17 important cause of reform.

18 Yours sincerely

19 Margaret Thatcher

20 Ends

21 HURD
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YYYY

Catchword

MAIN

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Dept
SOVIET

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MR POWELL

c Sir Robin Butler

MARATHON

Your letter to Miss Phippard of 29 June requested a draft reply to Lord Joseph's letter of 28 June. *Hay*

2. Departments agree that it would be useful to discuss the issues raised by Lord Joseph with the companies at a senior level. We propose that the Department of Trade and Industry should lead, at Under Secretary level, with the Foreign and Commonwealth Office also represented. The draft reply does not directly address Lord Joseph's contention that HMG will use its national discretion over export of 45 mb/s fibre optics systems in one way, while other governments use theirs differently, as this is an issue most easily dealt with in discussion.

3. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary, the Defence Secretary and the Trade and Industry Secretary.

L V Appleyard

L V APPELYARD

Cabinet Office
13 July 1990

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SM

cf Boneyn / Joseph

DRAFT REPLY to Lord Joseph

Thank you for your letter of 28 June about the Marathon project.

2. The Government's decision not to approve the export licence application for the Marathon project was taken after the most careful consideration of all the issues. We remain in close touch with the United States Government to ensure that we both take a consistent position. We are also in contact with the other principal Western governments bilaterally and through COCOM. I see no reason to change the decision which we reached.

3. Nevertheless, I agree that it would be useful for a senior official to discuss the full range of issues raised in your letter with representatives of the Marathon partners. I have asked Mr Meadway, an Under Secretary in the Department of Trade and Industry, to do this. He will be in touch with the companies to arrange a meeting.

CA

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TO IMMEDIATE MOSCOW
TELNO 1290
OF 121445Z JULY 90

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no

1. PLEASE ARRANGE FOR FOLLOWING MESSAGE TO BE PASSED TO NEW
DEPUTY GENERAL SECRETARY IVASHKO FROM THE PRIME MINISTER.
SIGNED ORIGINAL FOLLOWS BY BAG.

BEGINS

DEAR MR IVASHKO

I SEND YOU WARM CONGRATULATIONS ON YOUR ELECTION AS DEPUTY
GENERAL SECRETARY, AND WISH YOU SUCCESS IN FURTHERING THE ALL
IMPORTANT CAUSE OF REFORM.

YOURS SINCERELY

MARGARET THATCHER

ENDS

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YYYY

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MR APPLEYARD, CABINET OFFICE

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Fl
et

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

12 July 1990

SOVIET UNION

The Prime Minister would like to send a message of congratulations to Mr Ivashko, who has been elected as Mr Gorbachev's deputy in the Soviet Communist Party. She met him in the Ukraine.

I should be grateful for a draft.

CHARLES POWELL

Stephen Wall Esq LVO
Foreign and Commonwealth Office

As

File En



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 July 1990

Dear Richard,

KAPITZA FOUNDATION

Thank you for your letter of 9 July about the Kapitza Foundation. I agree that you should speak to the Russians in the sense of the penultimate paragraph of your letter.

I am copying this letter to Stephen Crowne (Department of Education and Science) and to Sonia Phippard (Cabinet Office).

*Yours sincerely,
Charles Powell*

CHARLES POWELL

R H T Gozney Esq
Foreign and Commonwealth Office

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*File
E am*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

SIR ROBIN BUTLER

TELEPHONE COMMUNICATIONS WITH MOSCOW

I have seen Patrick Wright's letter of 11 July to you about the proposed installation of a direct telephone line to the Kremlin, and his recommendation that we should drop the idea of protecting the line due to the considerable cost. In view of the snags, I agree that we should go ahead without encryption, at least initially. Certainly we could not find the funds from No 10.

I am copying this minute to Patrick Wright.

C.D.P.

CHARLES POWELL
12 July 1990

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FM MOSCOW
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AND TO IMMEDIATE MODUK, BANK OF ENGLAND
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SIC
TELNO 1238: SOVIET ECONOMY: REFORM PROGRAMME '500 DAYS'

SUMMARY

1. ALTERNATIVE REFORM PROGRAMME '500 DAYS', CLOSELY LINKED WITH ELTSIN, BASES STRATEGY ON A STAGE BY STAGE PRIVATISATION OF INDUSTRY AND STABILISATION OF BUDGET DEFECIT BY CUTTING SUBSIDIES, CAPITAL CONSTRUCTION PROJECTS AND DEFENCE SPENDING. THE PROGRAMME BEGINS BY THE SALE OF LAND AND HOUSING, AND NEGOTIATION OF CREDITS FROM THE WEST. '500 DAYS' AT PRESENT BEING CONSIDERED BY GOVERNMENT COMMISSION, AND LIKELY CANDIDATE FOR ADOPTION BY RSFSR LEADERSHIP.

DETAIL

2. TUR REPORTED THAT VARIOUS PROPOSALS FOR REFORMING THE NATIONAL ECONOMY ARE CURRENTLY BEING STUDIED BY A GOVERNMENT COMMISSION HEADED BY AGANBEGYAN. WE HAVE MANAGED TO OBTAIN A COPY OF THE MOST DETAILED OPTION REFORM PROGRAMME '500 DAYS' WHICH PROPOSES A MAJOR SHIFT IN OWNERSHIP TO PRIVATE HANDS, THE ENDING OF GOVERNMENT-FUNDED SUBSIDIES AND CUTS IN EXPENDITURE ON CONSTRUCTION AND DEFENCE. AS ITS TITLE SUGGESTS, '500 DAYS' SETS A DEADLINE FOR THE TRANSITION TO A MARKET ECONOMY. IT HAS BECOME CLOSELY ASSOCIATED WITH ELTSIN AND IS WIDELY BELIEVED TO BE A MAJOR PLANK IN HIS PROGRAMME.

3. '500 DAYS' FIRST SAW THE LIGHT OF DAY AS A BLUEPRINT FOR THE REFORM OF THE RUSSIAN FEDERATION'S ECONOMY, PUT FORWARD BY BOCHAROV WHO NARROWLY FAILED TO BE APPOINTED RSFSR PRIME MINISTER. BOCHAROV NOW HEADS THE HIGHER ECONOMIC COUNCIL, A BODY CONVENED BY ELTSIN TO ACT AS A THINK-TANK FOR ECONOMIC REFORM IN THE USSR. THE REPUBLIC'S SUPREME SOVIET IS AT PRESENT IN THE PROCESS OF AGREEING THE COMPOSITION OF ITS GOVERNMENT. TWO KEY POSTS - CHAIRMAN OF THE COMMITTEE FOR THE ECONOMY AND CHAIRMAN OF THE COMMISSION FOR ECONOMIC REFORM - HAVE ALREADY BEEN FILLED BY RADICALS. THEY NO DOUBT HAVE THEIR OWN IDEAS ON HOW REFORM OF RUSSIA'S ECONOMY SHOULD BE CONDUCTED: BUT NEVERTHELESS '500 DAYS' SEEMS TO DOMINATE THE FORMATION OF THE NEW GOVERNMENT'S ECONOMIC POLICY.

4. THE RUSSIAN PARLIAMENT HAS ALREADY SERVED NOTICE OF ITS INTENTION TO SET UP ITS OWN STATE AND FOREIGN BANKS, CONTROL EARNINGS FROM THE SALE OF OIL AND GAS AND UNDERTAKE A MAJOR OVERHAUL OF ITS MINISTERIAL SYSTEM. ELTSIN IS ON RECORD AS SAYING THAT HE WOULD BE VERY RELUCTANT TO START REFORM WITHIN RUSSIA WITHOUT COORDINATING ACTION WITH THE REST OF THE COUNTRY. BUT IF THE CENTRE CONTINUED TO DELAY, RUSSIA WOULD BE FORCED TO GO IT ALONE. OUR COPY OF '500 DAYS' HAS HOWEVER BEEN RECAST IN A FORM SUITABLE FOR NATIONAL APPLICATION. WE HAVE BEEN TOLD THAT AGANBEGYAN PLANS TO USE '500 DAYS' AS THE BASIS FOR ALTERNATIVE TO THE GOVERNMENT'S PROGRAMME WHICH WOULD WIN SUPPORT FROM BOTH GORBACHEV AND ELTSIN.

SUMMARY OF TEXT

5. '500 DAYS' IS DIVIDED INTO 4 STAGES - PREPARATION, PRIVATISATION, INTRODUCTION OF MARKET MECHANISMS AND STABILISATION. ACCORDING TO THE INTRODUCTION, THE COUNTRY'S ECONOMY IS AT PRESENT SUFFERING FROM FALLING OUTPUT AND HIGH INFLATION (15-20% PA). OTHER ATTEMPTS AT PARTIAL REFORM HAVE FAILED (HUNGARY, YUGOSLAVIA). THE GUARANTEE OF SUCCESS OF '500 DAYS' LIES IN ITS RADICALISM AND ATTENTION TO DETAIL. IT BASES ITS STRATEGY ON USING THE FIRST 250 DAYS (STAGES I AND II) TO BREAK UP PRODUCTION MONOPOLIES, REMOVE THE HEAD HAND OF THE MINISTERIAL SYSTEM, REDUCE EXCESS LIQUIDITY BY AT LEAST 50% (SALE OF GOODS, HOUSING, LAND AND SHARES) AND TO ESTABLISH THE NECESSARY ECONOMIC MECHANISMS TO CONTROL THE TRANSITION. IT ACKNOWLEDGES THAT HELP WILL BE NEEDED FROM ABROAD IF THE PLAN IS TO SUCCEED. ACCORDING TO THE TIMETABLE, DAYS 1-30 ARE ALLOTTED FOR CONDUCTING NEGOTIATIONS WITH THE WEST FOR OBTAINING SUBSIDISED CREDITS AND SPECIALIST ADVICE. STAGE III (DAYS 250-400) SEE THE FINAL REMOVAL OF STATE SUBSIDIES AND INTRODUCTION OF PRICE REFORM, ACCOMPANIED BY WELFARE BENEFITS AND RATIONING OF BASIC GOODS., THE LAST STAGE CALLS FOR THE STABILISATION OF THE ECONOMY, WITH THE OPTION OF USING FOREIGN AID SHOULD THERE BE NO SIGN OF EMERGING FROM THE SLUMP STAGE III IS BOUND TO PRECIPITATE.

6. SEE MIFT FOR TEXT AND COMMENT

BRAITHWAITE

YYYY

FILE

MS

cc HMT
ODA



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 July 1990

Aid to the Soviet Union

BM I enclose a further memo about aid to the Soviet Union from the indefatigable George Soros. I should be grateful for advice and a draft reply.

I am copying this letter and enclosure to John Gieve (HM Treasury) and to Eamonn Taylor (ODA).

C. D. POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

THE SOROS FOUNDATION—SOVIET UNION

AID TO THE SOVIET UNION

(Follow-up to my previous memo)

Discussion of Western assistance should be broken down into two broad categories:

- (a) assistance in creating a monetary system
- (b) other forms of assistance.

The first category can again be broken down into four levels in ascending order of importance, complexity and cost.

- I. Assistance in managing the foreign currency assets and obligations of the Soviet Union. This would involve the introduction of an effective exchange control mechanism in place of the current chaos. It would probably require the division of the Vnezheconombank into a state institution for exchange control and a commercial banking operation.
- II. Assistance in providing a minimum standard of living for the population. This would involve providing individual rations at subsidized prices, to be financed by the sale of other imported consumer goods at market prices.
- III. Assistance in establishing a payment mechanism between autonomous republics. This would be an extension of the European Payments Union concept to the Soviet Union.
- IV. The establishment of an independent, internationally-managed central bank which would establish a hard currency that would eventually replace the ruble.

Other forms of assistance are too numerous to be listed. I am moving ahead full speed with organizing a system for management training abroad, as agreed between my Cultural Initiative Foundation and the Reforma Foundation in Moscow.

George Soros
July 11, 1990

THE SOROS FOUNDATION—SOVIET UNION

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George Soros
July 11, 1990



JE
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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Adm 11 July 1990

I enclose a copy of a letter which the Prime Minister has received from The Rt Hon. The Lord Joseph, CH, PC.

I should be grateful if you would let me have a draft reply for the Prime Minister's signature, to reach this office by Thursday, 26 July.

JK

DOMINIC MORRIS

Ben Slocock Esq
Department of Trade and Industry

MEM

FROM: The Rt Hon. The Lord Joseph CH PC



The Rt Hon. Mrs Margaret Thatcher MP
The Prime Minister
10 Downing Street
SW1A 2AA

11 July 1990

CONFIDENTIAL

Dear Margaret.

MARATHON

- also with DM

Further to my letter of 28th June I am now told that in addition to the exception from the COCOM regime of 45 megabits systems referred to by me in that letter, COCOM members can exercise national discretion to permit for the USSR 140 megabits systems at 1.3 nanometres.

I am also told that the UK has told companies that it does not intend to exercise the discretion thus available to us.

If this is indeed the case, then I am sure that COCOM members (e.g. the Germans) are free to provide, in effect, the MARATHON system.

I ventured to warn last year of this danger. It would be a very sad and regrettable outcome - from what was a Cable & Wireless/GEC UK initiative - for the UK's national and commercial interests.

I do hope that the meeting requested by me at the end of my June 28th letter between MARATHON partners and a senior official fully au fait with the very latest circumstances may be urgently arranged.

Yours as ever,
Kevin

SOVIET UNION! Relms Pt 7





Foreign and Commonwealth Office

London SW1A 2AH

Sir Patrick Wright GCMG
Permanent Under-Secretary of State

11 July 1990

Sir Robin Butler KCB CVO
Cabinet Office

My dear Robin.

TELEPHONE COMMUNICATIONS WITH MOSCOW *leaf*

1. Thank you for your letter of 20 June.
2. The technical security implications of the link between No 10 and the Kremlin have now been carefully considered. To ensure that the security of the Embassy is not put at risk, a manual patch would be required which would entail physically disconnecting the private wire from the Embassy exchange and routing it to another connected to the Kremlin/MFA. And while the special link was connected, the cypher stream would be stopped. A similar arrangement would be required in London (though a way may be found to make this automatic).
3. Our experts have also evaluated two telephone encryption systems, one made by Racal, the other by Marconi. In each case, they paid particular attention to speech quality. The Racal equipment (£1,600) was basic and speech quality poor. The Marconi equipment was more expensive (£5,000) but speech quality very good (brochure attached). Our technical security experts favour protecting the line, but there are two snags: the first is that the encryption device would, after all, be subject to a COCOM embargo. Thus, if we decided we wished to proceed (and to play by the rules), we would need to get special agreement from COCOM partners. But secondly, the cost now makes this option increasingly unattractive since it would be only prudent to provide two back-up units which would mean an overall cost of some £20,000. You will probably conclude in the light of this - and especially since neither the Americans nor Germans bother with any encryption protection - that the idea should not be pursued.
4. We propose, therefore, to go ahead on this basis: but before asking the Embassy to speak to the Russians, I should be grateful to know whether you agree that the idea of protecting the line should be dropped.

/5. I

RW1AAP



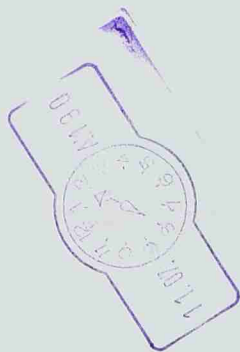
5. I am copying this letter to **Charles Powell.**

Yours tr.

Patrick

Patrick Wright

① SV UNION: Rele pr 17





Foreign and Commonwealth Office

London SW1A 2AH

9 July 1990

Dear Charles,

Kapitza Foundation *Elap*

Thank you for your letter of 26 June.

We agree that the Kapitza Foundation, though still embryonic, looks as if it may become a sensible and worthwhile project. The Russians have approached the Prime Minister before formulating a precise proposal in order to gain political support to help to get the project off the ground.

The enclosed copy of Kapitza's entry in the Dictionary of National Biography explains his connections with this country. The Russian aim seems to be to endow a number of scholarships through a Trust to be set up at Cambridge University, to facilitate "scientific and industrial cooperation". The house in Cambridge where Academician Kapitza lived would be part of the Soviet contribution to the endowment.

Academician Kapitza's son has been in touch with George Guise in the No 10 Policy Unit. There have also been contacts between the Soviet Academy of Science and the Royal Society and Cambridge University. However, the wholehearted support of Cambridge University cannot be taken for granted; when we spoke to the Professor of Physics (who is also a fellow of Churchill) he was unsighted. His first reaction was that a new scheme might not offer much that was not provided by existing exchange programmes.

If the scheme gets off the ground it will bring perhaps ten graduates a year from Soviet Universities to this country. In areas such as economics and management, where the Soviet Union has long been cut off from Western thinking, they could be valuable. We therefore recommend that the Prime Minister should give the proposal her general support. But it would be important to avoid the impression that the Government might be ready to offer funding, and to make it clear that the organisation of the trust is for the Russians and the academic community.

/It might



It might be giving the idea too much prominence to make an announcement out of the blue. If you agree we could let the Russians know that the Prime Minister welcomes the idea and that when they are ready to announce something, she will be happy to make her support public. We would make sure that the Russians understood that there was no prospect of Government money.

I am copying this letter to Steven Crowne (DES) and to Sonia Phippard (Cabinet Office).

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

KAPITZA, PIOTR LEONIDOVICH (1894-1984), physicist and Nobel prize-winner, was born in Kronstadt (near St Petersburg) 9 July 1894, the younger son of General Leonid Petrovich Kapitza, a military engineer, and his wife, Olga Ieronimovna, daughter of General Ieronim Ivanovich Stebnitski. His mother was a specialist in children's literature and folklore. He was educated at the local 'Realschule' from which he graduated with honours in 1912. He then entered the electrotechnical faculty of the St Petersburg Polytechnical Institute where he was appointed to a staff position after graduating in 1918. In spite of the difficult conditions of World War I, the revolution, and the civil war, he took an active part in the research activity initiated by his teacher A. F. Joffé and soon acquired a reputation for his skill and originality. In December 1919 he lost his father and his young son and in January 1920 his wife and newly born daughter in the prevailing epidemics and, partly in order to take his mind off this devastating blow, Joffé arranged for him to take part in a Soviet mission to renew scientific contacts with western Europe. He and Joffé went to Cambridge in 1921 and Sir Ernest Rutherford (later Lord Rutherford of Nelson, q.v.) agreed to have Kapitza stay in the Cavendish Laboratory for a winter to gain research experience. Rutherford was much impressed by Kapitza's success in tackling his first problem and a very cordial relationship was soon established between them. As a result Kapitza stayed in Cambridge for thirteen years rather than just for a winter as originally intended.

Some of his work on alpha particles required the use of high magnetic fields and Kapitza developed special techniques for producing such fields only momentarily, lasting long enough to measure what was needed, but not long enough to overheat the magnet coil. But once the equipment for producing these fields had been developed, Kapitza's interest shifted from nuclear physics to the study of magnetic phenomena in the new range of high fields available. Such properties become more interesting at very low temperatures and Kapitza developed ingenious methods of liquefying hydrogen and helium to cool specimens to temperatures close to the absolute zero. To house all this new activity more space was needed and Rutherford persuaded the Royal Society to provide £15,000 from the Ludwig Mond bequest for building what came to be known as the Royal Society Mond laboratory in the courtyard of the Cavendish Laboratory. The new laboratory was opened in 1933.

Kapitza rose rapidly in the scientific es-

tablishment. He gained his Ph.D. in 1923; in 1925 he was appointed assistant director of magnetic research and was elected to a fellowship at Trinity College (honorary fellow, 1966). In 1929 he was elected FRS and also a corresponding member of the Soviet Academy of Sciences (he became a full member in 1939) and in 1931 he was appointed Royal Society Messel professor. However, he had little opportunity to exploit the facilities of his new laboratory, for in the summer of 1934, following a routine holiday visit to the Soviet Union, he was refused permission to return to Cambridge. In spite of many appeals, the Soviet authorities would not reconsider their refusal and eventually he agreed to become director of a new Institute for Physical Problems in Moscow, built specially to his requirements. During his thirteen years in Cambridge Kapitza became somewhat of a legend, not only for the originality of his scientific achievements, in which he brought his early engineering training to bear on problems of physics, but also for his ebullient and sometimes eccentric personality and for the stimulating scientific discussions at his personal seminar, which was known as the Kapitza Club. He can be said to have laid the foundations of a new school of low temperature and solid state physics in Cambridge, which has continued ever since.

In his new Moscow Institute, Kapitza changed the direction of his personal activity from magnetism to study of the strange behaviour of liquid helium at very low temperatures. In the course of a series of ingenious experiments he discovered superfluidity and provided the basis for a fundamental theory of quantum liquids developed by Lev Landau, the Institute's house theoretician. He also made important contributions to the techniques of gas liquefaction and his turbine method of liquefying air became important during World War II because of its relevance to the bulk production of oxygen for the steel industry. Towards the end of the war Kapitza was briefly in charge of the Soviet oxygen industry. In 1946, however, his fortunes again suddenly changed. Probably mainly because of his criticisms of L. P. Beria, the notorious chief of secret police who headed the initial stages of the Soviet atom bomb project, Kapitza was suddenly dismissed from his Institute, allegedly for shortcomings in his oxygen work for which only a few months earlier he had received a high government decoration.

Though dismissed he was not arrested, and for the next seven years lived at his dacha (country house) outside Moscow where he managed

to continue his scientific work, but yet again in a new direction. He set up a laboratory in some outhouses of the dacha and his main effort went into developing powerful new microwave sources for the intense heating of plasma. Effectively, he switched from very low to very high temperature physics. After Stalin's death in 1953, Kapitza was reappointed to his Institute and continued this plasma work to the end of his life. His aim was to reach temperatures high enough to produce thermonuclear fusion, but although he made interesting contributions to plasma physics he did not achieve his aim. Thermonuclear fusion has indeed not yet been achieved anywhere, but powerful machines such as the Tokamak seem to offer greater promise. In the course of his fifty years in the USSR, Kapitza became an important figure in the Soviet scientific and cultural establishment and often courageously promoted liberal causes. His work was recognized by many awards and academic honours both in the USSR and in the West, culminating in the Nobel prize in 1978.

In 1916 he married Nadezhda Kyrillovna, daughter of General Kyrill Kyrillovich Chernosvitov but, as already mentioned, she died in 1920. His second marriage in 1927 was to Anna Alekseevna, daughter of Admiral Alexei Nikolaevich Krylov, mathematician and naval architect, and she and their two sons survived him. Kapitza died in Moscow 8 April 1984.

[D. Shoenberg, *Biographical Memoirs of Fellows of the Royal Society*, vol. xxxi, 1985; private information; personal knowledge.]

DAVID SHOENBERG

KAY, (SYDNEY FRANCIS) PATRICK (CHIPPINDALL HEALEY) (1904-1983), ballet dancer. [See DOLIN, SIR ANTON.]

KEATING, THOMAS PATRICK (1917-1984), artist, restorer, and faker, was born 1 March 1917 in Forest Hill, London, the fourth child in the family of four sons and three daughters of Herbert Josiah Patrick O'Brian Keating, a house painter, and his wife, Louisa DeLieu, a charwoman. He attended the local infants' school in Dalmain Road, where he learned to draw, and at the age of seven ran away to stay with his maternal grandmother in Eltham, Kent. There he attended Roper Street School. Three years later he returned to Forest Hill and Dalmain Road School where he won a paintbox for swimming a width of the local baths underwater. Painting and drawing became his obsession.

Leaving school at fourteen Tom Keating took a variety of jobs, including working as a lather-boy and as a lift boy at the Capitol cinema in the Haymarket, before joining his father as a

decorator. It was there he learned decorative skills and how to mix paint. In the evenings he attended art school in Croydon and Camberwell.

During World War II Keating served as a stoker in the Royal Navy and saw service in the Far East and on Russian and Atlantic convoys. After his ship was torpedoed he was invalided out of the navy and, at the age of thirty, he became a full-time art student at Goldsmiths' College, south London, on an ex-serviceman's grant. He failed his exams twice. He had wanted to teach and without a diploma that career was closed to him. It was the start of his bitterness towards an establishment he always viewed as hostile.

He joined a restoration studio in London and while there was asked to make copies of a number of paintings. He was later horrified to discover them being sold as genuine. It was then that he decided to flood the market with fakes (or Sexton Blakes as he called them in his own variant of cockney rhyming slang) as a way of striking a blow for impoverished artists against rich dealers and collectors and of getting back at a world which he felt was both shunning and using him.

During the next twenty-five years he worked as a free-lance restorer, his most important commission being the two years he spent restoring the Laguerre murals at Marlborough House. But all the time he was painting both in his own style and in that of other artists including Rembrandt, Constable, Kreighoff, Degas, Renoir, and Turner. He later admitted to putting more than 2,000 fakes in the style of more than 130 artists into circulation. He released them on to the market gradually either by giving them away, selling them to recover the cost of his materials, or putting them into small auctions where they would not arouse suspicion.

Keating's faking became public knowledge in 1976 when it was revealed that thirteen water-colours attributed to Samuel Palmer [q.v.] were not by Palmer. Keating wrote to *The Times* and admitted he had done them. The newspaper hunt to find him (he was touring the West Country on his motor cycle) and subsequent revelations turned him into a folk hero. His trial at the Old Bailey in 1979 was stopped because of his ill health, and he returned home to Dedham to continue painting. It was important, he said, that his faking should be discovered in order that the 'joke' should become public knowledge. 'If I had wanted to be a real faker', he later said, 'you would never have heard of me.' He also said that fooling the experts was his greatest joy in life; the thought of it made him helpless with laughter. Keating's object was never to make money. He was generous to a fault and remained poor throughout his life.

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SOVIET UNION:
PM's visit 194

SUNDAY TELEGRAPH

PETERBOROUGH COURT AT SOUTH QUAY 181 MARSH WALL LONDON E14 9SR
TELEPHONE: 01-538 5000 TELEX: 22874 TELLDN G

DIRECT LINE:

FAX:

(Copy of letter sent on 19 June 1990)

7 July 1990

Charles Powell Esq
No.10 Downing Street
London SW1A 2AA

My Dear Charles,

I will be visiting Moscow at the end of July/beginning of August to attend the first conference of the Russian Christian Democratic Party. I thought that as I am going to be there anyway, I would like to put in a bid to interview Mr Gorbachev.

Perhaps in relaying the request to him, the other purpose of my visit ought to be suppressed but you and the people in Moscow will be the better judges of that. I am sure that any testimonial from you would be worth much more than anything I can say on my own behalf, but it may be worth mentioning that I have interviewed the Prime Minister on several occasions.

Bruce
Anderson

Bruce Anderson
Assistant Editor

Again: happy birthday



File M
ack

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 July 1990

Dear Sophie,

THE BRITISH-SOVIET LECTURE

Thank you for your letter of 6 July about the speaker to give the annual British-Soviet Lecture. The Prime Minister agrees that we should invite the Governor of the Bank of England to give the Lecture, but does not support the choice of Sir John Harvey-Jones as a substitute.

I am copying this letter to John Gieve (H M Treasury).

Yours sincerely,

C. D. POWELL

J. S. Wall, Esq., L.V.O.,
Foreign and Commonwealth Office

M

Eric Hunter ②
COP
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ms

Jp 01074/J267

MR POWELL

c Sir Robin Butler

The 28th CPSU Congress

The Soviet Party Congress is at the half-way stage. It is scheduled to work over the weekend and to finish in the middle of next week.

2. The gathering's mood is not straightforward. The provincial party officials who form a large part of it want a clear lead on renewal of the Party, to get it out of what most feel to be its current humiliating mess. There is no patience for slogans. Stirring declarations of traditional values (such as that from Ligachev), or daring criticisms of the leadership that have vented delegates' own frustrations, have been warmly applauded. But so have unhackneyed, honest speeches from the left (such as those by Yakovlev and Shevardnadze).

3. A lot of steam is being let off. Once delegates have done this, there may be a stronger centrist core to the Congress than its truculent, conservative atmospherics hitherto suggest. When it comes to taking formal positions, as opposed to sounding off about their grievances, a large majority favour reform. It is the nature and pace of reform that is at issue.

4. For Gorbachev, what matters is not the rhetoric but the outcome on:

- the draft Party programme, entitled "towards a humane democratic socialism";
- proposals for a new Party structure and rules (the Party statute);

- above all, perhaps, the elections at the end of the Congress to the reformed Party bodies which the new structure may create.

5. The changes in the Party's structure would set a new post of Party Chairman over an executive First Secretary and deputies, dilute the Politburo into a much larger presidium, and give a possibly smaller Central Committee greater policy-making powers. Such changes would release Gorbachev from day-to-day Party work, reduce the pressure of the collective Party leadership on him, and diminish the Party's ability to compete with the new state bodies for executive authority.

6. Gorbachev managed to slip surprisingly liberal drafts of the programme and statute through a preparatory Central Committee plenum on 29 June. Between them these documents made only one allusion to the Party's "vanguard role", and in their amended references to election politics and to the *nomenklatura* appeared to be preparing the Party for parliamentary life. The conservatives are counter-attacking at the Congress. The extent of movement towards a market economy is under question. And Gorbachev has acknowledged resistance to the proposed changes in the Party's structure.

7. Gorbachev's own election as Party leader looks increasingly safe. There are no signs yet of serious conservative contenders; and both Ligachev and Polozkov, among others, have expressed their support for him. Even hardliners are perhaps realising that his removal would do their own cause harm. But the elections are by secret ballot, and Gorbachev may well find himself saddled with conservative deputies and Party bodies (we know he wanted his close ally, the liberal Yakovlev, as First Secretary). At all events, there will be a heavy turnover. Yakovlev, Shevardnadze and Ryzhkov (the last perhaps disingenuously)

have all implied that they do not expect election to top Party posts. Four other Politburo members and at least one Central Committee Secretary are not standing. Politburo member Zaikov has called for a 90 per cent change in Central Committee membership.

8. The Party's efforts at renewal will not reverse its fortunes. Gorbachev's remark on 4 July that the leadership (Party, not state) had only two more years underlined the sense of time running out. The Congress yesterday rejected an imaginative change of name. The strictures in the draft Party statute against factions (which conservatives may succeed in toughening) seem certain to drive the left-wing Democratic Platform out. This will not be a split in the sense of a division of the Party's property and *apparat*, but it is likely to result in a serious haemorrhaging of the Party's membership over the next few weeks and months.

9. The extent to which Soviet political life is undermining the Party's traditional role and form was vividly brought out by the Congress's strong support yesterday for the rapid completion of a new Treaty of Union, which would convert the country into a Union of sovereign states. There was also sympathy for the insistence of republican Party leaders that their local parties must have genuine independence from the centre - precisely the issue that got the Lithuanian Communist Party into such hot water as recently as last December.

10. Meanwhile, the RSFSR Supreme Soviet has resumed its session (pointedly showing that there are other political games in town besides the Congress). Leading reformers at the Congress have sent an open letter to Gorbachev expressing alarm at military resistance to reform. The miners show no signs of responding to the Congress's appeal to back away from a one-day political strike on 11 July that will call for *inter alia* the nationalisation of Party property, the removal of Party organs from the army and

CONFIDENTIAL

KGB, and the dissolution of the official trade unions. And radicals associated with the Democratic platform have called for nationwide mass demonstrations against the Party on 14-15 July. The Congress seems certain to be the last in conditions of a one-party system.



PERCY CRADOCK

6 July 1990

WSI5/A953

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oro
Prime Minister

Foreign and Commonwealth Office

①
JPC

Agree to nominate Robin Leigh-Pemberton? - Yes
(But not John Harvey - Jones)
6 July 1990

Sea Chucker,

CD 6/7.

The British-Soviet Lecture

This year it is the United Kingdom's turn to nominate a speaker to give the annual British-Soviet public lecture, a series launched when the Prime Minister visited the Soviet Union in 1987. Our previous nomination, in 1988, was Lord Blake, who gave the second lecture in the series, on the theme of "British Perestroika". The lecture should take place in the autumn, at a prestigious Soviet institution, probably in Moscow.

We have considered possible themes for the lecture. To have maximum impact, it should be a topic of wide concern, in the United Kingdom as well as in the Soviet Union. The two areas where we need most pressing to put our views across are the reform of the Soviet economy and the Soviet Union's part in tackling environmental issues.

The transition of the Soviet Union to a market economy is the issue on which the ultimate success or failure of President Gorbachev depends. The Foreign Secretary therefore recommends that this should be the theme of the lecture. He suggests that he invite Robin Leigh-Pemberton, Governor of the Bank of England, to give the lecture, which could focus on the fundamental need for sound money and the role of a properly functioning banking system in a market economy.

As a second choice, we might consider Sir John Harvey-Jones who might be asked to give a presentation on the role of the private sector. In either case, we would be aiming for an audience of top-level economic policy-makers, including potential captains of industry.

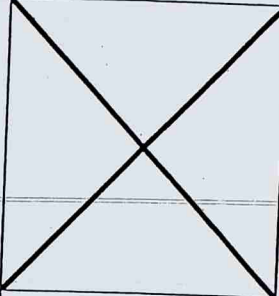
I am copying this letter to John Gieve (HMT).

Jams.
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

A The National Archives

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Charles Powell

With Compliments

to:
Julian Amery

Com
7/7

S.VII.90
PT

HOUSE OF COMMONS
LONDON, SW1A 0AA

112, EATON SQUARE,
LONDON SW1W 9AE

Tel: 071- 235 1543
071- 235 7409

5th July, 1990



In Douglas

I am sure you are inundated about what is going on inside the Soviet Union. I pass on, however, two snippets of information which were slightly surprising and certainly new to me.

1. General Cann, the French Commandant in Berlin, told me that Soviet junior officers who were in touch with his officers have frequently expressed regret at the Soviet Government's abandonment of their postwar conquests in Eastern Europe. They have sometimes done so in the presence of senior Soviet officers who General Cann deduces must share their juniors views.

2. Mr. Yuri Butchenko came to see me a couple of days ago. We had an interpreted conversation about the situation in the Soviet Union. I asked him how he saw the future. He said he was pessimistic: we should not exclude the rise of a "Soviet Hitler". All the objective circumstances were there - unemployment, inflation, shortage of consumer goods and 'national dishonour' (i.e. retreat from empire and humiliation of the armed forces).

I asked him where he thought the Hitler would come from. He did not expect him to be a General, perhaps a middle ranking officer - shades of Nasser.--

I think we have all been ^{speculating} about the possibility of a Bonapartist ~~core~~ but Butchenko's phrase a "Soviet Hitler" was a new thought to me so I pass it on. I am copying this letter to Charles Powell and Tom King.

In case,
Julian

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (1)
OF THE PUBLIC RECORDS ACT

Julian Amery

The Rt. Hon. Douglas Hurd, M.P.,
Foreign & Commonwealth Office,
Whitehall,
LONDON SW1A 2AH



10 DOWNING STREET

John Spinks to him
John

George Soros called a Peter
Middleton today. Discussion
was mainly on Soviet Union
and whether it could benefit from
Western aid. George Soros
expressed hope that he might
be able to see PM to brief him
on his recent visit to USSR. Peter
told him to make contact with
you.

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SOVIET UNION: SUMMARY OF LATEST DEVELOPMENTS

1. CPSU CONGRESS

- OUR GENERAL ASSESSMENT AFTER THE SECOND DAY REMAINS AS SET OUT IN OUR SUMMARY OF TELNO 1226. IN SHORT, SO FAR SO GOOD FOR GORBACHEV.
- MOST OF THE SECOND DAY WAS TAKEN UP WITH POLITBURO MEMBERS GIVING ACCOUNTS OF THEMSELVES TO THE CONGRESS. THE HIGHLIGHTS:
 - A COMBATIVE RESTATEMENT OF LIGACHEVISM BY LIGACHEV: THE NEED FOR COMMITMENT TO TRUE MARXIST-LENINISM, AGAINST PRIVATE PROPERTY, AGAINST "THOUGHTLESS RADICALISM," JUSTIFYING THE ANTI ALCOHOL CAMPAIGN - ALCOHOL WAS THE COUNTRY'S SLOW CHERNOBYL.
 - A VIGOROUS DEFENCE BY SHEVARDNADZE OF POLICY ON EUROPE: OF COURSE WE FORESAW WHAT WAS GOING TO HAPPEN - BUT WE COULD NOT SET AS OUR AIM THE IMPOSITION OF TOTALITARIAN SYSTEMS WHEN WE OURSELVES HAD REJECTED THEM. HE EMPHASISED THE FINANCIAL PEACE DIVIDED FROM SOVIET FOREIGN POLICY.
 - FIFTY PERCENT OF DELEGATES EITHER FULL-TIME OR PARTY APPARATCHIKS OR MEMBERS OF THE ARMY/KGB. BUT NOT ALL APPARATCHIKS ARE REACTIONARY. LIGACHEV SO FAR HAS GOT MOST APPLAUSE: BUT WAS QUITE CLOSELY FOLLOWED BY SHEVARDNADZE AND YAKOVLEV.
 - GORBACHEV HAS SAID THAT FOUR SENIOR POLITBURO FIGURES HAVE ASKED TO RESIGN - SLYUNKOV (ECONOMY), VOROTNIKOV (FORMER RSFSR CHAIRMAN), BIRYUKOVA (CONSUMER SECTOR) AND THE CENTRAL COMMITTEE SECRETARY USMANOV - RESPONSIBLE FOR NATIONALITIES, AND ONLY PROMOTED LAST YEAR. DEPARTURE OF SLYUNKOV AND VOROTNIKOV WILL NOT WORRY GORBACHEV. BEFORE THE CONGRESS, ZAIKOV (DEFENCE SECTOR) ALSO SAID HE WOULD BE OFFERING TO RESIGN.
 - SHEVARDNADZE HAS HINTED HE DOES NOT WANT A SENIOR POST AS WELL AS THAT OF FOREIGN MINISTER. YAKOVLEV HAS SAID HE WOULD NOT WANT THE PROPOSED NEW POST OF DEPUTY CPSU GENERAL SECRETARY.
 - LIGACHEV AND POLOZKOV HAVE BOTH SAID THEY WILL SUPPORT GORBACHEV'S RE-ELECTION AS PARTY LEADER. SOME OTHER PARTY LEADERS HAVE PAID

TRIBUTE IN THEIR SPEECHES. AT THE MOMENT, IT LOOKS UNLIKELY THAT THERE WILL BE A SERIOUS CHALLENGE TO HIS LEADERSHIP.

2. LITHUANIA

- LITHUANIA HAS OFFERED 100 DAYS MORATORIUM: MOSCOW HAS ENDED THE BLOCKADE. THEY WILL HAVE BEEN WAITING FOR AN OPPORTUNITY TO DO THIS. IT WAS NOT WEAKENING LITHUANIA'S RESOLVE AND WAS PROVIDING A PEG FOR YELTSIN AND OTHERS TO CRITICISE MOSCOW'S POLICY. RYZHKOV HAS HINTED THAT THE RUSSIANS MAY NOW BE PREPARED FOR SERIOUS NEGOTIATIONS. BUT A DECISION ON THIS UNLIKELY UNTIL AFTER THE CONGRESS.

3. MINERS.

- MINERS HAVE ANNOUNCED PLANS FOR A ONE-DAY STRIKE ON 11 JULY. MOST OF THEIR AIMS ARE POLITICAL: RESIGNATION OF THE GOVERNMENT, REDUCTION IN PARTY INFLUENCE IN THE ECONOMY.

4. ECONOMY

- VERY LITTLE PRESS DISCUSSION OF 'AID TO THE SOVIET UNION.' ONE ARTICLE SAID 'YES - BUT NO STRINGS.' TWO ECONOMISTS WE HAVE TALKED TO RECENTLY HAVE OPPOSED THE IDEA. IT WOULD DELAY REFORM AND LEAVE THE SOVIET UNION WITH A DEBT PROBLEM LIKE POLAND'S.

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Foreign and Commonwealth Office

London SW1A 2AH

4 July 1990

Dear Charles,

OM 4/4

Boris Yeltsin

With his letter of 20 June, the Soviet Ambassador sent you an unofficial translation of Mr Yeltsin's acknowledgement of the Prime Minister's congratulations on his election. I now enclose the signed original.

Mr Zamyatin's translation is accurate.

Yours,

Stephen Walk

for (R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

У В А Ж А Е М А Я Г О С П О Ж А

М А Р Г А Р Е Т Т Э Т Ч Е Р !

Благодарю Вас за поздравление в связи с избранием меня Председателем Верховного Совета РСФСР.

Надеюсь, что общая забота о мире и процветании народов Великобритании и России будет определять отношения между нашими государствами.



Б.Ельцин.

" 14 " июня 1990 года

THE SOROS FOUNDATION—SOVIET UNION

AID TO THE SOVIET UNION

1. The Soviet Union is in a process of disintegration heading towards a revolutionary climax. If events are allowed to take their course, they are likely to resemble the French Revolution: innovative fervor, yielding to chaos and terror, to be followed by a military regime based on the pursuit of national glory. The analogy should not be pushed too far: instead of the guillotine, there will be pogroms and civil war, and the military regime that follows cannot pose a threat to the world similar to Napoleon; on the other hand, it will dispose over nuclear weapons.

2. It is in the interest of the world to prevent a decline into chaos. Contrary to the rules of behavior which apply in normal times, far-reaching intervention in the internal affairs of the Soviet Union is called for: only foreign assistance could alter the seemingly inexorable course of events. Again, contrary to expectations, the Soviet Union would welcome it warmly, provided it is well conceived and presented in the right way.

3. The controversy between conditional or unconditional aid is easily resolved. Intervention must be conditional to be effective and the Soviet leadership knows this; but the offer of unconditional and immediate aid may be a useful part of the package.

4. The only way in which the intervention can be made both effective and acceptable is by focusing it on the creation of a monetary system that would allow the transformation of the Soviet Union into a confederation of sovereign republics and, in the case of the Baltic countries, independent states. The transformation itself is an internal affair in which it would be inappropriate to interfere; but having a monetary system that would keep the economy integrated or, more exactly, provide a way for reconstituting a disintegrating economy would make the difference between success and failure. The Soviet leadership recognizes that it cannot establish such a monetary system without assistance. What it needs is not just credit but the credibility that Western involvement would bring.

If the G7 indicated its willingness to help in establishing a monetary system for a reconstituted Soviet Union, its offer would be enthusiastically received and the seemingly inexorable decline into chaos could be reversed.

George Soros
July 3, 1990

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July 3, 1990

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LITHUANIA

SUMMARY

1. RYZHKOV CONFIRMS END OF ECONOMIC BLOCKADE AGAINST LITHUANIA AND SIGNALS MOSCOW'S READINESS TO BEGIN NEGOTIATIONS.

DETAIL

2. RYZKHOV, IN AN INTERVIEW GIVEN TO THE NEWS SERVICE INTERFAX AND REPRINTED IN IZVESTIA OF 2 JULY, SAID THAT THE SOVIET GOVERNMENT HAD LIFTED ALL ECONOMIC RESTRICTITONS INTRODUCED AGAINST LITHUANIA. HE ALSO IMPLIED THAT THE LITHUANIAN PROPOSAL FOR A RENEWABLE 100 DAY MORATORIUM ON INDEPENDENCE HAD SATISFIED MOSCOW'S CONDITIONS FOR BEGINNING NEGOTIATIONS. HE SAID THAT BASIC SOLUTIONS TO THE PROBLEM WOULD HAVE TO BE SOLVED DURING THIS 100 DAYS PERIOD. HE NOTED THAT THE PERIOD COULD BE EXTENDED BYTHE LITHUANIANS IF IT PROVED INSUFFICIENT.

3. RYZHKOV SAID THAT MUCH WOULD DEPEND ON HOW THE LITHUANIANS APPROACHED THE NEGOTIAITONS. THE BALL WAS IN THEIR COURT. IF THEY CAME WITH A PROPOSAL FOR LITHUANIA TO HAVE A SPECIAL STATUS IN THE USSR THEN THIS WOULD BE ONE PROBLEM AND ONE PATH TO A SOLUTION. IF, ON THE OTHER HAND, THEY CAME WITH A PROPOSAL TO LEAVE THE USSR, THEN THE SCENARIO FOR THE TALKS AND THEIR CHARACTER WOULD BE DIFFERENT.

COMMENT

4. WE DO NOT KNOW EXACTLY WHAT HAS BEEN SAID TO THE LITHUANIANS. RY.ZHKOV'S COMMENTS WERE REPORTED BY A SEMI-OFFICIAL NEWS AGENCY. THEY APPEAR OT MARK A FURTHER STEP ON THE ROAD TO COMPROMISE. THEY SUGGEST THAT THE RUSSIANS WILL BE PREPARED TO GO TO THE NEGOTIATING TABLE EVEN IF THE LITHUANIANS INSIST THAT THE TALKS CAN ONLY BE ABOUT INDEPENDENCE AND NOT ABOUT A NEW STATUS WITHIN THE USSR.

5. THE LIFTING OF THE BLOCKADE WILL HAVE REDUCED THE TIME PRESSURE. BOTH SIDES MAY NOW WANT A PERIOD TO PREPARE THE GROUND CAREFULLY AND ENSURE THERTE ARE NO MISUNDERSTANDINGS WHICH COULD BRING NEGOTIAITONS

TO AN ABRUPT END. SOME LITHUANIANS - MOST RECENTLY SUPREME COUNCIL DEPUTY CHAIRMAN STANKAVICIUS - ARE SPEAKING OF THE NEED FOR PRENEGOTIATION DISCUSSIONS. THIS WOULD GIVE THE LITHUANIANS MORE FLEXIBILITY OVER SETTING THEIR 100 DAYS PERIOD, ALLOWING THE INDEPENDENCE DECLARAITON TO REMAIN IN PLACE UNTIL FORMAL NEGOTIAITONS BEGAN.

6. IN ANY CASE, GORBACHEV WILL HAVE LITTLE TIME TO DEVOTE TO THIS ISSUE UNTIL THE CPSU CONGRESS IS OVER

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USSR: PARTY CONGRESS. COMMENT ON PROCEEDINGS SO FAR.

SUMMARY

1. IN A TWO AND A HALF HOUR SPEECH GORBAHCEV STUCK TO HIS GUNS ON PARTY REFORM. FEW CONCESSIONS TO HARDLiners. PARTY MUST LEARN TO WORK IN A MULTI-PARTY SYSTEM. ON OTHER KEY ISSUES - EG MARKET ECONOMY - NO INNOVATIONS. GETS A LUKEWARM RECEPTION.

2. ATMOSPHERE TENSE: BUT NO MAJOR RIFTS YET. LIGACHEV AND POLOZKOV SUPPORT RE-ELECTION OF GORBACHEV AS PARTY LEADER. LIGACHEV ATTACKS 'THOUGHTLESS RADICALISM' AND GETS LOUD APPLAUSE. BUT REFORMIST COMMENTS BY YAKOVLEV ALSO WELL RECEIVED.

3. FOR GORBACHEV, SO FAR SO GOOD. BUT A LONG WAY TO GO YET.

DETAIL

4. THE CONGRESS CARRIED OUT ITS FIRST DAY'S PROCEEDINGS WITH LITTLE CONTROVERSY. IT ELECTED A PRESIDIUM, SECRETARIAT, DRAFTING AND MANDATE COMMISSIONS AND AGREED ITS AGENDA RELATIVELY SWIFTLY. THE AGENDA IS AS FOLLOWS:

I. POLITICAL REPORT BY THE CENTRAL COMMITTEE TO THE CONGRESS (ALREADY PRESENTED BY GORBACHEV)

II. REPORTS BY MEMBERS OF THE POLITBURO AND SECRETARIAT (20 MINUTES EACH TO ACCOUNT FOR THEIR WORK)

III. REPORT OF THE CENTRAL REVISION COMMISSION (IE PARTY CONTROL BODY)

IV. ON THE PARTYS BUDGET AND PROPERTY

V. ON THE DRAFT DOCUMENT 'TOWARDS A HUMAN, DEMOCRATIC SOCIALISM'

VI. ON THE DRAFT PARTY STATUTE

VII. POSITION ON THE CENTRAL CONTROL COMMISSION

VIII. ELECTION OF THE PARTY LEADERSHIP

IX. FURTHER RESOLUTIONS AND STATEMENTS

5. BY THE END OF THE FIRST DAY THE CONGRESS HAD HEARD REPORTS BY THREE MEMBERS OF THE LEADERSHIP (ITEM TWO OF THE AGENDA) - RYZHKOV,

MDEVEDEV AND YAKOVLEV.

6. GORBACHEV'S OPENING REPORT

6. THE MAIN EVENT OF THE DAY WAS GORBACHEV'S TWO AND A HALF HOUR REPORT ON BEHALF OF THE CENTRAL COMMITTEE. THIS WAS DESIGNED AS AN ACCOUNT OF THE PARTY'S ACTIVITY OVER THE PAST FOUR YEARS AND AS A GUIDE TO FUTURE POLICY DIRECTIONS. HE COVERED A WHOLE RANGE OF POLICY QUESTIONS. BUT THE CRUCIAL QUESTION AT THIS CONGRESS IS THAT OF THE ROLE AND STRUCTURE OF THE PARTY ITSELF. THERE WERE NO SURPRISES OR SUDDEN SHIFTS. GORBACHEV WAS SPEAKING ON BEHALF OF THE CENTRAL COMMITTEE AND READING A REPORT AGREED IN ADVANCE WITH THEM. WITHIN THESE CONSTRAINTS, IT WAS A GOOD WORKMANLIKE PERFORMANCE. THERE WAS ONLY ONE REAL SIGN OF EMOTION, WHEN HE STRESSED THAT THE FEDERALISATION OF THE PARTY WOULD LEAD TO A CHALLENGE FROM ALTERNATIVE SOURCES OF POWER (OTHER PARTIES, NATIONALIST EXTREMISTS ETC). ON PARTY REFORM HE STUCK FIRMLY BY THE MODERATELY REFORMIST PROVISIONS OF THE DRAFT STATUTE AND PROGRAMME. AS THOSE DOCUMENTS ARE THEMSELVES TO THE LEFT OF CENTRE IN PARTY TERMS, SO GORBACHEV'S PRESENTATION WAS CLEARLY TILTED TOWARDS THE DEMOCRATIC CAMP, ALTHOUGH IT WILL NOT HAVE GONE FAR ENOUGH TO SATISFY THE RADICAL DEMOCRATIC PLATFORM.

7. ONE IMPORTANT POINT OF THE REPORT WAS A REFERENCE TO OBJECTIONS BY MANY PARTY MEMBERS TO THE PROPOSAL THAT THE POLITBURO AND POST OF GENERAL SECRETARY BE REPLACED BY A PRESIDUM AND POST OF PARTY CHAIRMAN. IT WAS FELT THAT A PRESIDUM WOULD NOT HAVE THE OPERATIONAL ABILITY TO HOLD THE PARTY TOGETHER AGAINST CENTRIFUGAL REPUBLICAN TENSIONS.

ATMOSPHERE

8. NATURALLY ENOUGH THERE WERE SIGNS OF TENSION ON DAY ONE, IF NO OPEN CONTROVERSY. ONE OF THE FIRST DELEGATES TO SPEAK, AT THE VERY BEGINNING OF THE CONGRESS, PROPOSED THAT THE POLITBURO AND CENTRAL COMMITTEE RESIGN IMMEDIATELY, AND THAT NONE OF THEIR MEMBERS SHOULD BE ELECTED TO THE NEW LEADERSHIP BODIES. BUT THE PROPOSAL WAS LARGELY IGNORED. GORBACHEV AND PARTICULARLY RYZHKOV (THE LATTER CHAIRING PART OF THE PROCEEDINGS) SEEMED RATHER ILL AT EASE AT TIMES. BUT AT NO POINT DID PASSIONS BOIL OVER.

9. GORBACHEV WAS GIVEN OCCASIONAL APPLAUSE DURING HIS SPEECH. BUT ITS RECEPTION IN GENERAL WAS LUKEWARM. YAKOVLEV, HOWEVER, GOT A GOOD HAND WHICH SUGGESTS THAT THE CONGRESS IS NOT TOTALLY DOMINATED BY HARD LINERS.

10. THE CONGRESS ELECTED TO ITS SECRETARIAT ONE OF THE ''DEMOCRATIC PLATFORM'' LEADERS WH HAD FAILED TO BE ELECTED TO THE RUSSIAN PARTY CONFERENCE SECRETARIAT TWO WEEKS EARLIER. BUT THE CONGRESS DID NOT ALLOW THE ''DEMOCRATIC PLATFORM'' THE OPPORTUNITY OF PRESENTING A REPORT PARALLEL TO THAT OF THE CENTRAL COMMITTEE.

11. GORBACHEV'S POSITION

IN INTERVIEWS FOLLOWING THE FIRST DAY'S PROCEEDINGS BOTH LIGACHEV AND THE NEW RSFSR PARTY LEADER, POLOZKOV, SAID INDEPENDENTLY THAT THEY WOULD ACTIVELY SUPPORT THE RE-ELECTION OF GORBACHEV AS LEADER OF THE PARTY. PRESUMABLY, THEREFORE, LIGACHEV DOES NOT INTEND TO STAND AGAINST HIM. NEVERTHELESS, LIGACHEV MADE AN ATTACK IN HIS REPORT, ON DAY TWO, ON WHAT HE TERMED ''THOUGHTLESS RADICALISM'' OVER THE PAST FIVE YEARS. HE ALSO SAID THAT PERESTROIKA COULD NOT GO AHEAD WITHOUT THE SUPPORT OF THE PARTY. THIS WAS ALMOST CERTAINLY AN IMPLICIT ATTACK ON GORBACHEV'S CLOSE ALLY ALEKSANDR YAKOVLEV, WHO IN A LIBERAL REPORT AT THE END OF DAY ONE HAD SAID THAT REFORM WOULD GO AHEAD WHETHER THE PARTY SUPPORTED IT OR NOT. BUT IT BY NO MEANS CONSTITUTES AN OPEN ATTACK ON GORBACHEV.

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28TH CPSU CONGRESS

SUMMARY

1. CONGRESS OPENS ON SCHEDULE. MAIN ISSUE IS FUTURE OF THE PARTY. DECISIONS ON OTHER POLICY ISSUES TEND TO BE TAKEN ELSEWHERE THESE DAYS. WIDELY DIFFERING VIEWS IN THE PARTY ON HOW TO SURVIVE UNDER PERESTROIKA. GORBACHEV'S TASK - TO KEEP THE MAIN NUCLEUS OF THE PARTY TOGETHER AND SECURE A COMMITMENT FROM THE CONGRESS TO CONTINUED REFORM.

DETAIL

2. THE CPSU CONGRESS OPENED THIS MORNING, 2 JULY, AS PLANNED. THE PRE-CONGRESS CPSU CENTRAL COMMITTEE PLENUM ON 29 JUNE APPEARS TO HAVE GONE QUICKLY AND SMOOTHLY. WE DO NOT HAVE ANY RECORD OF THE DISCUSSION. BUT IT IS POSSIBLE THAT THE ISSUE OF POSTPONEMENT WAS NOT EVEN RAISED. MEDVEDEV HAD BEEN QUITE CLEAR ON 28 JUNE THAT THE OVERWHELMING MAJORITY OF THE REGIONAL PARTY ORGANISATIONS WERE AGAINST POSTPONEMENT. GORBACHEV MANAGED TO SECURE THE PLENUM'S ENDORSEMENT OF THE REFORMIST DRAFT OF THE NEW PARTY PROGRAMME AND RULES. THESE WILL NOW BE PRESENTED TO THE CONGRESS. THERE ARE REPORTS THAT THE 29 JUNE PLENUM WAS PRECEDED BY A 90 MINUTE BILATERAL BETWEEN GORBACHEV AND YELTSIN - BUT WE HAVE NO DETAILS.

CONGRESS PROGRAMME

3. THE CONGRESS SHOULD BEGIN WITH A WIDERANGING SPEECH BY GORBACHEV COVERING BOTH INTERNAL AND EXTERNAL POLICY. PROBABLY TOWARDS THE END OF THE PROCEEDINGS - THE CONGRESS WILL APPROVE THE PARTY'S NEW PROGRAMME AND RULES AND ELECT A NEW LEADER AND OTHER LEADING PARTY BODIES. JOURNALISTS HAVE BEEN BRIEFED THAT IT IS AIMED TO COMPLETE THE CONGRESS IN 10 DAYS. GORBACHEV HAS SAID HE INTENDS TO STAND AGAIN FOR THE PARTY LEADERSHIP. WE DO NOT YET KNOW TO WHAT EXTENT HE WILL BE OPPOSED. LIGACHEV IS THE ONLY ONE WE HAVE HEARD SPEAK OF STANDING AGAINST HIM.

THE FUTURE OF THE PARTY

4. IN THE PAST, PARTY CONGRESSES HAVE BEEN THE ARBITERS OF ALL MAJOR

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POLICY ISSUES. THESE DAYS THE PARTY'S WRIT DOES NOT RUN AS WIDE. THE CONGRESS WILL DISCUSS THE ECONOMY, FOREIGN AFFAIRS AND NATIONALITIES ISSUES : THE TONE OF THE DISCUSSION WILL HAVE TO BE TAKEN INTO ACCOUNT BY THE COUNTRY'S POLICY MAKERS. BUT REAL DECISIONS ON THESE ISSUES ARE NOW TAKEN ELSEWHERE - BY THE PRESIDENCY, THE GOVERNMENT OR THE SUPREME SOVIET.

5. THIS CONGRESS THEREFORE IS ABOUT THE FUTURE OF THE PARTY - NOT THE FUTURE OF THE COUNTRY. ONLY IN THIS SENSE IT IS LIKELY TO BE A WATERSHED. THE PARTY HAS TO DECIDE HOW TO DEAL WITH PERESTROIKA AND THE APPROACHING MULTI PARTY WORLD. IT IS NOW IN CRISIS AND THREATENED WITH SPLITS BECAUSE IT CANNOT REACH AGREEMENT ON THIS ISSUE. TWO STARKLY OPPOSED POLICIES ARE BEING PROPOSED. THE FIRST, WHICH DOMINATED THE RECENT RUSSIAN COMMUNIST PARTY CONGRESS, ADVOCATES A RETURN TO A TRUE LENINIST PARTY - MORE DISCIPLINE, MORE IDEOLOGY AND MORE COMMITMENT. THE SECOND APPROACH IS REPRESENTED BY THE DEMOCRATIC PLATFORM. THEY WANT TO TURN THE PARTY INTO A GENUINE PARLIAMENTARY PARTY WHICH WOULD DROP ITS COMMITMENT TO 'SOVIET STYLE' SOCIALISM, AND MIGHT EVEN FORM AN ALLIANCE WITH THE SOCIAL DEMOCRATS. BULGARIA WOULD BE THEIR MODEL.

GORBACHEV'S TASK.

6. GORBACHEV'S MAIN TASK AT THIS CONGRESS WILL BE TO FIND SOME COMPROMISE BETWEEN THESE 2 APPROACHES AND BRING THE PARTY THROUGH THE NEXT 2 WEEKS WITHOUT A SERIOUS SPLIT. HE ALSO NEEDS TO SECURE HIS OWN RE-ELECTION AS LEADER OF THE PARTY AND SECURE CONGRESS AGREEMENT TO A POLITICAL PROGRAMME WHICH WILL LEAVE HIS HANDS FREE TO CONTINUE REFORM. THESE WILL BE DAUNTING TASKS. AT THE LAST MAJOR PARTY OCCASION - THE PARTY CONFERENCE 2 YEARS AGO - GORBACHEV DOMINATED PROCEEDINGS AND CONTINUALLY TOOK HIS AUDIENCE BY SURPRISE WITH DRAMATIC NEW REFORM INITIATIVES. TWO YEARS LATER, HE NO LONGER HAS SUCH AUTHORITY. THE 28TH CONGRESS WILL TAKE PLACE UNDER THE SHADOW OF THE RUSSIAN PARTY CONGRESS. THIS WAS DOMINATED BY THE OLD GUARD PARTY APPARATUS WHO SEIZED THE OCCASION TO TURN ON GORBACHEV AND THE CENTRAL LEADERSHIP AND BLAME THEM FOR ALL THE PARTY'S PROBLEMS.

7. THIS CPSU CONGRESS TOO WILL BE DOMINATED BY THE APPARATUS. RUSSIAN CONGRESS DELEGATES WILL BE JOINED BY MANY FROM THE UKRAINE, CENTRAL ASIA AND BYELORUSSIA WHO ALSO RESENT THE IMPACT PERESTROIKA HAS HAD ON THEIR CAREERS AND SOCIAL STANDING. GORBACHEV HAS BEEN WIDELY AND PROBABLY CORRECTLY ACCUSED OF NOT PAYING ENOUGH ATTENTION TO THE RUSSIAN CONGRESS AND OF MISJUDGING ITS MOOD. IT IS UNLIKELY HE WILL MAKE THE SAME MISTAKE ON THIS OCCASION. BUT HE IS GOING TO FACE A LOT OF HOSTILITY. THE ATTACK OF COLD FEET LAST WEEK WHEN HE

TRIED TO GET THE CONGRESS POSTPONED, SUGGESTS HE IS APPREHENSIVE AT THE PROSPECT.

8. THERE ARE MANY WHO THINK THAT GORBACHEV SHOULD NOT BE ATTEMPTING THE TASK OF KEEPING THE PARTY TOGETHER AND SHOULD INSTEAD BE PREPARING TO LEAVE IT TO ITS FATE. THESE PEOPLE ARGUE THAT A SERIOUS SPLIT IN THE PARTY BETWEEN REFORMISTS AND DIE-HARDS WOULD BE BENEFICIAL: IT WOULD FORCE GORBACHEV AT LAST TO RAISE HIS REFORMIST COLOURS AND ABANDON THE POLICY OF CONCENSUS WHICH THEY BELIEVE IS HOLDING UP REFORM. GORBACHEV, HOWEVER, HAS MADE CLEAR THAT FOR THE TIME BEING, HE NEEDS THE PARTY AS A FORCE FOR STABILITY WHILE THE NEWLY ELECTED STATE STRUCTURES FIND THEIR FEET. THERE IS MUCH TO BE SAID FOR THIS. BY EXTENSION, GORBACHEV PROBABLY ALSO BELIEVES THAT THE PARTY STILL RETAINS SUFFICIENT INFLUENCE TO BECOME A SERIOUS OBSTACLE TO REFORM IF HE CANNOT KEEP IT WITH HIM.

WILL THE PARTY SPLIT?

9. THE DEMOCRATIC PLATFORM (DP) ONLY CLAIMS THE ALLEGIANCE OF SOME 100 (OR 2%) OF CONGRESS DELEGATES. THERE IS UNLIKELY, THEREFORE, TO BE A MAJOR ORGANISATIONAL SPLIT AT THE CONGRESS ITSELF. BUT THE DP ALSO CLAIM THAT SOME 2 AND A HALF MILLION CPSU MEMBERS ARE PREPARED TO LEAVE THE PARTY IF IT FALLS UNDER THE INFLUENCE OF HARD-LINERS AT THIS CONGRESS AND JOIN THEM IN A NEW POLITICAL ORGANISATION. NUMBERS OF PARTY GROUPS IN MOSCOW AND LENINGRAD HAVE ALREADY STATED THAT THEY ARE NOT PREPARED TO JOIN A RUSSIAN PARTY LED BY POLOZKOV. MANY OTHER PARTY MEMBERS MAY SIMPLY DRIFT OUT OF POLITICS - PARTICULARLY IF CONFIDENCE GROWS THAT LEAVING THE PARTY WILL NOT HARM THEIR CAREERS. THE MOST LIKELY PROSPECT THEREFORE IF GORBACHEV CANNOT GET A GENUINE COMMITMENT TO REFORM FROM THIS CONGRESS IS FOR EXTENSIVE FRAYING AT THE EDGES RATHER THAN A CLEAN SPLIT.

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FOR RESIDENT CLERK

SUMMARY

1. LITHUANIA AGREES TO SUSPEND INDEPENDENCE DECLARATION

DETAIL

2. THE LITHUANIAN SUPREME COUNCIL VOTED ON 29 JUNE TO DECLARE A 100 DAY MORATORIUM ON THE 11 MARCH INDEPENDENCE DECLARATION. THE 100 DAYS PERIOD WILL BEGIN FROM THE MOMENT THAT NEGOTIATIONS ARE STARTED. ACCORDING TO THE TEXT PASSED BY THE LITHUANIANS THE SUPREME COUNCIL OF LITHUANIA WILL HAVE THE RIGHT TO EXTEND OR ABROGATE THE MORATORIUM. THE MORATORIUM WILL AUTOMATICALLY LOSE FORCE IF THE NEGOTIATIONS STOP.

COMMENT

3. THIS LATEST LITHUANIAN FORMULA SHOULD SATISFY GORBACHEV. THE SPECIFICATION OF A 100 DAY PERIOD MAY IRRITATE HIM, BUT THE LITHUANIANS HAVE INDICATED THEIR WILLINGNESS TO BE FLEXIBLE AND THE STATE TIME LIMIT IS UNLIKELY TO PROVE AN OBSTACLE IF THE SIDES CAN GET DOWN TO SERIOUS AND FRUITFUL NEGOTIATIONS. THE RECENT MEETINGS BETWEEN THE SOVIET AND LITHUANIAN LEADERSHIPS WILL HAVE HELPED PREPARE BOTH FOR EACH OTHER'S NEGOTIATING POSITIONS BUT THE TASK OF FINDING ENOUGH COMMON GROUND TO CONDUCT SERIOUS NEGOTIATIONS MAY NOT BE AN EASY ONE (FOR EXAMPLE IF MOSCOW INSISTS ON LINKING THE DIALOGUE TO THE DRAFTING OF A NEW UNION TREATY).

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MY TELNO. 1535: AID TO THE SOVIET UNION

1. ZOELICK TOLD THE MINISTER ON 28 JUNE THAT HE WANTED TO GIVE HIM AN INDICATION OF WHERE THE AMERICANS NOW STOOD FOLLOWING DISCUSSIONS WITH THE PRESIDENT, TAKING THE POINTS WE HAD MADE TO BLACKWILL ON 27 JUNE (WASHINGTON TUR) INTO ACCOUNT. IN BRIEF, THE PRESIDENT TOOK A NEGATIVE ATTITUDE TOWARDS AID TO THE SOVIET UNION, THE MORE SO AS POSSIBLE HELP WAS TALKED OF IN TERMS OF FINANCIAL ASSISTANCE. THE AMERICANS MIGHT WELL TRY TO GET PARTICIPANTS AT HOUSTON TO THINK IN TERMS OF GUIDELINES AGAINST WHICH TO MEASURE THE CASE FOR POSSIBLE ASSISTANCE. ZOELICK MENTIONED SOVIET REFORMS, SOVIET MILITARY EXPENDITURE AND SOVIET POLICIES TOWARDS ASSISTING COUNTRIES LIKE CUBA AS POSSIBLE CRITERIA. THAT WOULD HELP WESTERN COUNTRIES TO SET UP A STRUCTURE AGAINST WHICH THEY COULD WORK TOWARDS A COMMON APPROACH.

2. ZOELICK CONTINUED BY SAYING THAT FOR HIS PART HE QUESTIONED WHETHER THE GERMANS AND FRENCH WOULD BE CONTENT WITH SUCH AN APPROACH. MUCH DEPENDED ON WHAT KOHL WAS REALLY LOOKING FOR. IF THAT WAS SOME SORT OF COVER FOR INDIVIDUAL GERMAN ACTION, THERE COULD OF COURSE BE SOME ELASTICITY OF APPROACH. WHAT THE PRESIDENT HOPED TO DO WAS TO GET SOME DEGREE OF WESTERN UNITY ON A FEW COMMON ASSUMPTIONS. THE COMMENTS WE HAD MADE FOLLOWING THE EUROPEAN COUNCIL IN DUBLIN HAD BEEN VERY USEFUL IN THIS REGARD. ALTHOUGH THE AMERICANS WERE UNDECIDED ABOUT HOW THE IMF/IBRD SHOULD BE INVOLVED HE HIMSELF VERY MUCH FAVOURED THIS APPROACH. HE FEARED THAT A COMBINATION INVOLVING THE EC COMMISSION, OECD AND SO ON MIGHT NOT BE HARD-NOSED ENOUGH. HE STRESSED HOWEVER THAT THE AMERICANS HAD NOT YET DECIDED THEIR POSITION. ONE PROBLEM WAS THAT DECISIONS ON ASSISTANCE TO THE USSR SHOULD NOT BE BASED ONLY ON ECONOMIC CONDITIONALITY, WHICH WAS THE IMF SPECIALITY. KNOW-HOW WAS IN A RATHER DIFFERENT CATEGORY FROM FINANCIAL ASSISTANCE. HE EXPECTED THAT THE CANADIANS AND JAPANESE AS WELL AS THE ITALIANS (POSSIBLY) WOULD

BE AT ONE WITH THE US AND UK IN WANTING AT HOUSTON NOT TO RUSH
INTO MAJOR NEW COMMITMENTS.

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From the Private Secretary

29 June 1990

I attach a copy of a letter the Prime Minister has received from Lord Joseph.

I should be grateful if you could provide a draft reply for Prime Ministerial signature. It would be helpful if this could reach me by Friday 13 July.

RAF 11

I am sending a copy of this letter and enclosure to Richard Gozney (Foreign and Commonwealth Office), Simon Webb (Ministry of Defence) and Martin Stanley (Department of Trade and Industry).

(C. D. POWELL)

Miss Sonia Phippard,
Cabinet office.

D

FROM: The Rt Hon. The Lord Joseph CH PC

P29/6



The Rt Hon. Mrs Margaret Thatcher MP
The Prime Minister
10 Downing Street
SW1A 0AA

28 June 1990

CONFIDENTIAL

Dear Margaret,

Marathon ~~cap~~

Thank you for your letter of 5th June, which I found puzzling.

I appreciate that there are delicate complexities in the situation but there seems to be a worrying discrepancy between the content of your letter and the developments both in COCOM and in the USA.

As to the new COCOM regime, Governments may permit administrative exceptions for systems at 45 Mbits and with a wavelength of 1320nm without notifying COCOM. However, our understanding is that HMG does not intend to allow exports of this type of equipment under the discretion which it has agreed in COCOM. This opens the door to other suppliers and operators to bypass our national and broader Western interests and obtain commercial advantages denied to British companies.

Secondly, it appears from advice that the Marathon partners have received from the US - and the fact that they have been approached over the last two weeks by US suppliers and contractors with good connections with the US Administration for a stake in Marathon - that the US Government may be less hostile to the project than we were advised by Whitehall.

Given these ambiguities and difficulties it would be very helpful if you would be willing to arrange for a senior official fully au fait with the situation to meet as soon as possible representatives of the Marathon partners so as to clarify the position.

I would be most grateful if this might be authorised by you.

Yours as ever,

Kevin

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ASSISTANCE TO THE SOVIET UNION
SUMMARY

1. BAKER REITERATES US APPROACH TO ASSISTANCE TO THE SOVIET UNION. EMPHASISES THE IMPORTANCE OF ECONOMIC REFORM, AND THE NEED FOR GUIDELINES AGREED AMONG THE WEST ON WHAT IS REQUIRED. DOES NOT RULE OUT THE POSSIBILITY THAT A MULTILATERAL APPROACH MIGHT NOT BE POSSIBLE.

DETAIL

2. AT A PRESS CONFERENCE ON 28 JUNE TO SET THE SCENE FOR THE NATO SUMMIT, BAKER WAS ASKED ABOUT THE US ATTITUDE ON AID FOR THE SOVIET UNION. HE REPLIED THAT THERE WERE QUOTE MAJOR IMPEDIMENTS UNQUOTE TO OPEN-ENDED ASSISTANCE. NEITHER THE US, NOR, HE THOUGHT, OTHER WESTERN COUNTRIES, WANTED TO MAKE THE SAME MISTAKES THAT WERE MADE IN THE 1970S IN POLAND WHEN MONEY WAS POURED IN WITHOUT INSISTING ON REFORM AND WAS NOT THEREFORE PUT TO THE BEST USE. QUOTE WE ARE SEEING THE RESULTS OF THAT NOW IN TERMS OF POLAND'S STRUGGLE TO DO SOMETHING WITH ITS ECONOMY UNQUOTE.

OTHER PROBLEMS INCLUDED THOSE ASSOCIATED WITH THE DEFENCE EXPENDITURES IN THE SOVIET UNION: LEGAL OBSTACLES IN THE US: POLITICAL PROBLEMS ARISING OUT OF SOVIET ASSISTANCE TO REGIMES WHICH IN THE PAST HAD NOT BEEN FRIENDLY TO THE US.

3. ASKED WHETHER HE HAD ANY EVIDENCE OF SOVIET PROGRESS TOWARDS ECONOMIC REFORM, HE SAID HE THOUGHT THE SOVIET UNION WANTED TO MOVE TO A MARKET ECONOMY. HE THOUGHT THERE WAS A GREATER DETERMINATION NOW THAN BEFORE TO MAKE THE HARD CHOICES THAT WERE NECESSARY TO INTRODUCE A PRICE SYSTEM, TO DEAL WITH THE ROUBLE OVERHANG, TO CREATE A SOCIAL SAFETY NET, AND TO INSTIL A SENSE OF COMPETITION AND INCENTIVE. BUT IT WAS A DIFFICULT TASK. HE DID NOT THINK THE SOVIET UNION WAS YET AT THE POINT OF TAKING THE NECESSARY STEPS, ALTHOUGH THEY HAD IDENTIFIED SOME AND SEEMED WILLING TO QUOTE APPROACH THEM UNQUOTE.

4. IN RESPONSE TO QUESTIONS, BAKER SAID THAT BY ADOPTING A CONCERTED APPROACH THE WEST COULD BE A FORCE FOR GOOD IN MOVING THE SOVIET UNION TO CONVERT A COMMAND ECONOMY TO A

MARKET ECONOMY. BUT QUOTE THE QUESTION IS WHAT ARE THE PRINCIPLES, WHAT ARE THE GUIDELINES, HOW SHOULD IT ALL BE MANAGED, AND HOW SHOULD IT EVOLVE? UNQUOTE THERE HAD TO BE SOME QUOTE STUDIED DEFINITION OR PRESENTATION UNQUOTE OF WHAT WAS REQUIRED. HE SAID THAT, PUTTING ASIDE POLITICAL PROBLEMS, THERE HAD TO BE AGREEMENT AS TO HOW YOU QUOTE COME UP WITH WHAT IT IS THAT REALLY IS REQUIRED UNQUOTE. QUOTE IF WE SEE THE KIND OF REFORMS THAT ARE REALLY REQUIRED TO MOVE TOWARDS A MARKET ECONOMY, THAT IS THE TIME AT WHICH I THINK WE SHOULD REALLY ADDRESS THE QUESTION DIRECTLY, OR MORE DIRECTLY PERHAPS UNQUOTE. IT WAS VERY IMPORTANT THAT THE REFORM EFFORT SHOULD BE CARRIED THROUGH TO A CONCLUSION. THE ADMINISTRATION WAS STILL IN THE PROCESS OF DEVISING WHAT THE GUIDELINES AND PRINCIPLES MIGHT BE AND HAD NOT YET DISCUSSED THEM WITH ALLIES. HE SAID, FOLLOWING THE EC SUMMIT, THE EUROPEANS HAD ENGAGED TO A GREATER EXTENT IN THIS DEBATE SO FAR THAN THE US.

5. HE DID NOT THINK THIS ISSUE WOULD BE ADDRESSED AS DIRECTLY AT THE NATO SUMMIT AS AT THE ECONOMIC SUMMIT, ALTHOUGH THERE MIGHT BE DISCUSSIONS IN THE NATO MARGINS. IT WOULD BE VERY HELPFUL IF THE MAJOR INDUSTRIALISED DEMOCRACIES COULD AGREE ON PRINCIPLES. THE US WANTED TO DEVELOP THEIR POSITION IN CONCERT WITH ALLIES. HE COULD NOT PREJUDGE WHAT PRINCIPLES THE US WOULD SAY MIGHT NEED TO BE APPLIED, OR WHAT THEIR POSITION WOULD BE AT THE ECONOMIC SUMMIT. HE DENIED THAT THE US WAS TRYING TO RESTRAIN THE GERMAN RUSH TO AID THE SOVIET UNION. THE US WOULD GET A FULL READ OUT AT THE SUMMIT ON THE POSITIONS OF ALLIES. EACH COUNTRY HAD TO EXAMINE THE PROBLEM IN THE LIGHT OF ITS OWN CIRCUMSTANCES. IT MIGHT BE A CASE OF EACH COUNTRY GOING ITS OWN WAY, BUT IF THERE WAS TO BE A MULTILATERAL APPROACH THEN IT WOULD HAVE TO BE DONE THE BASIS OF CERTAIN PRINCIPLES THAT COULD BE SUBSCRIBED TO BY ALL.

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SOVIET INTERNAL : PARTY CONGRESS : NEW DRAFT PARTY PROGRAMME

SUMMARY

1. A NEW DRAFT PROGRAMME PREPARED FOR PRESENTATION TO THE CPSU CONGRESS. CLAIMED AS A COMPROMISE REFLECTING THE VIEWS OF BOTH RIGHT AND LEFT FACTIONS WITHIN THE PARTY. BUT MAKES FEW CONCESSIONS TO THE HARD LINE SENTIMENT WHICH DOMINATED LAST WEEK'S RUSSIAN PARTY CONGRESS. A CONSIDERABLE ACHIEVEMENT IF GORBACHEV CAN GET THIS ENDORSED BY THE CPSU CONGRESS.

DETAIL

2. PRAVDA OF 27 JUNE HAS PUBLISHED AN EXTENSIVELY REWRITTEN VERSION OF THE PARTY'S DRAFT PLATFORM FOR THE FORTHCOMING CONGRESS. LIKE THE ORIGINAL DRAFT PLATFORM, APPROVED IN FEBRUARY AT A PARTY PLENUM, IT IS ENTITLED 'TOWARDS A HUMANITARIAN, DEMOCRATIC SOCIALISM'.

3. FOLLOWING ARE HIGHLIGHTS :

CRISIS IN SOCIETY AND STRATEGIC AIMS OF THE PARTY

- THE INACCURATE REPRESENTATION OF SOCIALISM AS A SOCIETY BASED ON THE MONOPOLY OF STATE OWNERSHIP, LEADING TO THE PARTY AND THE STATE GAINING ASCENDANCY OVER THE PROLETARIAT LED TO TYRANNY AND LAWLESSNESS. THE AUTHORITARIAN/BUREAUCRATIC SYSTEM IS UNABLE TO ACT AS A CHANNEL FOR THE PROCESS OF CIVILISATION. PERESTROIKA ALONE PROVIDED THE FUNDAMENTAL TURNABOUT IN THE POLICY OF LIBERATING THE COUNTRY FROM ITS ALIENATION FROM SOCIALISM. BUT OBVIOUSLY THE REORGANISATION OF ALL SPHERES OF LIFE IN A COUNTRY OF ALMOST 300 MILLION PEOPLE IS A HUGE TASK.

- IT HAS TO BE OPENLY ACKNOWLEDGED THAT SOME DECISIONS BY PARTY LEADERS IN RECENT YEARS WERE BADLY THOUGHT OUT, INCONSISTENT AND IN SOME CASES MISTAKEN. THE CENTRAL COMMITTEE AND THE POLITBURO HAVE LAGGED BEHIND IN REFORMING THE PARTY, OFTEN ACTING ON THE BASIS OF TRIAL AND ERROR.

- THE PARTY IS LIVING THROUGH A COMPLICATED AND CRITICAL PERIOD. AGGRAVATED INTERNAL CONTRADICTIONS OF SOCIETY HAVE LED TO A

POLARISATION OF OPINIONS, A REDUCTION IN THE EFFECTIVENESS OF PARTY ORGANISATIONS AND CRITICISM OF THE PARTY AS A WHOLE.

- AT ONE END OF THE SPECTRUM IS A CONSERVATIVE, DOGMATIC TENDENCY WHICH REGARDS THE POLICY OF RENEWAL AS AN ATTACK ON THE PRINCIPLES OF SOCIALISM. BUREAUCRATIC STRUCTURES, UNABLE TO REFORM THEMSELVES, REGARD THE DEMOCRATISATION OF SOCIETY AS A THREAT TO THEIR OWN POLITICAL INFLUENCE.

- AT THE OTHER END OF THE SPECTRUM ARE FORCES WHICH REJECT THE CHOICE OF SOCIALISM AND STRUGGLE TOWARDS THE TRANSFER INTO PRIVATE HANDS OF THE LION'S SHARE OF SOCIETY'S PROPERTY. THEY ARE JOINED BY EXTREMISTS WHO SUPPORT MONARCHIST AND EVEN FASCIST DOCTRINES.

- NATIONALISTIC FORCES HAVE ALSO ACHIEVED SIGNIFICANT SUPPORT IN THE REPUBLICS, SETTING ONE NATION AGAINST THE OTHER AND PROCLAIMING SEPARATISM.

- IN THE CENTRE OF THIS POLITICAL SPECTRUM STANDS THE DEMOCRATIC, RECONSTRUCTED GROUPS, ORIENTATING THEMSELVES TOWARDS SOCIALISM AND BEING REPRESENTED BY THE MAJORITY OF MEMBERS OF THE PARTY AND DIFFERENT ORGANISATIONS.

- DURING THIS PERIOD OF POLITICAL INSTABILITY WHICH COULD LEAD EITHER TO SOCIAL CHAOS OR TO CONSTRUCTIVE CO-OPERATION BETWEEN POLITICAL FORCES, THE COMMUNIST PARTY SEES ITS ROLE AS ACHIEVING WIDESPREAD CIVIL SUPPORT AND AMALGAMATING AND SUPPORTING ALL THOSE WHO HAVE CREATED OR WISH TO CREATE CONDITIONS OF PROSPERITY AND SPIRITUAL VALUE FOR THE PEOPLE. THE PARTY IS OPPOSED TO THOSE FORCES WHO WOULD WISH TO RETURN TO A BOURGEOIS AND REGIMENTED REGIME LEADING TO CIVIL CONFRONTATION. WE MUST MOVE TOWARDS THE CREATION OF A NEW SOCIAL SYSTEM WITHIN THE FRAMEWORK OF SOCIALISM.

- THE PARTY STANDS FOR A CREATIVE APPROACH TOWARDS THE THEORY AND PRACTICE OF SOCIALISM, TOWARDS ITS CONSTRUCTIVE DEVELOPMENT IN THE LIGHT OF EXPERIENCE OF THIS CENTURY. HUMANITARIAN, DEMOCRATIC SOCIALISM - THIS IS THE REALISATION OF FREE COMPETITION AND CO-OPERATION AMONGST ALL POLITICAL FORCES, ACTING WITHIN THE FRAMEWORK OF THE LAW.

TOWARDS AN EFFECTIVE ECONOMY

- THE ESSENCE OF THE PARTY'S PROGRAMME LIES IN CREATING DEMOCRATIC ECONOMIC RELATIONS, THE GENUINE DEVELOPMENT OF INITIATIVE AND BUSINESS ACTIVITIES. THIS IS TO BE BASED ON THE FORMATION AND DEVELOPMENT OF EQUAL BUT DIFFERENT FORMS OF OWNERSHIP.

- STATE PROPERTY MUST BE RETAINED NOT AS A BUREAUCRATIC FORM OF OWNERSHIP BUT AS PROPERTY CONTROLLED AND MANAGED BY ITS OWN WORKERS. SHARE OWNERSHIP AND LEASING MUST BE INTRODUCED TO PERMIT THE COLLECTIVE OWNERSHIP OF THE MEANS OF PRODUCTION. BUT THE PARTY IS

AGAINST A COMPLETE DENATIONALISATION, WHATEVER IT IS CALLED.

- THE BANKING, TRADE AND PRODUCTION SPHERES MUST BE DEMONOPOLISED AND SUPPORT BE GIVEN TO THE DEVELOPMENT OF SMALL AND MEDIUM SIZED ENTERPRISES.

- STATE REGULATION OF MARKET RELATIONS WILL ENSURE THE DEFENCE OF CITIZEN'S RIGHTS. INDIRECT REGULATION VIA THE SYSTEM OF STATE ORDERS, TAXES, INTEREST RATES ETC WILL ENSURE STRATEGIC AIMS ARE NOT NEGLECTED. COMPENSATION AND INCOMES INDEXATION WILL PROTECT PEOPLE FROM PRICE RISES FOR GOODS AND SERVICES.

TOWARDS A RENEWED UNION OF SOVEREIGN REPUBLICS

- THE PARTY ACKNOWLEDGES THE RIGHT OF A NATION TO SELF-DETERMINATION, INCLUDING SEPARATION: BUT THE RIGHT OF EXIT FROM THE UNION AND THE ADVISABILITY OF SUCH A MOVE SHOULD NOT BE CONFUSED WITH EACH OTHER. GIVEN THE TENDENCIES EVIDENT THROUGHOUT THE WORLD TOWARDS INTEGRATION, THE PARTY IS FOR SAFEGUARDING UNITY WITHIN A RENEWED UNION STRUCTURE.

PARTY REFORM

- FOR MANY YEARS THE NUCLEUS OF THE COMMAND-ADMINISTRATIVE SYSTEM, THE PARTY ITSELF HAS UNDERGONE SERIOUS DEFORMATION. UNDOUBTABLY THE PARTY MUST BEAR POLITICAL AND MORAL RESPONSIBILITY FOR THE COMPLICATED SITUATION WITHIN THE COUNTRY. AND IT HAS SPOKEN OUT OPENLY ABOUT ITS MISTAKES AND THE CRIMES WHICH OCCURRED DURING THE STALIN PERIOD AND WHICH WERE PERMITTED BY THE PARTY AND STATE LEADERS.

- BUT THE CONGRESS REJECTS UNFOUNDED ACCUSATIONS DIRECTED TOWARDS HONEST COMMUNISTS OF BOTH THE PREVIOUS AND THE PRESENT GENERATIONS. MILLIONS OF COMMUNISTS UNSELFISHLY SERVED THE PEOPLE AND BRAVELY FOUGHT FOR THE FREEDOM AND INDEPENDENCE OF THE MOTHERLAND.

- THE PARTY ALSO REJECTS POLITICAL MONOPOLISM. IT WILL DEFEND ITS RIGHTS TO PROVIDE POLITICAL LEADERSHIP IN OPEN COMPETITION WITH OTHER SOCIO-POLITICAL GROUPS. AND IT WILL PROMOTE THE ACHIEVEMENTS OF WORLD SOCIALISM IN CONDITIONS OF PLURALISM.

- THE PARTY REJECTS THE CONCEPT OF DEMOCRATIC CENTRALISM WHICH WAS DEVELOPED UNDER CONDITIONS OF THE COMMAND-ADMINISTRATIVE SYSTEM AND INSTEAD DEFENDS THE PRINCIPLES OF DEMOCRACY - AN ELECTION PROCESS BASED ON PLURALISM, OPENNESS, ACCOUNTABILITY, THE SUBORDINATION OF THE MINORITY TO THE MAJORITY AND THE GUARANTEE OF RIGHTS OF THE MINORITY.

- THE CONGRESS DOES NOT CONSIDER IT CORRECT TO DEPRIVE COMMUNISTS WITHIN THE ARMY, KGB AND MVD OF THEIR RIGHT TO MEMBERSHIP OF THE COMMUNIST PARTY, THE CREATION OF PARTY ORGANISATION OR THE RIGHT TO ENGAGE IN OTHER FORMS OF POLITICAL ACTIVITY. HOWEVER THESE GROUPINGS

MUST BE KEPT SEPARATE FROM STATE AND POLITICAL ORGANS, RESPONSIBLE FOR THE MORAL/POLITICAL EDUCATION OF THE STAFF OF THE ARMED FORCES, MVD AND KGB.

- THE PROCESS OF RENEWAL OF THE FEDERATION MUST ENCOURAGE THE INDEPENDENCE OF REPUBLICAN COMMUNIST PARTIES. LEADERS OF THESE PARTIES FORM PART OF THE LEADERSHIP OF THE CENTRAL COMMITTEE OF THE ALL-UNION COMMUNIST PARTY. IN CASES OF DISAGREEMENT WITH THE CENTRAL LEADERSHIP, THE REPUBLICAN COMMUNIST PARTY HAS THE RIGHT TO DEMAND THE DISCUSSION OF THE PROBLEM BY A CENTRAL COMMITTEE PLENUM.

- THE CREATION OF THE RUSSIAN COMMUNIST PARTY, ACTING AS A FORCE TO STRENGTHEN THE SOVEREIGNTY AND SOCIO-ECONOMIC AND POLITICAL DEVELOPMENT OF THE REPUBLIC, WILL SERVE TO STRENGTHEN THE UNITY OF THE COMMUNIST PARTY AND OF THE ALL-UNION FEDERATION.

COMMENT

4. THIS NEW VERSION OF THE DRAFT PLATFORM, NOW CALLED A 'PROGRAMME STATEMENT', IS MUCH SHORTER AND MORE TIGHTLY DRAFTED THAN ITS PREDECESSOR WHICH WAS APPROVED IN FEBRUARY AT A PARTY PLENUM AND THEN PUBLISHED FOR PUBLIC DISCUSSION. IT HAS BEEN PRODUCED BY A WORKING GROUP CHAIRED BY VADIM MEDVEDEV, POLITBURO MEMBER RESPONSIBLE FOR IDEOLOGY. IT WILL BE PUT TO THE CPSU PLENUM NOW EXPECTED TO TAKE PLACE TOMORROW, 29 JUNE. IF ENDORSED BY THE CENTRAL COMMITTEE, IT WILL BE PUT TO THE CONGRESS ON THEIR AUTHORITY. IF IT DOES NOT GET CENTRAL COMMITTEE ENDORSEMENT IT WILL, ACCORDING TO MEDVEDEV, STILL BE PUT TO THE CONGRESS OVER THE SIGNATURE OF HIS WORKING GROUP. MEDVEDEV SAID AT A PRESS CONFERENCE YESTERDAY THAT THE NEW PROGRAMME TOOK ACCOUNT OF THE VIEWS OF VARIOUS GROUPS IN THE PARTY - IN PARTICULAR THE DEMOCRATIC PLATFORM. REPRESENTATIVES OF THESE GROUPS (PRESUMABLY INCLUDING THE HARD-LINE MARXIST PLATFORM) HAD TAKEN PART IN HIS WORKING GROUP.

5 . THE REVISED PROGRAMME CONTAINNS A NEW SECTION ANALYSING THE REASONS FOR THE CURRENT CRISIS IN THE PARTY AND THE COUNTRY. THIS IS IN RESPONSE TO INSISTENT DEMANDS FROM PARTY MEMBERS IN RECENT WEEKS. IN WHAT IS A CONCESSION TO THE SORT OF HARD-LINE VIEWS EXPRESSED LAST WEEK AT THE RUSSIAN PARTY CONGRESS, THIS SECTION CONTAINS 2 SHORT PASSAGES CRITICISING THE CENTRAL PARTY LEADERSHIP. BUT THIS IS ONE OF VERY FEW CONCESSIONS TO SUCH VIEWS. THE TONE OF MOST OF THE DOCUMENT IS VERY MUCH IN THE GORBACHEV MOULD. THE APPROACH TOWARDS IDEOLOGY IS FLEXIBLE RATHER THAN DOGMATIC : THE PARTY, IT IS SAID, STANDS FOR A CREATIVE INTERPRETATION OF SOCIALISM. THERE IS A STRONG ATTACK ON THOSE WHO REGARD PERESTROIKA AS AN ATTACK ON THE PRINCIPLES OF SOCIALISM. THE SECTION ON THE ECONOMY IS CONSERVATIVE BY

COMPARISON WITH THE DEBATE GOING ON IN THE COUNTRY AT LARGE. BUT FOR THE PARTY, IT MARKS AN ADVANCE ON SEVERAL FRONTS - REFLECTING THE LEADERSHIP'S NEW COMMITMENT TO THE PRINCIPLES OF A MARKET. IT REJECTS THOSE WHO WISH TO DISMANTLE STATE CONTROL OVER THE ECONOMY, BUT ACCEPTS THAT PRIVATE OWNERSHIP HAS A ROLE. IT ALSO ACCEPTS THE NEED FOR SHARE-OWNERSHIP, AND FOR DEMONOPOLISING BANKING AND OTHER SECTORS.

6. ON THE SENSITIVE ISSUE OF THE ROLE OF THE PARTY ORGANISATIONS IN THE ARMY AND THE KGB, THE LANGUAGE SUGGESTS A CAREFUL COMPROMISE. THIS IS ONE OF THE KEY ISSUES OF DISPUTE BETWEEN THE DEMOCRATIC PLATFORM AND THE REST OF THE PARTY. THE LANGUAGE SUGGESTS THAT POLITICAL ORGANISATIONS - JUSTIFIED AS PROVIDING A POLITICAL EDUCATION SERVICE, SHOULD BE ALLOWED TO CONTINUE - BUT THAT OTHER PARTIES AS WELL AS THE COMMUNIST PARTY WILL HAVE THE RIGHT TO SET UP PARTY STRUCTURES WITH THE ARMED FORCES.

7. ALTHOUGH MEDVEDEV CLAIMS THAT ALL THE RIVAL POLITICAL GROUPS IN THE PARTY HAVE PARTICIPATED IN PRODUCING THIS DOCUMENT, THIS DOES NOT NECESSARILY MEAN THAT IT WILL NOT COME UNDER ATTACK AT THE CONGRESS - PARTICULARLY FROM HARD-LINERS. THE FIRST TEST WILL BE THE RECEPTION IT RECEIVES AT THE CENTRAL COMMITTEE PLENUM.

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LITHUANIA: GORBACHEV MEETINGS WITH LANDSBERGIS
SUMMARY

1. ACCORDING TO THE LITHUANIAN REPRESENTATIVE IN MOSCOW, THE FIRST MEETING ON 26 JUNE WENT BADLY. GORBACHEV WAS TOTALLY INFLEXIBLE. HE SAW LITTLE CHANCE OF LITHUANIAN PARLIAMENT AGREEING TO ACCEPT INDEPENDENCE MORATORIUM. BUT FURTHER MEETING ON THE EVENING OF 27 JUNE SUGGESTS THE SEARCH FOR A COMPROMISE CONTINUES.

DETAIL

2. TWO MEMBERS OF THE CHANCERY MET BICKAUSKAS, THE LITHUANIAN REPRESENTATIVE IN MOSCOW, ON 26 JUNE, TO HAND OVER THE TEXT OF THE PRIME MINISTER'S LETTER TO MRS PRUNSKIENE (FCO TELNO 1184).

3. LONGRIGG ASKED ABOUT THE MEETING BETWEEN GORBACHEV AND LANDSBERGIS ON 26 JUNE. BICKAUSKAS WAS UNCHARACTERISTICALLY PESSIMISTIC. HE HAD BEEN PRESENT AT THE MEETING. IT HAD GONE BADLY. THE ATMOSPHERE HAD BEEN FRIENDLY, BUT GORBACHEV HAD BEEN INFLEXIBLE. BICKAUSKAS SAID HE HAD NEVER SEEN HIM IN SUCH A TOUGH MOOD. HE CONTINUED TO BASE HIMSELF ON THE FORMULA THAT THE INDEPENDENCE DECLARATION SHOULD BE FROZEN "FOR THE PERIOD OF THE TALKS." BUT HE HAD REFUSED TO ENTER INTO DETAIL ABOUT WHAT THIS WOULD MEAN IN PRACTICE, AND HE REFUSED TO DISCUSS ANY OF THE COMMENTS AND ALTERNATIVE WORDINGS THE LITHUANIANS HAD BROUGHT WITH THEM. HE HAD SIMPLY STRESSED THE NEED FOR LITHUANIA TO REVERT TO THE STATUS OF A UNION REPUBLIC AND TO DISCUSS ITS FUTURE WITH MOSCOW WITHIN THE FRAMEWORK OF DISCUSSIONS ON THE NEW UNION TREATY. IN OTHER WORDS, LITHUANIA WOULD BE TREATED JUST LIKE ANY OTHER REPUBLIC.

4. LANDSBERGIS HAD ASKED FOR THE MEETING WITH GORBACHEV IN ORDER TO GO OVER THE GROUND BEFORE THE LITHUANIAN PARLIAMENT DEBATED THE PROPOSAL FOR AN INDEPENDENCE MORATORIUM. BICKAUSKAS THOUGHT THAT IN VIEW OF THE WAY DISCUSSIONS HAD GONE, IT WAS VERY UNLIKELY THAT THE LITHUANIAN PARLIAMENT WOULD NOW ACCEPT THIS IDEA. THE BEST THAT COULD BE HOPED FOR WOULD BE THAT THEY WOULD COME TO NO DECISION. THE LITHUANIAN DEBATE BEGAN ON THE EVENING OF 26 JUNE AND, ACCORDING TO

BICKAUSKAS, COULD LAST TWO DAYS.

5. LANDSBERGIS, ACCORDING TO TASS, WAS A LITTLE LESS DOWNBEAT ABOUT THE MEETING WITH GORBACHEV. HE IS SAID TO HAVE TOLD LITHUANIAN DEPUTIES THAT IT HAD BEEN A USEFUL AND FRIENDLY MEETING WHICH HAD CLARIFIED MATTERS. BUT HE ADDED THAT GORBACHEV WAS DEMANDING UNILATERAL LITHUANIAN CONCESSIONS IN ORDER TO BRIDGE THE GAP REMAINING BETWEEN THE 2 SIDES.

6. LANDSBERGIS ACCOMPANIED THIS TIME BY MRS PRUNSKIENE CAME TO MOSCOW AGAIN ON THE EVENING OF 27 JUNE AND HAD ANOTHER MEETING WITH GORBACHEV WHICH LASTED 90 MINUTES. WE DO NOT HAVE MANY DETAILS YET ABOUT HOW THIS WENT. A LITHUANIAN SPOKESMAN QUOTED BY TASS SAID THAT THE LITHUANIANS HAD BEEN SEEKING A REASONABLE COMPROMISE IN ORDER TO AVOID SENSELESS DECISIONS THAT WOULD BE REJECTED BY THE OTHER SIDE.

LITHUANIAN ECONOMY

7. BICKAUSKAS ALSO TALKED ABOUT ECONOMIC SANCTIONS. HE SAID ONLY HALF THE ENTERPRISES IN THE REPUBLIC WERE NOW WORKING NORMALLY. LATEST ESTIMATES WERE THAT PETROL SUPPLIES COULD LAST OUT UNTIL THE END OF JUNE, AND GENERAL FUEL STOCKS UNTIL MID-JULY. OCCASIONAL SUPPLIES WERE STILL GETTING THROUGH FROM OTHER REPUBLICS THERE WAS NO SERIOUS PROBLEM OVER FOOD AND MEDICINES. BUT FUEL SHORTAGES COULD CAUSE PROBLEMS IN GATHERING THE HARVEST.

8. BICKAUSKAS STRESSED THAT THE SANCTIONS WERE NOT AFFECTING LITHUANIAN RESOLVE. THE LATEST OPINION SURVEYS SHOWED THAT SUPPORT FOR INDEPENDENCE WAS STILL AT THE SAME LEVEL AS IN MARCH.

9. BICKAUSKAS SPOKE BRIEFLY ABOUT RELATIONS WITH THE RUSSIAN FEDERATION. LIKE MOST OF OUR BALTIC CONTACTS, HE REMAINS SUSPICIOUS OF YELTSIN. HE CONFIRMED THAT THERE HAD BEEN CONTACTS WITH RSFSR REPRESENTATIVES OVER A BILATERAL COOPERATION TREATY. BUT THESE WERE ONLY A PRELIMINARY STAGE. NO FORMAL WORKING GROUP HAD BEEN ESTABLISHED (AT HIS PRESS CONFERENCE ON 26 JUNE, YELTSIN HAD SAID THAT THE RSFSR WAS INVOLVED IN NEGOTIATIONS ON BILATERAL TREATIES WITH A NUMBER OF UNION REPUBLICS INCLUDING THE BALTIC STATES. HE IMPLIED THAT THE NEGOTIATIONS WERE SOMEWHAT MORE ADVANCED THAN SEEMS TO BE THE CASE WITH LITHUANIA).

COMMENT

10. GIVEN THE PRESSURE THAT GORBACHEV IS UNDER AT PRESENT, AND WITH THE PARTY CONGRESS ONLY A FEW DAYS AWAY, IT IS HARDLY SURPRISING THAT HE IS TAKING A TOUGH LINE ON LITHUANIA. BUT THE FACT THAT HE HAS

BEEN PREPARED TO RECEIVE LANDSBERGIS FOR SUBSTANTIVE MEETINGS TWO
DAYS RUNNING SUGGESTS HE IS ANXIOUS TO AVOID A COMPLETE BREAKDOWN.

BRAITHWAITE
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MY TELNO 1174 (NOT TO ALL) : POSSIBLE POSTPONEMENT OF
THE CPSU CONGRESS

SUMMARY

1. AT HIS PRESS CONFERENCE ON THE EVENING OF 26 JUNE, YELTSIN CONFIRMED REPORTS THAT A POSTPONEMENT OF THE CPSU CONGRESS IS BEING CANVASSED. HE SAID THE DECISION WOULD BE TAKEN AT A CPSU CENTRAL COMMITTEE PLENUM WHERE THERE WOULD BE A 'REAL STRUGGLE'. SOME PEOPLE, INFECTED BY THE MOOD OF THE RUSSIAN PARTY CONGRESS, DID NOT WANT A POSTPONEMENT: OTHERS HOPED THEY MIGHT BE ABLE TO STABILISE THE POLITICAL ATMOSPHERE BY PUTTING THE CONGRESS BACK PERHAPS UNTIL THE AUTUMN.
2. YELTSIN SAID THAT HE, PERSONALLY, FAVOURED POSTPONEMENT, SO THAT THERE COULD BE PROPER PREPARATIONS. THE RUSSIAN PARTY CONGRESS HAD BEEN HELD WITH TOO MUCH HASTE. HE ADDED THAT GORBACHEV WAS TOO TAKEN UP WITH THE PROBLEMS OF THE PRESIDENCY AND HAD NOT DEVOTED ENOUGH TIME TO THE RUSSIAN CONGRESS. THIS WAS ONE OF THE REASONS FOR THE OUTCOME. THIS, HE SAID, CONFIRMED HIS VIEW THAT THE PARTY LEADERSHIP AND PRESIDENCY SHOULD NOT BE HELD BY ONE PERSON.
3. YURI LEBEDEV, A SENIOR CPSU CENTRAL OFFICIAL ALSO SPOKE TO JOURNALISTS YESTERDAY OF THE POSTPONEMENT, AND ALSO LEFT LITTLE DOUBT THAT IT WAS GORBACHEV WHO WAS BEHIND THE PROPOSAL. THE RIGHT WING IN THE PARTY, HE SAID, WOULD HAVE LITTLE REASON TO ARGUE FOR POSTPONEMENT.
3. THIS MORNINGS PRAVDA (27 JUNE) REPORTED PREPARATIONS FOR THE CONGRESS TAKING PART AS NORMAL, AND GAVE NO INDICATION THAT POSTPONEMENT MIGHT BE IN THE AIR. BUT THIS IS HARDLY SURPRISING.

BRAITHWAITE

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OF 272300Z JUNE 90
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YOUR TELNO. 1133: AID TO THE SOVIET UNION

1. I TOOK BLACKWILL THROUGH THE POINTS IN PARA. 2 OF YOUR TUR ON THE AFTERNOON OF 27 JUNE. HE SAID THE INTERVENTION WAS TIMELY: THERE WOULD BE DISCUSSION OF THE ISSUES WITH THE PRESIDENT LATER TODAY. HE ALSO SAID THE AMERICANS SHARED OUR FUNDAMENTAL JUDGEMENT THAT IT WAS NO GOOD STEPPING BLITHELY INTO THE MAJOR SWAMP OF AID TO THE SOVIET UNION WITHOUT A FIRMER MAP TO GUIDE US. THE RUSSIANS THEMSELVES PROBABLY HAD LITTLE IDEA OF HOW MUCH THEY NEEDED OR HOW BEST TO SPEND IT IF THEY GOT IT. I TOLD HIM WE WOULD BE ENCOURAGING THE IMF AND IBRD TO GET INVOLVED IN WORKING OUT WHAT WAS REQUIRED. HE SAID HE TOOK THE POINT THAT THIS WOULD NOT PREJUDGE USSR MEMBERSHIP: THE AMERICANS REMAINED OPPOSED. THE IDEA OF AN IMF/IBRD INVESTIGATIVE TEAM WAS HOWEVER ONE WHICH WOULD BE UNDER ACTIVE CONSIDERATION WITH THE PRESIDENT. HE WAS GLAD TO SEE OUR VIEWS WERE SO CLOSE.

2. I HAVE ALSO BEEN THROUGH THE ARGUMENTS WITH MCCORMACK (STATE), WHO WELCOMED OUR APPROACH WITH THE HOUSTON SUMMIT IN MIND, AND WE HAVE ALSO TALKED TO NIEHUSS (TREASURY). THE LATTER EMPHASISED THAT THE AMERICANS GREATLY APPRECIATED THE ROLE OF THE PRIME MINISTER IN STOPPING WHAT HAD SEEMED TO BE AN UNSTOPPABLE MOVE TOWARDS AN UNCONDITIONAL AGREEMENT ON AN AID PACKAGE IN DUBLIN. THE AMERICANS WERE REVIEWING THE OPTIONS WITH AN OPEN MIND. CONGRESSIONAL REACTIONS WOULD BE PROBLEMATIC. THE SOVIET CAPACITY TO ABSORB A LARGE AID PACKAGE AND TO WORK OUT AN ADEQUATE REFORM WERE QUESTIONABLE. MONEY TO SUPPORT SHORT TERM CONSUMER DEMAND MIGHT NOT ONLY BE WASTED BUT MIGHT ALSO DELAY REFORM. ON THE OTHER HAND, AMERICAN SUPPORT FOR THE GENERAL PROPOSITION WOULD MAKE STRONG CONDITIONALITY MORE LIKELY, WHICH IN TURN MIGHT HELP REFORM. IT WAS POSSIBLE THE RUSSIANS MIGHT EITHER OPPOSE CONDITIONALITY OR USE IMF/IBRD INVOLVEMENT TO BUTTRESS THEIR CASE FOR IMF MEMBERSHIP. HE THOUGHT THAT, AT HOUSTON, THE FRENCH, GERMANS AND ITALIANS WOULD SUPPORT THE IDEA OF AN AID PACKAGE NOW WHILE JAPAN AND CANADA

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EAST BERLIN TELNO 406 TO FCO: ECONOMIC HELP FOR THE SOVIET UNION

SUMMARY

1. STATE DEPARTMENT BRIEF US ON THE LEGISLATIVE RESTRICTIONS TO AID TO THE SOVIET UNION. A VARIETY OF RESTRICTIONS APPLY TO GOVERNMENT AND PRIVATE ASSISTANCE.

DETAIL

2. STATE DEPARTMENT HAVE TOLD US THAT THERE ARE A NUMBER OF LEGISLATIVE OBSTACLES TO US ASSISTANCE FOR THE SOVIET UNION. THESE ARE:

(A) JACKSON-VANIK AMENDMENT TO THE 1974 TRADE ACT

3. FOR NON-MARKET ECONOMIES, INCLUDING THE USSR, JACKSON-VANIK MAKES FREEDOM OF EMIGRATION A PRECONDITION FOR MFN TARIFF STATUS, US GOVERNMENT CREDITS OR CREDIT AND INVESTMENT GUARANTEES. FOR JACKSON-VANIK TO BE WAIVED, THE PRESIDENT MUST CERTIFY THAT SOVIET REFORMS WILL CONTINUE TOWARDS MEETING JACKSON-VANIK CONDITIONS AND THAT A PRESIDENTIAL WAIVER WILL ITSELF PROMOTE FREE EMIGRATION. SUCH A WAIVER IS NOT SUBJECT TO CONGRESSIONAL VETO.

(B) THE BYRD AMENDMENT TO THE 1974 TRADE ACT

4. THE BYRD AMENDMENT STATES THAT NO US AGENCY SHALL APPROVE LOANS, GUARANTEES OR INSURANCE FOR EXPORTS TO THE SOVIET UNION OVER DOLLARS 300 MILLION WITHOUT PRIOR CONGRESSIONAL APPROVAL. THE ONLY EXCEPTION IS FOR THE US CREDIT COMMODITY CORPORATION TO FACILITATE THE PURCHASE OF SURPLUS US FARM PRODUCE.

(C) THE STEVENSON AMENDMENT

5. THE 1974 STEVENSON AMENDMENT TO THE EXIMBANK ACT OF 1945 SETS A CEILING OF DOLLARS 300 MILLION ON OFFICIAL US EXIMBANK CREDIT GUARANTEES IN SUPPORT OF US EXPORTS TO THE SOVIET UNION. STEVENSON ALSO LIMITS LENDING AND GUARANTEES FOR EXPLORING FOSSIL FUEL ENERGY RESOURCES TO DOLLARS 40 MILLION.

6. STATE HAVE TOLD US THAT THE LEGISLATION AND LEGISLATIVE HISTORY OF THE BYRD AND STEVENSON AMENDMENTS PROVIDE THAT THE DOLLARS 300 MILLION LIMIT ON EXIMBANK CREDITS COULD BE EXCEEDED BY THE PRESIDENT IF HE DETERMINED THIS WAS IN THE NATIONAL

INTEREST, AND IF CONGRESS APPROVED BY A CONCURRENT RESOLUTION. STATE ADD THAT A 1983 SUPREME COURT RULING APPARENTLY RENDERED THE REQUIREMENT FOR CONGRESSIONAL APPROVAL UNCONSTITUTIONAL. AS A RESULT THE PRESIDENT MIGHT BE ENTITLED TO RAISE THE EXIMBANK CREDIT CEILING WITHOUT EXPLICIT CONGRESSIONAL APPROVAL. LEGAL ADVISERS ARE STILL RESEARCHING THIS POINT. WHATEVER THE CONCLUSIONS, STATE SUGGEST THAT IT WOULD BE PRUDENT FOR THE PRESIDENT TO PROCEED ONLY AFTER CONSULTATION WITH CONGRESS.

(D) MARXIST/LENINIST PROVISIONS IN THE EXIMBANK ACT

7. THE EXIMBANK ACT AS AMENDED PROHIBITS THE BANK FROM GUARANTEEING, INSURING OR EXTENDING CREDIT, OR PARTICIPATING IN THE EXTENSION OF CREDIT TO THE SOVIET UNION (AS WELL AS A LIST OF OTHER QUOTE MARXIST/LENINIST UNQUOTE COUNTRIES), UNLESS THE PRESIDENT DETERMINES SUCH CREDIT SUPPORT TO BE IN THE NATIONAL INTEREST. A FURTHER PROVISION REQUIRES A SEPARATE PRESIDENTIAL DETERMINATION FOR EACH TRANSACTION GREATER THAN DOLLARS 50 MILLION. IN 1972 A DETERMINATION WAS MADE WITH RESPECT TO THE SOVIET UNION WHICH EFFECTIVELY SET ASIDE THE FIRST (GENERAL) REQUIREMENT, BUT LEAVES INTACT THE SPECIAL REQUIREMENT FOR DETERMINATIONS IN RESPECT OF EACH LOAN OF MORE THAN DOLLARS 50 MILLION. A REPEAL OF THE LATTER WOULD REQUIRE LEGISLATION.

(E) LEGISLATION AFFECTING PRIVATE CREDIT

THE JOHNSON DEBT DEFAULT ACT

8. THE JOHNSON ACT MAKES IT A CRIME FOR ANYONE IN THE US TO MAKE LOANS TO THE SOVIET UNION WHICH ARE NOT TIED TO EXPORTS, OR TO BUY OR SELL SOVIET FINANCIAL INSTRUMENTS AS LONG AS THE SOVIET UNION IS IN DEFAULT IN ITS DEBTS TO THE US GOVERNMENT. SOVIET DEBTS DERIVE FROM THE 1918 BOLSHEVIK REPUDIATION OF DOLLARS 187.7 MILLION IN US GOVERNMENT LOANS TO KERENSKY'S PROVISIONAL GOVERNMENT.

9. US AND SOVIET OFFICIALS HAVE BEEN NEGOTIATING TO TRY TO SETTLE THE DEBTS. STATE HAVE TOLD US THAT, ALTHOUGH BOTH SIDES HAVE AGREED ON THE OUTLINE OF A SETTLEMENT, THERE IS STILL A WIDE GAP BETWEEN THEM ON THE AMOUNT THE SOVIET UNION WOULD PAY.

(D) OTHERS

10. STATE DEPARTMENT HAVE POINTED OUT THAT THERE IS AN OECD CONSENSUS ON WESTERN LENDING TO THE SOVIET UNION: IN 1982 THE SOVIET UNION WAS RECLASSIFIED AS A CATEGORY I COUNTRY, ELIGIBLE FOR OFFICIAL EXPORT CREDITS ONLY AT VIRTUAL MARKET RATES. STATE ADDED THAT THE 1988 ECONOMIC SUMMIT REAFFIRMED THE ALLIED COMMITMENT TO ELIMINATE CREDIT SUBSIDIES TO THE USSR.

(E) AID

11. UNDER THE FOREIGN SERVICE ASSISTANCE ACT THE SECRETARY OF STATE MUST SEEK CONGRESSIONAL APPROVAL FOR AID TO ANY COMMUNIST

COUNTRY.
COMMENT

12. STATE ARE STILL EXAMINING THE IMPLICATIONS OF ALL OF THIS. OFFICIALS THINK THAT JACKSON-VANIK IS CRUCIAL, AND THAT THERE IS LITTLE CHANCE OF CONGRESSIONAL AGREEMENT TO ASSISTANCE UNTIL JACKSON-VANIK IS WAIVED. THIS DEPENDS ON WHEN MOSCOW ENACTS ITS NEW EMIGRATION LAW (NOW THOUGHT TO BE SEPTEMBER). BEYOND THAT, THE LEGAL IMPLICATIONS OF THE LEGISLATION AFFECTING OFFICIAL CREDIT ARE UNCLEAR, BUT THERE IS SUFFICIENT LEGISLATION ON THE BOOKS FOR THE ADMINISTRATION TO BE CAUTIOUS ABOUT PROCEEDING WITHOUT BEING SURE OF GENERAL CONGRESSIONAL SUPPORT.

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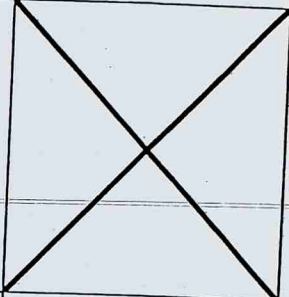
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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T140190

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LONDON SW1A 2AA

subject cc MASTER
cc OPS

THE PRIME MINISTER

27 June 1990

Dear Mr. President.

I am asking Ambassador Zamyatin to bring you this letter, together with my warm good wishes. We so much enjoyed our visit and the marvellous welcome which we received in the Soviet Union. The visits which we paid to the Ukraine and Armenia were particularly memorable for the genuine warmth and friendliness of the people.

Since then, I have of course continued to follow events in your country very closely. We are all full of admiration for the way you are coping with the tremendous burden of work, so much of which falls on you personally. You have our whole-hearted support in the momentous decisions affecting the Soviet Union's whole future which face you.

We shall be holding our NATO summit in London next week, and shall be considering the best way to meet the sensitivities which the Soviet Union has on the issues of German unification and future arrangements for Europe's security, which you and I discussed in Moscow. Following your advice, I have just met Prime Minister de Mazière and discussed all these matters very fully with him. I believe our NATO meeting will agree on a very positive and constructive statement, which will advance these matters considerably and give a clear signal of our wish to see East and West work together.

Meanwhile, I have just returned from the European Council in Dublin, where we had a full discussion of how we can best

give practical support to your policies. There was some talk about your having sent messages to various heads of government seeking financial help, but no actual texts were produced, so I am not quite clear about your own specific wishes. There is no doubt about the Community's goodwill, and I am sure your Ambassador will have let you have the text of the Council's conclusions. It seemed to me vital, as a first step, that we should discuss these matters with you, and conduct a thorough analysis of your needs. To get the best possible advice, we need to draw on the full range of available expertise, not just from Western Europe but from the international financial institutions. Obviously it would be of no service to the Soviet Union or to you to make proposals for help of a kind which you could not use, or which would simply increase the burden of debt. We shall be discussing all this further at the Economic Summit in Houston and I hope you will find time to let me have your own thoughts before then.

Meanwhile Denis and I send you and Mrs. Gorbachev our warm good wishes - and once again thank you for the very kind gifts of vodka and caviar for Denis and the beautiful red crystal bowl for me. They gave us enormous pleasure.

Warm regards.

Yours sincerely

Margaret Thatcher

His Excellency Mr. M. S. Gorbachev



FILE

SN

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 June 1990

SOVIET UNION

I enclose the Prime Minister's message to Mr. Gorbachev which I am handing to the Soviet Ambassador early this afternoon, before he returns to Moscow for the meeting of the Central Committee.

(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

FOR CF FILE



Foreign and Commonwealth Office

London SW1A 2AH

26 June 1990

Dear Charles,

Message to President Gorbachev

You asked for a message from the Prime Minister to President Gorbachev, which the Soviet Ambassador could take to Moscow when he returns for the Central Committee / meeting on 28 June. I enclose a draft.

James
Stephen Wall

(J S Wall)

Private Secretary

C D Powell Esq
10 Downing Street

shall - my self
 be seeing the East
 German Prime Minister
 tomorrow - I will have been
 been at first had low
 he sees the way ahead.

continued to follow
 exists in your
 country very closely
 since then, and
 advise the skill should
 resolve a to facilitate its
 did you compare
 to the other
 problems

DRAFT MESSAGE FROM THE PRIME MINISTER TO PRESIDENT
 GORBACHEV

I am asking Ambassador Zamyatin to convey to you my warm good wishes as you approach another important stage in your courageous reform programme. It is more important than ever that we should keep in close touch. Historic changes are taking place. Established views of security in Europe are having to be revised. I attach particular importance to our ability to discuss all aspects fully and frankly.

Helpful
 end of
 of us
 view of
 both sides

Here
 has been
 some
 progress
 on German
 unification
 & the
 broader
 stability
 security
 since my
 visit.

I am glad that we have agreed in the 2+4 ^{group} on the need for a final settlement on German unification before the CSCE Summit. But the proposals tabled by Mr Shevardnadze in East Berlin on 22 June show that there is a long way to go before this is achieved. It would be quite wrong to try to impose upon Germany, through the 2+4 framework, a special status in Europe and to limit German sovereignty after unification by delaying the termination of Four Power rights and responsibilities. I am well aware of your views about German membership of NATO. But I am in no doubt that this is not only the most stabilising outcome for Europe, but is compatible with the interests of all concerned including the Soviet Union.

I know that you attach
importance to this meeting and
 These issues will be much in the minds of all the NATO Allies at the Summit in London next week. That meeting will show that NATO is serious about intensifying its political role and adapting its military strategy and structures to the new circumstances of Europe. NATO has always been a defensive Alliance - and now wishes to extend the hand of friendship and cooperation to the

We are working on a draft
 declaration - I believe
 will fully reflect the new
 era in relations between East
 & West. It will also reflect

group
 differences
 individual
 to your
 concerns
 that
 a concern
 to ensure
 that the
 Soviet Union's
 security is never
 again
 threatened
 from
 Germany,
 & I
 would believe
 that differences
 can be worked
 out.

our very firm conviction ~~with~~ a united
Council's membership of NATO ~~for the~~
and the continued presence of the
bases in Europe offers a better guarantee
Soviet Union.
~~for~~ but why for stability in Europe or for
the kind

I believe that the external aspects of unification
can be agreed by November, if we take advantage of the
possibilities of other fora (including CFE and CSCE).
This should go a long way to meet your understandable
concerns. Our officials will need to be creative and to
have flexibility to enable them to forge options for
agreement by Ministers in Paris on 17 July and in Moscow
in September.

I was glad in Moscow to hear your views of
developments within the Soviet Union. We are conscious
of the far-reaching importance of the process of
political and economic reform which you have launched. I
have spoken publicly about our welcome and admiration for
what you have already achieved. On the eve of the
historic Party Congress, you have my continuing
whole-hearted support. As you will be aware, we had a
discussion at the European Council in Dublin of the
Soviet Union's place in the world economy. I argued
strongly that we must discuss this with you, must
establish how our efforts could best support the
structural reforms you intend to introduce, and must draw
on the full range of available expertise, not just from
Western Europe but from the wider world and the
international financial institutions. It would be no
service to the Soviet Union or yourself to give aid of a
kind which the economy could not use successfully and
which would load you with debt to repay in later years.
It seems to me that in practical terms economic reform
and international help need to go hand in hand. We
shall be discussing this again in Houston in July.

~~It is none of us do not want~~
to delay unhelpfully, only to be
the best our aid ~~will~~ really help
to be effective with ~~really~~ be effective.
Here will be further discussion of

I am
sure you
understand
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you have
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PRIME MINISTER

MR. GORBACHEV

As I told you, the Soviet Ambassador has asked whether he can have an 'oral message' to take to Mr. Gorbachev when he returns to Moscow on Thursday for the meeting of the Central Committee. He thinks Mr. Gorbachev needs all the help and encouragement he can get in his present situation.

I attach a draft for such a message, which I would like to hand to him tomorrow. Content with the text?

e.d.p?

(C. D. POWELL)

26 June 1990

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SENT AT REQUEST OF SOVIET DEPARTMENT
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USSR : POSSIBLE POSTPONEMENT OF THE CPSU CONGRESS

SUMMARY

1. REPORTS THAT GORBACHEV IS TRYING TO GET THE CPSU CONGRESS POSTPONED TO AVOID AN ATTEMPT TO UNSEAT HIM AS PARTY LEADER.

DETAIL

2. IN THE PAST 24 HOURS, WE HAVE BEEN HEARING REPORTS THAT GORBACHEV IS ATTEMPTING AT THE LAST MINUTE TO POSTPONE THE 28TH CPSU CONGRESS, DUE TO START ON 2 JULY. THE REASON IS SAID TO BE HIS FEAR THAT A SUCCESSFUL ATTEMPT MAY BE MADE TO REPLACE HIM AS LEADER OF THE PARTY. AT LEAST ONE OF THESE REPORTS COMES FROM A USUALLY RELIABLE AND WELL-PLACED SOVIET CONTACT, WHO SAID HE HAD RECEIVED CONFIRMATION FROM CONTACTS IN A NUMBER OF SOVIET CITIES. HE SAID THAT THE DECISION TO TRY TO POSTPONE THE CONGRESS HAD BEEN TAKEN IMMEDIATELY AFTER THE ELECTION OF POLOZKOV AS LEADER OF THE NEW RUSSIAN COMMUNIST PARTY.

3. FURTHER COLLATERAL COMES FROM AN ESTONIAN NEWS SERVICE RELEASE DATED 25 JUNE WHICH QUOTES A NAMED ESTONIAN COMMUNIST PARTY OFFICIAL AS SAYING THAT VADIM MEDVEDEV, THE CPSU POLITBURO MEMBER RESPONSIBLE FOR IDEOLOGY, HAD TELEPHONED THE ESTONIAN COMMUNIST PARTY ON 25 JUNE TO SAY THAT THE CONGRESS MIGHT BE POSTPONED UNTIL SEPTEMBER. THE REASON WAS SAID TO BE THE 'HARVEST' (SIC). ACCORDING TO THIS OFFICIAL, MEDVEDEV HAD SAID THAT IT WAS THE RUSSIAN AND UKRAINIAN COMMUNIST PARTIES THAT WERE INSISTING ON A POSTPONEMENT.

4. WE HAVE ALSO HEARD FROM ONE CONTACT THAT LIGACHEV HAS TOLD SOVIET JOURNALISTS THAT HE INTENDS TO CHALLENGE GORBACHEV FOR THE PARTY LEADERSHIP.

COMMENT

5. MOSCOW IS AN EXCITABLE CITY AND IS BECOMING MORE SO. IT IS NOT SURPRISING THAT THE ELECTION OF POLOZKOV HAS SPARKED OFF A NEW SERIES OF RUMOURS ABOUT GORBACHEV'S FUTURE. WERE IT NOT FOR THE SEEMINGLY GOOD EVIDENCE THAT AN ATTEMPT IS BEING MADE TO POSTPONE THE CONGRESS, WE WOULD BE INCLINED TO LEAVE IT AT THAT. BUT IF THIS EVIDENCE IS RIGHT, AND IF IT IS GORBACHEV THAT IS BEHIND THE ATTEMPTED POSTPONEMENT THEN IT SUGGESTS THAT HE IS GENUINELY FEARFUL ABOUT THE TURN OF EVENTS AT THE CONGRESS MIGHT TAKE.

6. THE DECISION ON WHETHER OR NOT TO POSTPONE WILL LIE WITH THE CPSU CENTRAL COMMITTEE. IT IS RUMOURED THEY WILL MEET ON FRIDAY 28 JUNE. THIS, IN ITSELF, WOULD NOT BE A CONFIRMATION OF A CRISIS: IT IS NORMAL FOR A PLENUM TO BE HELD ON THE EVE OF A CPSU CONGRESS. THE CENTRAL COMMITTEE IS AN AGEING AND CONSERVATIVE BODY: MANY OF ITS MEMBERS HAVE NOW RETIRED FROM ACTIVE POLITICAL LIFE. ON THE FACE OF

IT, IT SEEMS UNLIKELY THAT THEY WOULD BACK A PROPOSAL FOR POSTPONEMENT FROM GORBACHEV AGAINST THE WISHES OF THE HARD-LINE MAJORITY IN THE PARTY APPARATUS.

7. GORBACHEV SAID PUBLICLY ON 23 JUNE THAT HE WISHED TO CONTINUE AS PARTY LEADER. POLOZKOV, IN A PRESS CONFERENCE SUPPORTED HIM IN THIS. FROM POLOZKOV'S POINT OF VIEW THERE MUST BE STRONG ARGUMENTS IN FAVOUR OF KEEPING GORBACHEV WITHIN THE PARTY WHERE HE WOULD BE MORE SUSCEPTIBLE TO INFLUENCE. NEVERTHELESS, IT WOULD NOT BE SURPRISING IF GORBACHEV AND POSSIBLY OTHERS STOOD AGAINST HIM. AS WE HAVE REPORTED, THERE WAS MUCH OPEN HOSTILITY TOWARD GORBACHEV AT THE RUSSIAN CONGRESS AND THE VAST MAJORITY OF THE PARTY APPARATUS IS NOW SAID TO WANT TO BE RID OF HIM. BUT EVEN IF THERE WERE TO BE A WELL-CO-ORDINATED ATTEMPT TO UNSEAT HIM, WE WOULD ASSESS THAT HE WOULD HAVE A GOOD CHANCE OF SURVIVING THIS - ALBEIT WITH HIS CREDIBILITY FURTHER DENTED. A LARGE NUMBER OF THE RUSSIAN CONGRESS VOTED AGAINST POLOZKOV: THERE MUST BE LARGE NUMBERS OF CONGRESS DELEGATES FROM THE SMALLER REPUBLICS WHO WOULD PREFER TO HAVE GORBACHEV RATHER THAN A HARD-LINER RUNNING THE PARTY.

BRAITHWAITE

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SOVIET INTERNAL:
UKRAINIAN PARTY CONGRESS

SUMMARY

1. FORMER UKRAINIAN PARTY 2ND SECRETARY GURENKO REPLACES IVASHKO AS UKRAINIAN PARTY BOSS. UKRAINIAN PARTY CONGRESS BACKS REPUBLICAN SUPREME SOVIET'S PLAN FOR SOVEREIGNTY DECLARATION AND PASSES RESOLUTION IN SUPPORT OF DONBASS MINERS.

DETAIL

2. THE CONGRESS OF THE UKRAINIAN COMMUNIST PARTY ON 22 JUNE ELECTED A NEW FIRST SECRETARY, STANISLAV GURENKO, FORMERLY THE PARTY SECOND SECRETARY, TO REPLACE IVASHKO. IVASHKO HAD MADE IT CLEAR THAT HE DID NOT INTEND TO COMBINE THE POST OF UKRAINIAN SOVIET CHAIRMAN, TO WHICH HE WAS ELECTED IN EARLY JUNE WITH RUNNING THE PARTY. IVASHKO'S NAME WAS AMONGST THE NINE PUT FORWARD FOR THE PARTY LEADERSHIP, BUT LIKE MOST OF THE NOMINEES IVASHKO DECLINED TO STAND. ONLY TWO CANDIDATES WENT INTO THE BALLOT: GURENKO AND IVAN SALY, A LOCAL PARTY OFFICIAL IN KIEV (CHAIRMAN OF THEPODOLSK RAIKOM) AND SUPPORTER OF THE DEMOCRATIC PLATFORM IN THE CPSU. GURENKO GOT 80PERCENT OF THE VOTE. GURENKO A MECHANICAL ENGINEER, WHO HAS WORKED IN BOTH DONETSK INDUSTRY AND PARTY TOLD THE CONGRESS THAT HE WAS IN FAVOUR OF PERESTROIKA - BUT AT A PACE ACCEPTABLE TO SOCIETY.

3. THE UKRAINIAN PARTY CONGRESS ADOPTED A RESOLUTION AUTHORISING PARTY MEMBERS TO WORK IN SUPPORT OF A SOEVERIGNTY DECLARATION BY THE REPUBLIC'S SUPREME SOVIET (SUCH A DECLARATION IS EXPECTED SHORTLY). ANOTHER RESOLUTION PASSED BY THE OCNGRESS INSTIGATED BY MINING DELEGATES CRITICISED THE CENTRAL COMMITTEES OF THE CPSU AND THE UKRAINIAN COMMUNIST PARTY FOR INDIFFERENCE OVER THE GOVERNMENT'S FAILURE TO IMPLEMENT SATISFACTORILY THE MEASURES AGREED AFTER THE 1989 MINER'S STRIKE.

MOOD OF THE CONGRESS

4. DESPITE SOME PRESS CLAIMS THAT THE RUSSIAN AND UKRAINIAN PARTY CONGRESSES WERE BARELY DISTINGUISHABLE, DEBATE AT THE LATTER SEEMS TO

HAVE BEEN RATHER MORE STORMY. AS AT THE RUSSIAN PARTY CONGRESS THE CPSU LEADERSHIP AND THE SOVIET GOVERNMENT CAME IN FOR A GREAT DEAL OF CRITICISM OVER THE 'CRISIS IN SOCIETY.' THERE WAS ALSO SOME CRITICISM OF THE UKRAINIAN PARTY ITSELF - FOR EXAMPLE OVER ITS RELATIONS WITH THE INFORMAL AND WORKERS MOVEMENTS BUT AN IZVESTIA CORRESPONDENT COMMENTED ON THE FIALURE OF ANY SPEAKER TO ACCEPT RESPONSIBILITY FOR ANY OF THE FAILURES. THE TENSE ATMOSPHERE OF THE MEETING LED TO A LOT OF HECKLING AND UKRAINIAN PARTY SECRETARY GRINTSOV WAS SHOUTED DOWN BEFORE COMPLETING HIS REPORT TO THE CONGRESS. THERE WREE PROPOSALS FOR A SEPARATE DEMOCRATIC PLATFORM CONGRESS TO BE HELD AND IT SEEMS THAT THE RADICALS MANAGED TO MAKE THEIR PRESENCE FELT MORE THAN THEIR RUSSIAN COUNTERPARTS DID.

5. LIKE THE RUSSIANS, THE UKRAINIAN PARTY WILL CONTINUE ITS CONGRESS IN JULY AFTER THE CPSU CONGRESS. PRESUMABLY FUNDAMENTAL QUESITONS SUCH AS THE CHANGING ROLE OF THE PARTY AND ITS FUTURE POLICY WILL BE ADDRESSED MORE FULLY

BRAITHWAITE

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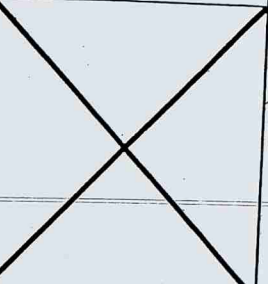
The Soviet Embassy have given our Soviet Department the enclosed letter from the Ambassador with a message for the Prime Minister from Boris Yeltsin. A signed original is promised.

Yours ever,

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

A The National Archives

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From the Private Secretary

24 June 1990

See Richard.

LITHUANIA

I enclose the Prime Minister's letter to Mrs. Prunskiene and I should be grateful if you could arrange for its delivery.

Yours sincerely,

CHARLES POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office

RAN



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

25 June 1990

Dear Mrs. Prunskiene,

Thank you for the letter which you sent me through the British Embassy in Moscow after my visit to the Soviet Union.

I did indeed raise the question of the Baltic States with President Gorbachev. I was encouraged to hear of his meeting with the three Baltic leaders in Moscow on 12 June. I hope that it will be possible now for talks to begin with the Soviet leadership on practical aspects of Lithuanian independence. I was also very pleased to hear that some of the effects of the Soviet blockade are to be lifted: we have always made clear that coercive measures could only make it more difficult to achieve a satisfactory settlement.

Warm regards,

Yours sincerely

James Douglas

Mrs. Prunskiene

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FROM PRIVATE SECRETARY

SECRETARY OF STATE'S BILATERAL WITH SHEVARDNADZE

SUMMARY

1. SHORT MEETING IN WHICH SHEVARDNADZE URGES MORE INTENSE DISCUSSION AMONG EXPERTS IN THE 2+4. TRAILS SOVIET PROPOSALS ON A FINAL SETTLEMENT. SHEVARDNADZE STRESSES CONTINUED IMPORTANCE OF NATO/WARSAW PACT DECLARATION. DISCUSSION ON START NON-CIRCUMVENTION. NO AGREEMENT. FOR DISCUSSION ON START SEE MIFT (NOT TO ALL).

DETAIL

2. THE SECRETARY OF STATE AND SHEVARDNADZE HAD TIME ONLY FOR A FAIRLY SHORT MEETING IN BERLIN TODAY. SHEVARDNADZE BEGAN BY SAYING HOW SUCCESSFUL THE PRIME MINISTER'S VISIT HAD BEEN AND HOW PLEASED GORBACHEV HAD BEEN AT THE RESULTS.

3. SHEVARDNADZE SAID HE DID NOT KNOW HOW DISCUSSION IN THE 2+4 WOULD GO. THE SECRETARY OF STATE SAID THAT POLITICAL DIRECTORS HAD HAD DIFFICULTY MAKING PROGRESS BUT WE NEEDED TO DO SO BOTH TODAY AND AT THE MEETING WITH THE POLES IN JULY. HE ALSO HOPED WE COULD AGREE A SEPTEMBER DATE FOR THE MOSCOW MEETING. SHEVARDNADZE SAID THAT THERE WAS NOT YET ANY REAL BASIS FOR DISCUSSION. HE WOULD TABLE A PROPOSAL FOR A FINAL LEGAL AND POLITICAL SETTLEMENT. HE BELIEVED THAT OCCASIONAL SHORT MEETINGS OF OFFICIALS AND MINISTERS WOULD NOT LEAD TO A FINAL AGREEMENT. WE SHOULD ESTABLISH A NEGOTIATING MECHANISM, I.E. WITH EXPERTS MEETING ON VIRTUALLY A PERMANENT BASIS. THEY COULD THEN GO OVER DRAFTS OF THE FINAL SETTLEMENT AND PROPOSE COMPROMISE LANGUAGE FOR MINISTERS. THIS WORK SHOULD GO ON A MORE OR LESS CONTINUING BASIS BEFORE AND AFTER PARIS SO THAT BY THE TIME OF THE MOSCOW MEETING WE WOULD HAVE A CLEAR VIEW OF WHAT THE END PRODUCT LOOKED LIKE. THE SECRETARY OF STATE AGREED ON THE NEED FOR GREATER IMPETUS. IT WAS IMPORTANT THAT THE PEOPLE DOING THE NEGOTIATIONS HAD SUFFICIENT AUTHORITY TO TAKE DECISIONS SO THAT EVERYTHING WAS NOT REFERRED UPWARDS. (COMMENT: THIS WAS AN OBLIQUE REFERENCE TO BONDARENKO,

WHO HAS BEEN CONDUCTING THE NEGOTIATIONS ON THE RUSSIAN SIDE AND HAS BEEN A SIGNIFICANT DRAG ON THE PROCEEDINGS SO FAR.)

4. THE SECRETARY OF STATE SAID THAT SOME ISSUES WERE APPROPRIATE FOR DISCUSSION WITHIN THE 2+4 SUCH AS FOUR POWER RIGHTS AND RESPONSIBILITIES. OTHER ISSUES WERE RELEVANT AND IMPORTANT AND COULD BE NOTED AND DISCUSSED IN THE 2+4 BUT SHOULD BE DECIDED ELSEWHERE, EG AT VIENNA. WE SHOULD IDENTIFY WHICH WAS WHICH. SHEVARDNADZE DID NOT DISAGREE BUT THERE MUST BE AN OVERALL DOCUMENT. SOME ISSUES COULD INDEED BE ALLOCATED ELSEWHERE, EG THE NUMERICAL SIZE OF THE BUNDESWEHR COULD BE TACKLED IN VIENNA BUT WHATEVER DECISIONS WERE REACHED SHOULD BE RECORDED IN THE OVERALL SETTLEMENT DOCUMENT. FOR THE TIME BEING, HE DID NOT SEE SCOPE FOR PROGRESS ON ANYTHING OTHER THAN BORDERS BECAUSE OF THE INABILITY OF EXPERTS TO AGREE. THE SECRETARY OF STATE SAID WE MUST CLEAR A WAY FOR FURTHER WORK BY EXPERTS. WE ALSO NEEDED TO DEMONSTRATE THAT THE ATMOSPHERE OF OUR TALKS WAS GOOD AND THAT IT WAS THE DIFFICULTY OF THE ISSUES, NOT LACK OF GOODWILL, THAT WAS HOLDING UP PROGRESS.

5. SHEVARDNADZE SAID THAT, WHILE THE SOVIET UNION WOULD TABLE THEIR FINAL SETTLEMENT DOCUMENT IN THE 2+4, THEY ALSO HOPED TO DISCUSS IT BILATERALLY. THE SECRETARY OF STATE SAID WE ALSO WANTED TO HAVE FURTHER DISCUSSION OF A DECLARATION BETWEEN NATO AND THE WARSAW PACT. DID SHEVARDNADZE STILL THINK SUCH A DECLARATION COULD MAKE A USEFUL CONTRIBUTION? SHEVARDNADZE BELIEVED THAT IT COULD AND THAT IT WAS CENTRAL TO THE WHOLE PROCESS OF GERMAN UNIFICATION. WE COULD BEGIN TO SPEAK OF NEW RELATIONS BETWEEN THE TWO ALLIANCES AND THE COUNTRIES COMPOSING THE TWO ALLIANCES. HE WOULD HAVE SOME SUGGESTIONS TO MAKE. MUCH HAD CHANGED, INCLUDING THE ALLIANCES. RELATIONS WOULD BE DIFFERENT AND THE GERMAN QUESTION TOO WOULD LOOK QUITE DIFFERENT IN THE CONTEXT OF CHANGED ALLIANCES. EVEN THE MATTER OF POLITICAL/MILITARY STATUS COULD THEN BE DISCUSSED.

6. THE SECRETARY OF STATE SAID THAT WE HAD TRIED TO SEND AN ENCOURAGING MESSAGE FROM TURNBERRY. THE NATO SUMMIT WOULD ALSO GIVE AN IMPORTANT SIGNAL. SHEVARDNADZE AGREED THAT THE MESSAGE FROM TURNBERRY HAD BEEN A GOOD ONE - A FAIRLY GOOD RESPONSE TO THE MOSCOW DECLARATION. THE NATO SUMMIT IN LONDON WOULD BE OF FUNDAMENTAL IMPORTANCE.

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FROM PRIVATE SECRETARY

ECONOMIC HELP FOR THE SOVIET UNION

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1. THE SECRETARY OF STATE HAD A BRIEF WORD WITH BAKER IN BERLIN TODAY ABOUT ECONOMIC HELP FOR THE SOVIET UNION. THE SECRETARY OF STATE SAID THAT THE DIFFICULTIES THE RUSSIANS WERE MAKING OVER THE 2+4 MIGHT IN THE END BOIL DOWN TO A DEMAND FOR MONEY. THE FRENCH AND THE GERMANS WERE ALREADY PRESSING THE CASE FOR ECONOMIC HELP TO THE SOVIET UNION. WHAT WAS THE AMERICAN VIEW?

2. BAKER SAID WE HAD TO CONSIDER THE ISSUE VERY SERIOUSLY, NOT LEAST BECAUSE THE FRENCH AND GERMANS WERE INDEED PRESSING. THE US FACED MANY LEGAL DIFFICULTIES. THERE WAS LEGISLATION PREVENTING THEM FROM GIVING CREDIT TO COMMUNIST COUNTRIES AND THERE WAS A PROBLEM OVER CUBA (PRESUMABLY FUNDS BEING SENT TO THE SOVIET UNION WHILE THE SOVIET UNION IS STILL GIVING AID TO CUBA).

3. IN ADDITION, THE AMERICANS WERE VERY CONCERNED AT THE POINT WE HAD BEEN MAKING, IE THE DANGER OF POURING MONEY DOWN A BLACK HOLE. THE SECRETARY OF STATE STRESSED THE IMPORTANCE OF REACHING A COMMON US/UK VIEW BEFORE HOUSTON.

4. COMMENT. THE SECRETARY OF STATE WOULD LIKE TO KNOW MORE ABOUT THE US LEGISLATIVE BLOCK ON FUNDS GOING TO THE SOVIET UNION. HIS CONVERSATION WITH BAKER OPENS THE WAY TO DETAILED DISCUSSION WITH THE AMERICANS ON AID TO THE SOVIET UNION INsofar AS THIS IS NOT HAPPENING ALREADY.

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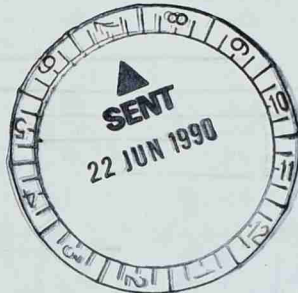
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RUSSIAN PARTY CONFERENCE : SPEECH BY GENERAL MAKASHOV

SUMMARY

1. A BITTER ATTACK ON THE EFFECTS OF PERESTROIKA AT HOME AND ABROAD BY ONE OF THE YOUNGER SERVING GENERALS. CAUTION NEEDED BEFORE DRAWING CONCLUSIONS FROM THIS.

DETAIL

2. WE REFERRED BRIEFLY TO THE SPEECH BY GENERAL MAKASHOV IN OUR REPORT OF THE FIRST DAY'S PROCEEDINGS AT THE RUSSIAN PARTY CONFERENCE (OUR TELNO 1137). THE SPEECH IS CAUSING A MINOR STIR. THE MILITARY NEWSPAPER 'RED STAR' COMMENTED ON 21 JUNE THAT IT HAD PROVOKED A WIDE VARIETY OF REACTIONS AND, IN RESPONSE TO NUMEROUS REQUESTS FROM READERS, IT PUBLISHED THE FULL TEXT OF HIS REMARKS.

3. THE SPEECH IS IN SOME WAYS A RATHER REMARKABLE OUTBURST. THE LANGUAGE IS COLOURFUL AND POPULIST. MAKASHOV CONCENTRATES HIS ANGER ON THE LIBERAL PRESS. HE NOWHERE MENTIONS GORBACHEV OR PERESTROIKA BY NAME. BUT IT IS CLEAR THAT THESE ARE HIS TARGETS. OTHER SPEAKERS AT THE CONFERENCE HAVE MADE BOLDER ATTACKS ON GORBACHEV. THE INTEREST OF MAKASHEV'S REMARKS IS THAT THEY COME FROM A SENIOR SERVING MILITARY OFFICER. THIS POINT WAS PICKED UP IN AN ARTICLE ON THE FRONT PAGE OF IZVESTIA OF 20 JUNE. THE JOURNALIST, NADEIN, SUGGESTS THAT IF MAKASHOV WISHES TO MAKE THESE SORT OF CRITICISMS, HE SHOULD RESIGN HIS COMMISSION. IF HE DOES NOT, NADEIN SUGGESTS THAT HIS COMMANDER-IN-CHIEF (IE GORBACHEV) SHOULD DEMAND IT.

4. MAKASHOV IS A THREE STAR GENERAL IN HIS EARLY FIFTIES. HE COMMANDS THE VOLGA-URALS MILITARY DISTRICT. PREVIOUSLY HE SERVED UNDER GENERAL RODIONOV IN THE CAUCUSES - BUT LEFT BEFORE THE KILLINGS IN TBILISI IN APRIL 1989.

5. AT THE THIRD USSR CONGRESS OF DEPUTIES IN MARCH HE SAID THAT TO CONTINUE ONE SIDED DISARMAMENT WOULD BE STUPIDITY OR A CRIME. HE DEMANDED MORE ATTENTION FOR THE ARMED FORCES FROM THE PRESIDENT AND

SOCIETY. HIS LANGUAGE WAS AGAIN COLOURFUL AND CAUSED SOME SHOCK AND AMUSEMENT AMONG HIS AUDIENCE.

6. THE FOLLOWING EXCERPTS WILL GIVE THE FLAVOUR OF HIS LATEST AND MORE CONTROVERSIAL SPEECH :

- RUSSIA IS LIVING THROUGH TROUBLED TIMES. KING LEAR GAVE AWAY HIS KINGDOM TO HIS DISSOLUTE DAUGHTER. WE COULD END UP WITH SUCH A TRAGEDY.
- THE CPSU IS THE ONLY PARTY WHICH CARES MORE ABOUT OTHER PARTIES THAN ABOUT ITSELF.
- THOSE WHO WANT TO DESTROY THE STATE BEGIN BY DEFILING THE ARMY AND THE KGB. ARBATOV, KOROTICH, SOBCHAK AND OTHERS SHOULD GET UP AND STATE CLEARLY THAT WE DO NOT NEED AN ARMY. THEN PEOPLE WILL KNOW WHO IS RESPONSIBLE WHEN WE SUFFER DEFEAT IN A CONFLICT. HISTORY TEACHES THAT CONFLICTS OR WARS ARE ALWAYS POSSIBLE. OTHERWISE, WHY IS NATO STRENGTHENING ITSELF WHEN THE WARSAW PACT NO LONGER EXISTS. A UNITED GERMANY WILL PROBABLY BECOME A MEMBER OF NATO. JAPAN IS BECOMING A POWERFUL FORCE IN THE FAR EAST.
- ONLY FEEBLE-MINDED ACADEMICS CLAIM THAT NOBODY INTENDS TO ATTACK US.
- COMMUNISTS IN THE ARMY ARE ANGERED BY THE POLITBURO AND THE GOVERNMENT'S FAILURE TO ACT ON BEHALF OF THOSE (IE IN THE ARMY) WHO DEFEND THEM.
- WHILE UNILATERALLY CUTTING THE ARMED FORCES ON THE ADVICE OF ILL-INFORMED SPECIALISTS THERE IS NO NEED TO SPIT ON THEM AS WELL.
- PATRIOTISM TAKES CENTURIES TO DEVELOP. BUT THE GUTTER PRESS AND TELEVISION HAS BEEN DESTROYING IT FOR 2 YEARS. ONLY THE BLIND OR ILL-INTENTIONED CAN FAIL TO SEE THIS.
- THE ARMY IS THE LEAST PROTECTED AND MOST SACRIFICED SECTOR OF SOCIETY. THEY HAVE HAD TO DEAL WITH CHERNOBYL. THEY HAVE DIED IN THE HINDU KUSH AND KARABAKH. THE ARMY IS RUN BY POLITICIANS. ONLY ONCE IN HISTORY DID MARSHAL ZHUKOV SAVE KHRUSHCHEV FROM BERIA AND HE WAS THANKED BY BEING SENT OFF IN DISGRACE. WE HAVE STILL NOT BEEN ABLE TO GET HIM REHABILITATED.
- AS A RESULT OF THE SO-CALLED 'VICTORIES' OF OUR DIPLOMACY, THE SOVIET ARMY IS NOW HAVING TO WITHDRAW WITHOUT A STRUGGLE FROM THOSE COUNTRIES WHICH OUR FATHERS FOUGHT TO FREE FROM FACISM.

COMMENT

7. IT IS NO SECRET THAT SOME GENERALS ARE FEELING BITTER ABOUT EASTERN EUROPE, DEFENCE CUTS AND THE DECLINE IN THE SOCIAL STATUS OF THE MILITARY. THERE HAVE BEEN A NUMBER OF ATTACKS BY REPRESENTATIVES OF THE MILITARY ON THE LIBERAL PRESS IN RECENT MONTHS. BUT

MAKASHOV'S COMMENTS ON EASTERN EUROPE ARE THE MOST OUTSPOKEN WE HAVE SEEN FROM A SENIOR MILITARY OFFICER. IT IS ALSO THE FIRST TIME WE HAVE SEEN ONE OF THE YOUNGER SERVING GENERALS INDULGE IN BLUNT CRITICISM OF THE EFFECTS OF PERESTROIKA.

8. THE QUESTION IS WHETHER MAKASHOV IS REPRESENTATIVE OF HIS FELLOW SERVING GENERALS, AND IF SO - WHETHER THIS PIECE OF SABRE RATTLING FORESHADOWS THE MILITARY TAKING A MORE ACTIVE POLITICAL ROLE. IN MILITARY TERMS, MAKASHOV IS A MAN WITH A FUTURE. IT CAN BE ARGUED THAT HE WOULD NOT HAVE SPOKEN OUT IF HE HAD NOT JUDGED THAT A LARGE NUMBER OF SENIOR OFFICERS AND POSSIBLY HIS SUPERIORS SUPPORTED HIS AIRING OF THE ARMY'S GRIEVANCES IN THIS WAY.

9. ON THE OTHER HAND, THE RATHER KNOCKABOUT TONE OF HIS REMARKS ON THIS OCCASION AND IN MARCH AT THE USSR DEPUTIES CONGRESS SUGGEST HE IS SOMETHING OF AN INDIVIDUALIST. HE WAS ASSURED OF A FAVOURABLE RESPONSE FROM THIS AUDIENCE DOMINATED BY PARTY HARDLINERS AND MAY JUST HAVE THOUGHT THE OPPORTUNITY TOO GOOD TO MISS. ON THE CENTRAL TV EVENING NEWS OF 21 JUNE, A NUMBER OF MIDDLE-RANKING OFFICERS SEEMED ANXIOUS TO DISASSOCIATE THEMSELVES FROM MAKASHOV. ONE SAID HE HAD BROUGHT FURTHER SHAME ON THE ARMED FORCES.

10. WE ARE NOT INCLINED, THEREFORE, TO ATTACH TOO MUCH SIGNIFICANCE TO THIS ONE EVENT. BUT WE WOULD NOT EXCLUDE THE POSSIBILITY THAT A MOOD MAY NOW BE DEVELOPING AMONG THE GENERALS IN FAVOUR OF RAISING THEIR POLITICAL PROFILE, AND SPEAKING OUT MORE FREQUENTLY ABOUT THEIR GRIEVANCES. THEY MAY ALSO HOPE THAT, DURING THE CURRENT CRISIS WITHIN THE PARTY, THEY WILL BE ABLE TO FORM A CLOSER POLITICAL ALLIANCE WITH PARTY HARD-LINERS IN THE HOPE OF BRINGING MORE INFLUENCE TO BEAR ON GORBACHEV.

BRAITHWAITE

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Jean Charles

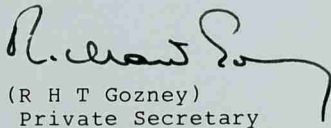
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Lithuania

Thank you for your letter of 14 June. I enclose a draft reply from the Prime Minister to Mrs Prunskiene.

We were aware of the involvement of Professor Butler and Dr Lowe in giving advice to the Lithuanian authorities. Both are very respected specialists in international law. We see no need for the Prime Minister to refer to them in her reply to Mrs Prunskiene.

Yours ever,


(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

DRAFT LETTER FROM THE PRIME MINISTER

TO

Mrs Prunskiene

Prime Minister of Lithuania

Thank you for the letter, which you sent me through the British Embassy in Moscow after my visit to the Soviet Union.

I did indeed raise
Naturally I raised the question of the Baltic States with President Gorbachev. I was encouraged to hear of his meeting with the three Baltic leaders in Moscow on 12 June. I hope that it will be possible now for talks to begin with the Soviet leadership on practical aspects of Lithuanian independence. I was also very pleased to hear that some of the effects of the Soviet blockade are to be lifted: we have always made clear that coercive measures could only make it more difficult to achieve a satisfactory settlement.

Ch.

SOVIET UNION: Relations

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file SPW
ack

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 June 1990

See file.

SOVIET UNION

Mr. Kossov of the Soviet Embassy came to see me briefly this morning. His purpose was to pass on to us President Gorbachev's personal assessment of his meeting with the Prime Minister. Gorbachev had been very pleased with the talks and rather regretted that there had not been more time for them. He had found them very frank and direct, which he liked: indeed in this respect they were more useful than the talks he had in Washington. He had been impressed by the Prime Minister's up to date knowledge of what had transpired in Washington, as well as at the Warsaw Pact meeting the previous day. His overall assessment of the meeting was very positive and he was looking forward to another one before long. His relations with the Prime Minister were more important to him than those with any other Western leader. I said that I was sure the Prime Minister would be gratified to hear this and would reciprocate many of the sentiments.

B-1
Kossov said that the Soviet Ambassador would be returning to Moscow on Thursday next week for a crucial Central Committee meeting before the forthcoming Party Congress. He wondered whether the Prime Minister would like him to convey a personal message to Gorbachev on that occasion. He thought that it could be a useful indication of support, and Gorbachev needed all the support he could get. I said that I doubted the Prime Minister would be able to see the Ambassador on Wednesday, having been away in Dublin for the previous two days. But we might devise an oral message which I could hand him on the Prime Minister's behalf which he could convey to Gorbachev (as we had done on a previous occasion). Kossov said he was sure the Ambassador would be very content with this. If you agree, I should be grateful if you could let me have a draft.

Kossov displayed a good deal of interest in the NATO summit. I said there was very little I could tell him about this yet. Our aim was to have a very positive and readable statement from the summit, which would fully measure up to the important changes which were taking place.

Kossov referred to the recent message to the Foreign Secretary from Shevardnadze about non-circumvention. He hoped that, reading between the lines, we appreciated the positive

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P

elements in it. The Russians entirely accepted that we would continue to have Trident. Their main concerns were that our co-operation with the Americans should not extend to other sources of ICBMs. They also wanted to be sure that the counting rules for UK Trident were the same as agreed in the START negotiations for the Americans. I said that I would be hard pushed to identify anything very positive in the message. Our co-operation with the Americans was long-standing and would continue through Trident and beyond. We were not prepared to accept constraints. Nor, of course, would we be bound by the START agreement, which was the bilateral arrangement between the Soviet Union and the United States.

Temporarily retained

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I am copying this letter to Simon Webb (Ministry of Defence) and Sonia Phippard (Cabinet Office).



(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

2G/3157

From: Mr C K Davies
Date: 21 June 1990

Mr L V Appleyard

cc Mr S Hemans, FCO
Mr S Wall, FCO
Mr C Powell, No 10
Miss S Phippard, CO

IMPROVEMENTS TO THE LONDON-MOSCOW 'HOT-LINE': TALKS AND PROGRESS

1. The latest series of talks took place in Moscow earlier this month with the UK Side being led by my deputy, Mr Hope. The formal record of the meeting is contained in the attached copy of the Agreed Minute.
2. In my note on earlier talks dated 21 December 89 to Mr Hemans and to the other addressees, I said there would be one more meeting prior to the new facsimile system going 'live', but there has been an upset to our plans. The full system, to ensure maximum reliability and availability, will comprise 3 identical parallel circuits. However, despite sustained pressure from both the Soviet and UK Sides the 3rd (satellite) circuit is not yet available from the commercial carrier, Intelsat. The satellite transponder is simply full to capacity and there will be a delay of at least two months before a channel becomes available.
3. At the Moscow talks a number of topics were usefully discussed. However the main point made by the Soviet Side was that they still wished to introduce the facsimile service on the target date and, in view of the delay on the 3rd circuit, to retain the existing telegraph circuits for back-up. The performance of the 2 installed facsimile circuits has, to date, been very satisfactory and we believe this arrangement will work. We therefore agreed to start a quasi-operational service using the facsimile system for 'live' traffic from 1 July 1990. We would not regard this as the formal adoption of the new Direct Communications Link (DCL), this would now be introduced as a new Phase 6 on the timetable.
4. The current target date for the introduction of the fully operational system using the 3 facsimile systems, Phase 6, is now 2 January 1991 - taking the optimistic view that the 3rd channel will be in place and properly tested before that date.

5. The Soviet side declared themselves 'delighted' with the performance of recently provided Version D software (in spite of one known 'bug' which the UK Side is seeking to correct) and were very complimentary about the facilities provided.

6. The subject of more frequent and improved liaison between the Soviet PTT and BTI regarding the operational and maintenance aspects of the new circuits was discussed at length. Both agencies will be looking at this during the next few months and the Soviet PTT will produce a discussion paper for consideration by BTI shortly.

7. The next meeting is scheduled to be held in London during the early part of December 1990 when it is hoped to finalise details for the formal introduction of the new DCL.

C. K. Davies

C K DAVIES
Telecommunications Secretariat

Enc

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CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 071-270 0101

From the Secretary of the Cabinet and Head of the Home Civil Service
Sir Robin Butler KCB CVO

Handwritten signature/initials

Ref. AO90/1448

20 June 1990

My dear Patrick,

Telephone Communication with Moscow

Thank you for your letter of 14 June. *flap*

I think that your proposal to extend the Embassy's Private Wire to the Kremlin and to No.10 will meet the need well, and we are happy that you should go ahead as you suggest. Indeed, I understand that Ken Davies of our Telecommunications Secretariat is already discussing the technical issues with your people. There are a number of technical and security issues to be resolved: for instance, the interconnection of the Private Wire in London and in Moscow and the switching arrangements between encrypted and plain language use. We presumably need to settle these before approaching the Russians.

Given the Prime Minister's continuing good relationship with Mr Gorbachev, No. 10 are understandably keen to make progress on this as rapidly as possible.

I am copying this letter to Charles Powell.

Yours ever,

Robin.

Sir Patrick Wright GCMG
Foreign and Commonwealth Office

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SOVIET UNION: Relations Pt 17.

PERSONAL

NB



FILE

a: /braithwaite. NB

10 DOWNING STREET
LONDON SW1A 2AA

cc FCO

From the Private Secretary

20 June 1990

You must be fed up with getting letters from me about individual journalists or television presenters: but Jonathan Dimbleby at least is very grateful indeed for your efforts on his behalf!

We have now heard that Bruce Anderson of the Sunday Telegraph is hoping to visit Moscow at the end of July/beginning of August, and has asked if we could put in a good word for him to have an interview with President Gorbachev. I know that the odds must be very slim indeed (and will no doubt be slimmer if the Russians know that one purpose of his visit is to attend the first conference of the Russian Christian Democratic Party). But he is a serious journalist, with a regular weekly column in the Sunday Telegraph which is very widely read. A point which might carry some weight with Gorbachev's staff is that he is a strong supporter of the Prime Minister, and has interviewed her on several occasions.

Could you perhaps feed in his request to Gorbachev's spokesmen and to Chernayev, without embarrassment to yourself? If so, we would be very grateful.

(CHARLES POWELL)

His Excellency Sir Rodric Braithwaite, K.C.M.G.

PERSONAL

SA

Jp 01056

MR POWELL

c Sir Robin Butler

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Minister
C 002076

Remarkable *not*

More Soviet Military Complaints

The sort of deep military unhappiness came out into the open on 19 June at the first day of the RSFSR Party Conference.

2. General Makashov's speech (Reuters account attached) is the most outspoken public expression of military discontent yet. Moreover, it does not come from a crusty old-timer. Makashov is a young high-flyer of the same generation as the better known General Gromov. He is only 52, has served as a senior commander in Germany and the Transcaucasus and is now Commander of the Urals-Volga Military District - a huge swathe of the Russian heartland to the east of Moscow where much of the country's defence industry is concentrated.

3. Makashov's remarks contain some distinctly threatening notes. There is the not-so-gentle reminder of the number of Soviet troops in the RSFSR. The reference to "learned peacocks" - probably a jibe at Shevardnadze - is downright insolent. Above all, the reference to Zhukov's help for Khrushchev carries the implication that Gorbachev could not rely on the armed forces in similar circumstances.

4. The fact that senior military commanders are airing these views does not mean that they are set to move. And Makashov himself acknowledges the ideological splits within the armed forces. But he must be fairly sure of his ground to speak out as he has done. We should therefore allow for the possibility that at least the upper echelons of the armed forces are more homogeneous than we have supposed, and perhaps more prepared to throw their

political weight behind the conservatives. (We should note that Makashov's criticism is directed not just at Gorbachev - his commander-in-chief - but also at the Yeltsin line in the RSFSR. Yeltsin even more clearly than Gorbachev is the "ideological enemy" and it is Yeltsin, not Gorbachev, who seems to want the RSFSR less firmly lodged in the Soviet Union.) At all events, the military are clearly being sucked more deeply into Soviet politics.

5. The very warm reception given to Makashov's speech and those of other conservatives, compared with the at best tepid response to his own keynote speech, suggests that Gorbachev may have uphill work asserting his line and his candidates at both this Russian conference and at the CPSU Congress which opens on 2 July. This afternoon, Ligachev has weighed in at the conference with open criticism of Gorbachev personally. We can no longer assume that Gorbachev will automatically secure re-election as head of the Party at the CPSU Congress. The centre-ground looks at though it is fast disappearing from beneath him.

6.

PERCY CRADOCK

20 June 1990

WSI 5/C1062

SOVIET-ARMY

SOVIET-ARMY

SOVIET GENERAL DELIVERS ANGRY WARNING TO GORBACHEV

By Ralph Boulton

MOSCOW, June 19, Reuter - A Soviet general said on Tuesday President Mikhail Gorbachev's reforms had left the country open to attack and vowed the armed forces would never accept "ideological surrender."

Army General Albert Makashov, standing yards from Gorbachev at a conference of Russian communists, also recalled an incident in 1953 when the military intervened in politics.

"Germany is reuniting and will probably become a member of NATO, Japan is becoming a decisive force in the Far East. Only our learned peacocks are crowing that no one is going to attack us," he said in a reference to Kremlin leaders which drew thunderous applause.

"Comrades, the army and navy will be needed yet by the (Soviet) Union," he added.

Gorbachev, who watched impassively during the general's speech, earlier appealed to the Russian communists to unite in the face of threats by radicals to split the party.

Pledging loyalty to Leninist doctrine, Makashov said the "ideological enemy" had divided soldiers and officers, officers and generals.

"Sixty-eight per cent of Soviet troops are deployed on the territory of the Russian Federation (the largest of the Soviet republics). We are not ready for ideological surrender," he said.

He said the army was guided by politicians, but recalled that General Georgy Zhukov supported Nikita Khrushchev in a power struggle with secret police chief Lavrenti Beria after dictator Josef Stalin's death in 1953.

"What was his thanks? Khrushchev thanked him by sending him into disgrace," Makashov said.

The general clearly had strong support in his largely conservative audience, which is expected to set up a Russian Communist Party within the framework of the Soviet Communist Party.

Makashov attacked Soviet agreements this year to withdraw troops from Czechoslovakia and Hungary.

"In these troubled times for the Soviet Union -- when because of the so-called victories of our diplomacy the Soviet army is being driven without combat out of countries which our fathers liberated from fascism -- it is important for the party and people to look after our soldiers," he said.

He denounced moves by the Russian Federation to assume full sovereign powers in relation to central government.

"We army communists consider a Russia without a Soviet Union or a Soviet Union without Russia unthinkable," he said. "And we are ready to fight for this."

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BC-SOVIET-LIGACHEV-URGENT

BC-SOVIET-LIGACHEV URGENT

LIGACHEV HINTS GORBACHEV SHOULD STEP DOWN AS PARTY LEADER

MOSCOW, June 20, Reuter - Hardline Politburo member Yegor Ligachev hinted on Wednesday that he felt President Mikhail Gorbachev should step down as leader of the Communist Party, Tass news agency said.

Tass said Ligachev, the most prominent of Gorbachev's conservative critics, told a forum of Russian Communists that Gorbachev had failed to consult other leaders on key questions of foreign policy and economic reform.

(Ligachev), clearly alluding to joint tenancy of the posts of (party) general secretary and president of the USSR, told the meeting: 'One cannot head the party, this leading force, without dedicating all one's time to it. Perhaps one could get by without it?''

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MS

a: / Dimbleby. MS



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 June 1990

Thank you for your kind letter of 15 June. I am glad it all worked out. I knew that all was well when I looked across the desk during our meeting with Mr. Gorbachev and saw that Chernayev had drawn up a little list of points for Gorbachev's decision of which no. 5 was "BBC?" It had a tick against it in red ink!

Anyway, it was a great coup to get the first interview and enormous credit to you and Alexandra.

(CHARLES POWELL)

Jonathan Dimbleby, Esq.

SA



ПОСОЛЬСТВО
СОЮЗА СОВЕТСКИХ
СОЦИАЛИСТИЧЕСКИХ РЕСПУБЛИК

13, Kensington Palace Gardens
London W8

Mr. Charles Powell
10, Downing Street

20 June 1990

Dear Mr. Powell,

Please find enclosed the unofficial translation
of the message to the Prime-Minister from Mr. Boris
Eltsin, Chairman of the Russian Federation Supreme
Soviet.

Yours sincerely,

L. Zamyatin
USSR Ambassador

SUNDAY TELEGRAPH

R20/6

PETERBOROUGH COURT AT SOUTH QUAY 181 MARSH WALL LONDON E14 9SR

TELEPHONE: 01-538 5000 TELEX: 22874 TELLDN G

DIRECT LINE:

FAX:

19 June 1990

Charles Powell Esq
No.10 Downing Street
London SW1A 2AA

My Dear Charles,

I will be visiting Moscow at the end of July/beginning of August to attend the first conference of the Russian Christian Democratic Party. I thought that as I am going to be there anyway, I would like to put in a bid to interview Mr Gorbachev.

Perhaps in relaying the request to him, the other purpose of my visit ought to be suppressed, but you and the people in Moscow will be the better judges of that. I am sure that any testimonial from you would be worth much more than anything I can say on my own behalf, but it may be worth mentioning that I have interviewed the Prime Minister on several occasions.

Ever,

Bruce

Bruce Anderson
Assistant Editor

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TO IMMEDIATE FCO

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BONN TELNO 739 : ECONOMIC HELP FOR THE SOVIET UNION 

SUMMARY

1. MITTERRAND SIGNALS HIS INTENTION TO RAISE THE QUESTION OF ECONOMIC AID TO THE SOVIET UNION AT THE DUBLIN AND HOUSTON SUMMITS.

DETAIL

2. IN THE COURSE OF A WIDE RANGING INTERVIEW PUBLISHED IN LE MONDE ON 19 JUNE, PRESIDENT MITTERRAND SAID THAT HE INTENDED TO ASK THE DUBLIN AND HOUSTON SUMMITS TO CONSIDER THE POSSIBILITY OF FINANCIAL, COMMERCIAL AND TECHNICAL AID TO THE SOVIET UNION.

3. THE MINISTER ASKED VEDRINE (MITTERRAND'S POL/MIL ADVISER), ABOUT THE BACKGROUND TO THIS REMARK, POINTING OUT THAT, IN THE ABSENCE OF A NEW ECONOMIC SYSTEM IN THE URSS, THERE WAS A RISK (WITH CERTAIN TYPES OF AID) THAT THE WEST WOULD BE WASTING ITS MONEY. VEDRINE SAID THAT SIMILAR ARGUMENTS HAD BEEN ADVANCED WHEN DISCUSSION OF THE BERD HAD BEGUN IN NOVEMBER. OBVIOUSLY WE SHOULD NEED TO CONSIDER CAREFULLY THE TCCEED IN HIS ECONOMIC REFORMS, AND SO LOGICAL THAT WE SHOULD OFFER HIS CONCRETE ASSISTANCE.

4. THE KOHL/MITTERRAND MEETING ON 22 JUNE MAY INDICATE WHETHER MITTERRAND'S LINE ON SOVIET AID HAD BEEN CO-ORDINATED IN ADVANCE WITH BONN.

FERGUSSON

YYYY

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 June 1990

Dear Stephen,

FINANCIAL ASSISTANCE FOR THE SOVIET UNION

The Prime Minister and the Foreign Secretary had a word this evening about the German proposals to be discussed at the European Council in Dublin and the Economic Summit in Houston, for financial assistance to the Soviet Union. The Prime Minister also gave the Foreign Secretary an account of her discussion on the subject with Monsieur Attali, about which I am writing to you separately. The Foreign Secretary said that he thought that our response, both in Dublin and in Houston should have three main elements:

- some positive noises in support of reform in Soviet Union;
- an offer of Know How assistance; and
- a study of Soviet needs, as a way of deferring an immediate decision. We would need to think how this could best be conducted.

The Prime Minister agreed generally with this approach. She had promised Monsieur Attali that he should be involved in any study, but there were arguments for involving also the World Bank and perhaps OECD.

Yours sincerely,

(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

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SOVIET UNION: THE STATE OF ECONOMIC REFORM

SUMMARY

1. THE GOVERNMENT'S REFORM PROPOSALS HAVE A HARD TIME IN THE SUPREME SOVIET. THEY HAVE BEEN TOLD TO PRODUCE SOMETHING BETTER BY 1 SEPTEMBER. THIS COULD BE RYZHKOV'S LAST CHANCE. THE GOVERNMENT WILL PROBABLY HAVE TO MODIFY THEIR PROPOSALS FOR PRICE INCREASES. BUT NOT MUCH ELSE LIKELY TO CHANGE. UNCERTAINTY OVER GORBACHEV'S FUTURE ROLE AND WILLINGNESS TO PROMOTE REFORM BY USE OF PRESIDENTIAL DECREE.

2. THE GOVERNMENT'S LONG STRUGGLE TO GET ITS REFORM PROGRAMME THROUGH THE SUPREME SOVIET FINALLY REACHED ITS DENOUEMENT ON 13 AND 14 JUNE - THE LAST TWO DAYS OF THE SESSION. THE SUPREME SOVIET WILL RECONVENE ON 3 SEPTEMBER.

3. ON 13 JUNE THE DEPUTIES WERE PRESENTED WITH TWO DRAFT RESOLUTIONS. THE FIRST INSTRUCTED THE GOVERNMENT TO COME BACK WITH A MODIFIED PLAN AND TIMETABLE FOR THE MOVE TO THE MARKET BY 1 SEPTEMBER. THE SECOND ASKED FOR THE DEPUTIES' FULL SUPPORT FOR THE PROPOSED INCREASE IN BREAD PRICES.

4. AFTER SEVERAL MORE HOURS' DISCUSSION ON ECONOMIC REFORM IN WHICH LITTLE NEW WAS SAID, THE FIRST RESOLUTION WAS PASSED SURPRISINGLY EASILY AND WITHOUT SUBSTANTIAL AMENDMENT. (FULL DETAILS ARE IN MIFT.) BREAD PRICES, HOWEVER, PROVED A MUCH MORE CONTROVERSIAL AND EMOTIONAL ISSUE. DEPUTIES SEEMED PREPARED TO CONTEMPLATE THE GOVERNMENT'S WIDE RANGING PROPOSALS FOR PRICE RISES ON 1 JANUARY, BECAUSE THE GOVERNMENT HAD COMMITTED ITSELF TO SEEK A POPULAR MANDATE FOR THE PROPOSALS IN ADVANCE. BUT THEY WERE NOT PREPARED TO TAKE UPON THEMSELVES THE RESPONSIBILITY OF AGREEING AN IMMEDIATE INCREASE IN THE PRICE OF BREAD. MASLYUKOV, HEAD OF GOSPLAN, WHO WAS DEFENDING THE GOVERNMENT PROPOSAL WAS NOT IMPRESSIVE AND WAS GIVEN A VERY DIFFICULT TIME BY THE DEPUTIES. FREQUENTLY HE HAD TO BE RESCUED BY CHAIRMAN LUKYANOV. THE END FOR THE GOVERNMENT FINALLY CAME WHEN A DEPUTY RECALLED AN UNDERTAKING THAT THE SUPREME SOVIET HAD MADE LATE IN 1989 TO THE EFFECT THAT THERE WOULD BE NO INCREASE IN THE PRICE OF

STAPLE PRODUCTS DURING 1990. THE GOVERNMENT RESOLUTION WAS REPLACED WITH ANOTHER INSTRUCTING THE GOVERNMENT TO CONSULT AGAIN WITH THE REPUBLIC SUPREME SOVIET AND COME BACK WITH SOME FRESH PROPOSALS TO THE AUTUMN SUPREME SOVIET.

5. WITH THE PASSAGE OF THESE TWO RESOLUTIONS, THE REFORM TIMETABLE NOW LOOKS AS FOLLOWS:

BY 25 JUNE - SUPREME SOVIET TO HAVE AGREED UPON PRIORITIES FOR THE NEW REFORM LEGISLATION TO BE INTRODUCED TO THE AUTUMN SESSION OF THE SUPREME SOVIET.

FROM 1 JULY - THE PRESIDENT ADVISED TO ISSUE HIS OWN DECREES TO SPEED UP SOME AREAS OF THE REFORM PROCESS.

BY 1 SEPTEMBER - RESULTS OF PUBLIC DISCUSSION OF THE GOVERNMENT'S REFORM PLANS TO BE ANNOUNCED.

1 SEPTEMBER - THE GOVERNMENT TO PRESENT ITS REVISED REFORM PROGRAMME AND TIMETABLE.

SEPTEMBER/OCTOBER-GOVERNMENT TO PRESENT ITS NEXT LEGISLATIVE PACKAGE (AT LEAST 15 LAWS) TO PREPARE THE WAY FOR A MARKET SYSTEM.

SEPTEMBER/OCTOBER- NEW PROPOSALS ON BREAD.

BY 15 SEPTEMBER - GOVERNMENT TO PROVIDE PRELIMINARY DETAILS OF THEIR 1991 PLAN AND BUDGET PROPOSALS.

COMMENT

6. THE RESOLUTION ON THE REFORM PROGRAMME IS A PATCHED-UP DOCUMENT FULL OF INCONSISTENCIES AND HARD FOUGHT COMPROMISES. IT AMOUNTS TO AN INSTRUCTION TO THE GOVERNMENT TO GO AWAY AND COME BACK IN TWO AND A HALF MONTHS' TIME WITH SOMETHING BETTER. GIVEN THE HOSTILITY SHOWN BY DEPUTIES, THIS WAS THE BEST THE GOVERNMENT COULD HAVE HOPED FOR. SENSIBLY, THE DEPUTIES HAVE REFRAINED FROM REJECTING THE PLAN OUT OF HAND. THIS WOULD HAVE CAUSED AN IMMEDIATE CRISIS AND ALMOST CERTAINLY PROVOKED THE RESIGNATION OF RYZHKOV AND SOME OF HIS SENIOR COLLEAGUES.

7. THE REPUTATION OF RYZHKOV AND HIS GOVERNMENT HAVE, NEVERTHELESS, SUFFERED FURTHER SERIOUS DAMAGE. THEY CONTRIVED TO CONSTRUCT A PROGRAMME WHICH WAS CONDEMNED BY VIRTUALLY ALL INFLUENTIAL ECONOMISTS

AS BEING TOO CAUTIOUS AND BEREFT OF MARKET LOGIC AND WHICH, AT THE SAME TIME, ALARMED ALL THE CONSERVATIVE DEPUTIES BY ITS PRICE RISE PROPOSALS. RYZHKOV'S PERFORMANCE IN THE SUPREME SOVIET WAS HESITANT AND UNCONVINCING. HE LOOKED UNDER GREAT STRAIN. THE PROPOSALS HE HAS TO REINTRODUCE AT THE BEGINNING OF SEPTEMBER ARE WIDELY SEEN AS HIS LAST CHANCE. TWO HEAVYWEIGHT ECONOMISTS, AGANBEGYAN AND BOGOMOLOV, WHOM WE HAVE TALKED TO IN THE LAST FEW DAYS HAVE FORECAST THAT STRIKES OR OTHER ECONOMIC DISASTERS WILL BRING HIS FALL EVEN BEFORE SEPTEMBER. THE INDEPENDENT MINERS' UNION, MEETING IN DONETSK AT THE SAME TIME AS THE SUPREME SOVIET DISCUSSIONS ISSUED A CALL FOR THE RESIGNATION OF RYZHKOV AND HIS GOVERNMENT. THERE ARE INCREASING NUMBERS OF REPORTS THAT STEEL AND OIL WORKERS AS WELL AS COALMINERS ARE LOSING PATIENCE.

8. THE GOVERNMENT, FOR THE TIME BEING, ARE PUTTING A BRAVE FACE ON THINGS. MASLYUKOV CLAIMED AT A PRESS CONFERENCE ON 15 JUNE TO BE 'VERY SATISFIED' WITH THE SUPREME SOVIET'S DECISIONS. THE SUPREME SOVIET RESOLUTION IMPLIES THAT THE GOVERNMENT SHOULD COME UP WITH SOME NEW THINKING - PARTICULARLY ON FINANCE AND PRICING REFORM. BUT, IN PRACTICE, HAVING REJECTED SO-CALLED SHOCK THERAPY, THEY DO NOT HAVE MUCH ROOM FOR MANOEUVRE. YASIN, AN ECONOMIST WHO WORKS CLOSELY WITH ABALKIN, TOLD US THAT THE GOVERNMENT HAS NOT YET MET TO CONSIDER ITS STRATEGY. BUT HE AGREED THAT IT WAS UNLIKELY THAT THEY WOULD BE MAKING MAJOR CHANGES TO THEIR PROGRAMME. THEY WOULD, HOWEVER, ALMOST CERTAINLY HAVE TO MAKE CONCESSIONS ON BREAD PRICES AND ON THE OTHER PROPOSALS FOR PRICE RISES ON 1 JANUARY.

9. YASIN THOUGHT THAT THE GOVERNMENT'S WAY FORWARD ON THIS WOULD BE TO DEVOLVE MORE RESPONSIBILITY ONTO THE REPUBLICS. THEY COULD BE GIVEN FREEDOM, WITHIN NORMS SET BY THE CENTRAL GOVERNMENT, TO DECIDE ON THE DETAILS OF THE PRICE INCREASE/COMPENSATION MEASURES WITHIN THEIR REPUBLIC. IN TURN, THEY WOULD BE MADE RESPONSIBLE FOR SECURING A POPULAR MANDATE FOR THEIR PROPOSALS. YASIN HOPED THAT THE GOVERNMENT MIGHT ALSO USE THIS OPPORTUNITY TO SPEED UP THE REFORM TIMETABLE - IN PARTICULAR THE FREEING OF PRICES. BUT HE DID NOT SEEM OPTIMISTIC. THE RECENT DEBATE SUGGESTS THAT IT COULD BE EVEN MORE DIFFICULT TO SECURE SUPREME SOVIET AGREEMENT IF THE GOVERNMENT FURTHER RADICALISES ITS REFORM PROGRAMME.

10. ANOTHER UNKNOWN QUANTITY IS THE ROLE TO BE PLAYED BY GORBACHEV. THE SUPREME SOVIET RESOLUTION OFFERS HIM BACKING FOR PUSHING REFORM FORWARD BY DECREE IN A NUMBER OF CRUCIAL AREAS - IN PARTICULAR DEMONOPOLISATION AND THE ENCOURAGEMENT OF NEW FORMS OF PROPERTY. THIS LOOKS VERY MUCH LIKE THE INITIATIVE OF PETRAKOV, GORBACHEV'S

ECONOMIC ADVISER WHO HAS BEEN URGING GORBACHEV FOR SOME TIME TO MAKE USE OF PRESIDENTIAL DECREES TO SPEED UP REFORM. IT DREW SURPRISINGLY LITTLE DISCUSSION OR RESISTANCE IN THE SUPREME SOVIET. YASIN SAID HE THOUGHT IT WAS AN OPEN QUESTION AS TO WHETHER GORBACHEV WOULD TAKE UP HIS OFFER. IT WAS TIME HE TOOK PERSONAL RESPONSIBILITY - BUT A LOT COULD DEPEND ON HOW THE CPSU PARTY CONGRESS WENT AND HOW HE ASSESSED THE STRENGTH OF HIS POSITION AFTER THIS.

11. THE GOVERNMENT HAVE NOT COME AWAY FROM THIS DEBATE COMPLETELY EMPTY HANDED. THEY DO NOT HAVE THE SUPREME SOVIET'S ENDORSEMENT FOR MOVING TO A MARKET BASED ECONOMY. BUT DISCUSSION IN THE SUPREME SOVIET SUGGESTS THAT MOST DEPUTIES HAVE ONLY A VERY VAGUE IDEA OF WHAT IS INVOLVED IN THIS, AND THAT VERY FEW ARE PREPARED TO ENDORSE POLICIES WHICH WILL FURTHER REDUCE THE STANDARD OF LIVING OF THEIR ELECTORATE. THE GOVERNMENT THEREFORE STILL HAS A HARD ROAD AHEAD IN GETTING AGREEMENT TO A REFORM PROGRAMME - AND ABOVE ALL TO ANY DECISION LIKELY TO AFFECT PRICES.

12. SEE MIFT.

BRAITHWAITE

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FRAME EXTERNAL

FROM UKREP BRUSSELS

FOREIGN AFFAIRS COUNCIL, 18 JUNE

MIPT:

EPC: ASSISTANCE TO SOVIET UNION

SUMMARY

1. PRESSURE, PARTICULARLY FROM COMMISSION, NETHERLANDS, BELGIUM AND ITALY, FOR MAJOR FOCUS AT DUBLIN EUROPEAN COUNCIL ON EAST/WEST RELATIONS, AND NOTABLY POSSIBLE ASSISTANCE TO THE SOVIET UNION. UK CAUTIOUS ON POTENTIAL SCOPE FOR SUCH ASSISTANCE.

DETAIL

2. MEETING IN EPC OVER LUNCH, MINISTERS RESUMED THE DEBATE ON POSSIBLE ASSISTANCE TO THE SOVIET UNION WHICH HAD BEEN TOUCHED ON BRIEFLY IN THE COUNCIL DURING THE EXCHANGES ON THE HOUSTON G7 SUMMIT (SEE MIPT).

3. DELORS (COMMISSION) SAID THAT THERE WAS GROWING PRESSURE TO HELP THE SOVIET UNION, AND SOME LARGE SUMS (WHICH NEITHER HE NOR SUBSEQUENT SPEAKERS SPECIFIED) HAD BEEN MENTIONED AT THE SHERPAS' MEETING OVER THE WEEKEND. THE EAST EUROPEANS WERE ALSO PRESSING THE COMMUNITY TO HELP. THE ABSENCE OF RELIABLE INFORMATION WAS A MAJOR OBSTACLE. IT WAS IMPORTANT THAT THE TWELVE SHOULD DISCUSS THESE MATTERS BEFORE HOUSTON, AND IT WOULD BE A MISTAKE FOR ONE MEMBER STATE (BY IMPLICATION THE FRG) TO TAKE ANY INITIATIVE BEFORE THAT. DE MICHELIS (ITALY) SAID THAT A POLITICAL DECISION WOULD BE NEEDED AT HOUSTON, BUT THE COMMUNITY SHOULD REACH A POSITION BEFORE THEN. THE CONCEPT AND PRACTICE OF CONDITIONALITY NEEDED TO BE RE-THOUGHT.

4. YOU NOTED THAT THERE WAS INCREASING DEBATE ABOUT HELPING THE SOVIET UNION, BUT THAT THE PROBLEMS INHERENT IN SUCH ASSISTANCE WERE NOT EASY TO RESOLVE. THERE WAS A DIFFERENCE BETWEEN SUCH ASSISTANCE AND THE SEPARATE ARRANGEMENTS BEING DISCUSSED BETWEEN THE GERMANS AND THE SOVIET UNION IN THE CONTEXT OF GERMAN UNIFICATION, FOR EXAMPLE SOVIET TROOP COSTS. THE SOVIET UNION WAS A COUNTRY, RICH IN RESOURCES BUT WITH A UNIQUE HISTORY OF MIS-GOVERNMENT. IT WOULD BE A MAJOR MISTAKE FOR THE COMMUNITY TO REPEAT THE ERRORS OVER EG POLAND AND TO RUSH INTO AN AID PROGRAMME, INVOLVING LARGE CREDITS, BEFORE A PROPER STUDY HAD BEEN CONCLUDED. PROGRAMMES FOR TRAINING AND KNOW-HOW ASSISTANCE WERE VIA DIFFERENT CATEGORY. THE ENTIRE ISSUE NEEDED FURTHER DISCUSSION WITHIN THE COMMUNITY AND WITH THE US.

5. VAN DEN BROEK (NETHERLANDS) EXPRESSED CONCERN THAT A SUBSTANTIVE DECISION MIGHT BE TAKEN AT THE HOUSTON SUMMIT. HE NOTED THAT DELORS AND ANDRIESEN WOULD BE GOING TO MOSCOW AT THE END OF JULY AND URGED THAT THEIR REPORT SHOULD BE AWAITED. THE G24 WAS THE MINIMAL FRAMEWORK WITHIN WHICH SUCH ASSISTANCE COULD BE PROVIDED. MRS ADAM-SCHWAETZER (FRG) REFERRED TO THE GERMAN-SOVIET WORKING GROUP ON UNIFICATION AND POSSIBLE ASSISTANCE. THE SOVIET UNION WAS ALSO SEEKING INTEGRATION INTO THE GLOBAL ECONOMY. KOHL WOULD BE ADDRESSING HIS COLLEAGUES ON THE SUBJECT BEFORE HOUSTON.

6. EYSKENS (BELGIUM) ARGUED THAT THE COMMUNITY WOULD BE JEOPARDISED IF THE HOUSTON SUMMIT TOOK SUBSTANTIVE DECISIONS BEFORE AN EC POSITION HAD BEEN REACHED. A POSITIVE RESPONSE TO SOVIET NEEDS WAS REQUIRED, INCLUDING PERHAPS HELP TO CREATE A PAYMENTS UNION. POOS (LUXEMBOURG) AGREED WITH YOUR APPROACH. ECONOMIC REFORM IN THE SOVIET UNION WAS REQUIRED BEFORE THEY WOULD MERIT FURTHER ASSISTANCE, BUT IT MIGHT BE POSSIBLE TO HELP THEM WITH THE PURCHASE OF OIL AND OTHER RAW MATERIALS. FERNANDEZ-ORDONEZ (SPAIN) SUGGESTED THAT AN EC STATEMENT OF ITS POSITION WAS NEEDED FOR HOUSTON.

7. DUMAS (FRANCE) THOUGHT THAT THE SOVIET ECONOMY MIGHT EVEN COLLAPSE BEFORE THE END OF JUNE. AN IMMENSE AND URGENT EFFORT OF ASSISTANCE WAS NEEDED. COORDINATION OF THIS SHOULD START IN THE COMMUNITY, AND A POSITIVE RESPONSE WAS CRUCIAL. DE DEUS PINHEIRO (PORTUGAL) ARGUED THAT THE CONCEPT OF CONDITIONALITY NEEDED TO BE REVISED, BUT THE NEW VERSION SHOULD BE CLEARLY IMPLEMENTED. THE DUBLIN EUROPEAN COUNCIL SHOULD ISSUE GUIDANCE ON THESE POINTS.

8. DELORS, AFTER REFERRING TO ANDRIESEN'S SPEECH IN BERLIN ON 1 JUNE, SUGGESTED THAT THE DUBLIN SUMMIT SHOULD SPEND PLENTY OF TIME ON EAST/WEST RELATIONS AND CSCE ISSUES. HE DISPARAGED THE RECENT

LETTER FROM SHEVARDNADZE, WHOSE PROPOSALS WOULD MERELY LEAD TO EXCESSIVE BUREAUCRACY AND WOULD NOT PROVIDE MUCH HELP TO ANYONE. MRS ADAM-SCHWAETZER SUGGESTED THAT CSCE INSTITUTIONS COULD BE HELPFUL IN ASSISTING THE SOVIET UNION. VAN DEN BROEK THOUGHT THAT THE OECD COULD ALSO HELP.

9. COLLINS DID NOT PROVIDE ANY SPECIFIC CONCLUSIONS BUT NOTED THAT THE VERY SERIOUS PROBLEMS WHICH HAD BEEN RAISED WOULD BE IN THE MINDS OF ALL MINISTERS AT DUBLIN.

10. COMMENT: THE DISCUSSION TODAY WAS INITIATED BY DELORS ON THE BASIS OF WHAT HE HAD HEARD FROM HIS SHERPA. IT HAS AROUSED STRONG PRESS INTEREST. IT IS CLEAR THAT DEBATE AT DUBLIN WILL NOW FOCUS SHARPLY ON THE ISSUE OF AID TO THE SOVIET UNION, AND THAT WE SHALL NEED TO GET OUR OWN APPROACH, INCLUDING OUR LINE ON COORDINATION (G24, EBRD, OECD ETC.) DEFINED BEFORE THEN. THERE IS AN OBVIOUS RISK THAT, WITH COMMISSION ENCOURAGEMENT, THE NON-G7 MEMBERS OF THE COMMUNITY WILL PRESS HARD AT DUBLIN FOR A PRECISE EC POSITION TO BE AGREED THEN, IN ORDER TO AVOID THE IMPRESSION THAT ONCE MORE THEY HAVE BEEN PRESENTED WITH A FAIT ACCOMPLI AT HOUSTON.

CAMPBELL

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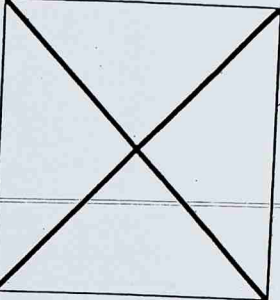
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DEPARTMENT/SERIES	PREM 19	Date and sign
PIECE/ITEM (one piece/item number)	3183	
Extract details: Letter from the Prime Minister to Gordievsky dated 16 June 1990		
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Extract details:	<i>Letter from Powell dated 16 June 1990</i>	
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LIME GROVE STUDIOS
LONDON W12 7RJ
TELEPHONE 01-576 7927
FAX 01-740 8549

Mr Charles Powell
10 Downing Street
Whitehall
London SW1

15th June 1990

Dear Charles,

Thank you very much for all the help you gave us with the BBC interview. In the end - though we were on tenterhooks until the very last moment - it was something of a triumph for us. The interview ran at ten minutes on the main news bulletins and the full version replaced 'Allo Allo' on BBC1 on the same evening!

I had an extremely enthusiastic response about it not only from within but from many viewers as well. The Public were evidently fascinated to see Gorbachev in close-up talking quietly and reasonably about the Soviet predicament.

You may have read in the 'Sunday Times' (which was picked up by the 'Today' and I have issued a writ accordingly!) that I had violated "a condition" of the interview by raising the Yeltsyn factor and that the Russians were furious as a consequence. In truth there were no conditions and the President's men (who had sought to persuade me just before the interview that Yeltsyn was not interesting!) remained on very good terms with us afterwards. I think Gorbachev himself would have gone on talking all afternoon had his aides not been mindful of the fact that he did have other matters to attend to.

As it is I have had the chance to meet a remarkable man who will surely go down as a great man of this century. I am thus - personally - greatly indebted to you.

I hope we have a chance to meet again before very long.

Jonathan Dimbleby

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FILE

RW



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

Sir Robin Butler

TELEPHONE COMMUNICATION WITH MOSCOW

I have seen a copy of Patrick Wright's letter of 14 June to you about improving communications with our Embassy in Moscow. I think that what he proposes would suit our needs quite well. On the evidence of her recent visit to Moscow, the Prime Minister's relations with Mr Gorbachev remain unusually good and I can certainly foresee the need for further telephone conversations arising. I would hope that we could go ahead relatively soon.

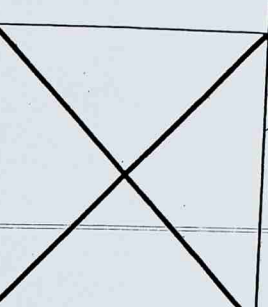
CHARLES POWELL

15 June 1990

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DEPARTMENT/SERIES <i>PR 19</i> PIECE/ITEM <i>3183</i> (one piece/item number)	Date and sign
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Dear Mrs.Thatcher,

Thank you for congratulating me on my election as the Chairman of the Supreme Soviet of the Russian Federation. I hope that common concern about peace and prosperity of the peoples of Great Britain and Russia will determine relations between our countries.

B.Eltsin

June 14th 1990



Foreign and Commonwealth Office
London SW1A 2AH

Sir Patrick Wright GCMG
Permanent Under-Secretary of State

14 June 1990

Sir Robin Butler KCB CVO
Cabinet Office

My dear Robin,

TELEPHONE COMMUNICATION WITH MOSCOW

1. I am sorry ~~not~~ ^{Had BTI} to have responded before now to your letter of 19 April: but only in recent days have our ideas on improving communications with our Embassy in Moscow fallen into place. We now see more clearly how we might meet No 10's requirement for a high quality telephone link with the Kremlin.

2. We believe that the expense of a Private Wire to carry all the Embassy's large and growing volume of telegrams, as well as their telephone calls to the FCO, will be justified; and we have gone ahead and placed an order with BTI. The circuit is, however, unlikely to be available for a couple of months or so, and a little more time may be needed before new computerised communications equipment is in place.

3. You will recall from my letter of 9 April that we had in mind to extend the same line into the Kremlin to meet No 10's requirement for telephone communications. BTI advise us that this should be feasible, even though the limited capacity of the line (M1020) would probably only accommodate a couple of speech connections at any one time. This is not ideal. But since the occasions when the Prime Minister might wish to talk to Gorbachev will be relatively rare, with notice at either end of an impending call, we think that suitable arrangements could be made to clear the line. (And BTI tell us that in perhaps 18 months a digital bearer might become available which could simultaneously carry several voice channels, fax and data).

4. I should be grateful to know whether No 10 would like us to proceed on this basis. If they do, we should need to ask the Embassy to tell the Russians what is planned; and then to ask BTI to talk to their counterparts in Moscow about the Kremlin extension. Only then would we have a clear idea of the costs which might fall to the Cabinet Office.

/5. Charles



5. Charles Powell suggested (his minute of 11 April) that it might be interesting to find out how the American and German Governments manage their own speech links with Moscow. There is, in fact, no permanent link between the White House and the Kremlin. Rather surprisingly, when President Bush wants to call Gorbachev, it seems that the calls are made over insecure public lines (the Americans are not happy with this, but have said they see no alternative for the moment). The Germans also use the insecure open system direct to the Kremlin.

6. You also asked about commercial cryptographic equipment. This is available, and is relatively cheap (about £2,000 per unit). It would provide protection against casual eavesdropping (but not much more), although the speech quality of the line would suffer somewhat (but the extent of this could be evaluated beforehand, if necessary). I expect we could find something which would not be subject to COCOM regulations: but we could not be sure until we had identified a specific piece of equipment.

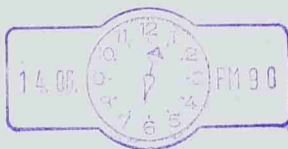
7. I would be happy to have a word about this, if either you or Charles Powell (to whom I am copying this letter) thought it useful.

Wright

Patrick Wright

Patrick Wright

SOVIET UNION : Relations P17



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DEPARTMENT/SERIES <i>PREM 17</i> PIECE/ITEM <i>3183</i> (one piece/item number)	Date and sign
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SOVIET INTERNAL: YELTSIN AND THE RSFSR SOVEREIGNTY DECLARATION

SUMMARY

1. RSFSR CONGRESS ALMOST UNANIMOUSLY PASSES DECLARATION ON SOVEREIGNTY. INCLUDES PROVISION ON SUPREMACY OF RSFSR LAW OVER SOVIET LAW. YELTSIN WILL HAVE LESS UNANIMITY IN NEWLY ELECTED SUPREME SOVIET ON OTHER ISSUES. NO CENTRAL RESPONSE YET: CONFLICT MORE LIKELY TO OCCUR ON CONCRETE ISSUES.

DETAIL

2. ON 12 JUNE THE RSFSR CONGRESS PASSED THE DECLARATION OF SOVEREIGNTY OF THE RUSSIAN REPUBLIC BY AN OVERWHELMING MAJORITY (903 FOR, 13 AGAINST, 9 ABSTENTIONS). WE HAVE NOT YET SEEN A FULL TEXT OF THE DECLARATION, WHICH HAS NOT BEEN PUBLISHED OR ISSUED AT THE CONGRESS, BUT IT IS CLEAR THAT THE ORIGINAL VERSION, AS REPORTED IN MOSCOW TELNO 1079, HAS NOT BEEN SUBSTANTIALLY REDRAFTED. THE ONLY CONTROVERSIAL POINT WAS ONE ARTICLE ON THE CONSTITUTIONAL RIGHTS OF AUTONOMOUS REPUBLICS AND OBLASTS WITHIN THE RSFSR ITSELF (ON THE PRINCIPLE THAT IF RUSSIA CAN DECLARE ITS SOVEREIGNTY VIS-A-VIS THE SOVIET UNION, THEN THE NATIONAL MINORITIES SHOULD BE ABLE TO DO LIKewise VIS-A-VIS RUSSIA).

TEXT

3. THE TEXT OF THE DECLARATION CONTAINS THE FOLLOWING POINTS

- THE RSFSR IS A SOVEREIGN STATE, AND RSFSR LAW HAS SUPREMACY OVER ALL OTHER LAW ON THE TERRITORY OF THE REPUBLIC.
- THE RSFSR RETAINS THE RIGHT TO SECEDE FROM THE SOVIET UNION. (THERE IS, OF COURSE, NOTHING NEW IN THIS: THE RSFSR, LIKE OTHER UNION REPUBLICS HAVE ALWAYS HAD THE NOTIONAL RIGHT TO SECEDE).
- RIGHTS AND FREEDOMS ENVISAGED IN THE RSFSR AND SOVIET CONSTITUTIONS ARE GUARANTEED.
- THE REPUBLIC GUARANTEES TO ALL ITS CITIZENS THE RIGHT TO ORGANISE

POLITICAL PARTIES, PUBLIC AND RELIGIOUS ORGANISATIONS AND MASS MOVEMENTS WHICH WORK WITHIN THE FRAMEWORK OF THE RSFSR CONSTITUTION, AND AFFORDS ITS CITIZENS EQUAL OPPORTUNITIES TO PARTICIPATE IN THE AFFAIRS OF STATE AND GOVERNMENT.

- THE REPUBLIC PROCLAIMS ITS ADHERENCE TO THE UNIVERSALLY ACCEPTED PRINCIPLES OF INTERNATIONAL LAW, ITS WILLINGNESS TO LIVE IN PEACE WITH ALL NATIONS AND STATES, AND WILL DO ALL POSSIBLE TO AVERT INTERNATIONAL AND INTER-REPUBLICAN CONFLICT, WHILST AT THE SAME TIME DEFENDING THE INTEREST OF THE RUSSIAN PEOPLES.

4. IF THE PRECISE DRAFTING POINTS OF THE DECLARATION - AND THE POSITION OF THE AUTONOMOUS REPUBLICS - WERE CONTROVERSIAL, THE PRINCIPLE OF THE DOCUMENT, INCLUDING THE ARTICLE ON THE SUPREMACY OF REPUBLICAN LAW, WERE ALMOST UNANIMOUSLY SUPPORTED BY EVERY DEPUTY, FROM BOTH CAMPS. THIS IS ONE ISSUE, AT LEAST, WHICH UNITES ALL RSFSR DEPUTIES.

5. THERE IS MUCH SPECULATION ABOUT THE LIKELY REACITON OF GORBACHEV AND THE USSR GOVERNMENT TO THIS DECLARATION. GORBACHEV SAID, PERHAPS RASHLY, IN HIS WEEKEND PRESS CONFERENCE THAT HE WAS 'ONE HUNDRED PERCENT CERTAIN' THAT THE RUSSIAN PEOPLE WOULD DO NOTHING TO CONTRADICT THE USSR CONSTITUTION. THE DECLARATION ITSELF - WHICH IS, SIGNIFICANTLY, NOT A LAW OF DECREE - DOES NOT YET REQUIRE GORBACHEV TO MAKE A RESPONSE. CONFLICT NEED ONLY OCCUR WHEN THE RSFSR MAKES A CONCRETE MOVE TO OVERRIDE A SOVIET LAW. ONE OBVIOUS POTENTIAL TROUBLE SPOT WILL BE THE USSR GOVERNMENT'S PLANS FOR ECONOMIC REFORM AND PRICE RISES. RSFSR DEPUTIES OF BOTH CAMPS ARE JUBILANT OVER THIS DECLARATION, AND WILL NOT BE IN A MOOD EASILY TO RETREAT FROM ITS MAIN PROVISIOINS. MASLENNIKOV, GORBACHEV'S PRESS SPOIKESMAN REFUSED TO BE DRAWN INTO A DISCUSSION OF WHOSE LAW WOULD PREVAIL IN THE RSFSR WHEN THIS WAS RAISED AT A PRESS CONFERENCE ON 13 JUNE. HE SAID SIMPLY THAT THE QUESTION WAS HYPOTHETICAL: THE RSFSR DID NOT YET HAVE A GOVERNMENT: THE DOCUMENT WAS ONLY A STATEMENT OF INTENT, AND THE DIVISION OF POWER BETWEEN REPUBLICS AND THE CENTRE WOULD BE DISCUSSED AS PART OF THE PROCESS OF RESTRAINING THE FEDERATION.

6. IN THE SUPREME SOVIET WHICH WAS NEWLY ELECTED ON 10 JUNE, IZVESTIYA ESTIMATED THAT THE TRADITIONALIST 'COMMUNISTS OF RUSSIA' HAVE A SLIGHT EDGE (52%) ON THE REFORMIST 'DEMOCRATIC RUSSIA' BLOC. DEMOCRATIC RUSSIA HAVE A SIMILARLY SLIM MAJORITY IN THE COUNCIL OF THE REPUBLIC, BUT A MINORITY IN THE COUNCIL OF NATIONALITIES. THIS COULD BE A RECIPTE FOR STALEMATE ON A NUMBER OF ISSUES.

7. GORBACHEV AND YELTSIN REPORTEDLY BEHAVED RESPECTFULLY TOWARDS EACH OTHER AT THE 12 JUNE MEETING OF THE COUNCIL OF THE FEDERATION. ACCORDING TO MASLENNIKOV, GORBACHEV CONGRATULATED ALL THE NEWLY ELECTED REPUBLICAN CHAIRMEN. BUT THERE HAS ALREADY BEEN A CLASH BETWEEN GORBACHEV AND YELTSIN, OVER A RELATIVELY PETTY ISSUE. AN INTERVIEW TO CENTRL TV WITH YELTSIN, WHICH TOOK THE FORM OF AN ADDRESS TO THE RUSSIAN NATION, WAS NOT SHOWN AS PLANNED ON 8 JUNE BUT WAS POSTPONED BY ONE DAY. THE RSFSR CONGRESS SUMMONED THE HEAD OF GOSTELERADIO TO EXPLAIN HIMSELF. RUMOURS THAT THE PRESIDENT WAS BEHIND THE POSTPONEMENT CAUSED GORBACHEV TO SEND PRIMAKOV TO THE CONGRESS ON 11 JUNE TO PROTEST THAT HE, GORBACHEV, HAD NOT INTERFERRED WITH THE TV PROGRAMMING. THIS IS A FURTHER EXAMPLE OF GORBACHEV BEHAVING OVER-SENSITIVELY TO EVENTS WHICH IT WOULD HAVE BEEN MORE DIGNIFIED AND SENSIBLE TO IGNORE

BRAITHWAITE

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ADDITIONAL 14SOVIET INTERNAL/SOVIET ECONOMY PAGE 3
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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 June 1990

LITHUANIA

I have seen Moscow telegram No. 1108,
with the text of a letter to the Prime
Minister from the Lithuanian Prime Minister.
I am sure that Mrs. Thatcher will wish to
reply, and should be grateful for a draft.

BM

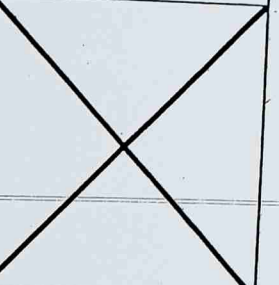
C.D. POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>3183</i> (one piece/item number)	Date and sign
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SIC

LITHUANIA: MOSCOW TELNO 1089

SUMMARY

1. LANDSBERGIS ATTENDS COUNCIL OF FEDERATION IN MOSCOW. LANDSBERGIS, GORBUNOV AND RUUTEL HAVE SEPARATE MEETING WITH GORBACHEV AND RYZHKOV. GORBACHEV CONFIRMS WILLINGNESS TO BEGIN NEGOTIATIONS IF INDEPENDENCE DECLARATIONS SUSPENDED FOR THE PERIOD OF TALKS. THIS WILL NOW BE DISCUSSED IN VILNIUS.

DETAIL

COUNCIL OF THE FEDERATION

2. CHAIRMAN OF THE LITHUANIAN SUPREME COUNCIL, PROFESSOR LANDSBERGIS ATTENDED YESTERDAY'S MEETING OF THE COUNCIL OF THE FEDERATION IN MOSCOW. THIS WAS LANDSBERGIS' FIRST APPEARANCE AT THE COUNCIL AND HIS FIRST MEETING WITH THE SOVIET LEADERSHIP SINCE THE 11 MARCH INDEPENDENCE DECLARATION. GORBUNOV (LATVIA) AND RUUTEL (ESTONIA) ALSO ATTENDED THE MEETING ALONG WITH THE SUPREME SOVIET CHAIRMAN FROM THE OTHER UNION REPUBLICS INCLUDING YELTSIN IN HIS NEW CAPACITY AS REPRESENTATIVE OF THE RSFSR.

3. ACCORDING TO A SHORT TASS REPORT OF THE MEETING, SPEAKERS STRESSED THE URGENT NEED TO CONCLUDE A NEW UNION TREATY GUARANTEEING REAL ECONOMIC AND POLITICAL SOVEREIGNTY TO REPUBLICS. SUCH A TREATY SHOULD PROVIDE FOR VARIOUS FORMS OF INTERRELATIONSHIP BETWEEN REPUBLICS DEPENDING ON THE HISTORICAL, ECONOMIC AND CULTURAL CHARACTERISATION OF EACH. IT WAS AGREED TO SET UP A WORKING GROUP IN WHICH ALL REPUBLICS WOULD BE REPRESENTED TO DRAFT A NEW UNION TREATY.

MEETING WITH GORBACHEV AND RYZHKOV.

4. AFTER THE COUNCIL OF THE FEDERATION SESSION, GORBACHEV WAS JOINED BY RYZHKOV FOR A SEPARATE MEETING WITH LANDSBERGIS, GORBUNOV AND RUUTEL. THE SOVIET NEWS AGENCY TASS HAS REPORTED ONLY THAT THE MEETING TOOK PLACE AND THERE WAS AN EXCHANGE OF OPINIONS ON THE CURRENT SITUATION.

PRESS CONFERENCE.

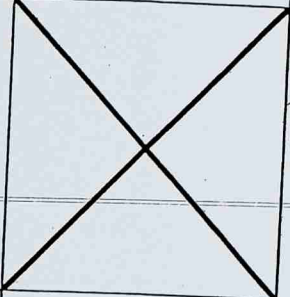
5. AFTER THEIR MEETING WITH GORBACHEV, LANDSBERGIS AND GORBUNOV'S GAVE A LATE EVENING PRESS CONFERENCE AT THE LITHUANIAN REPRESENTATION IN MOSCOW (RUUTEL HAD LEFT TO TRAVEL BACK TO ESTONIA). LANDSBERGIS EXPLAINED THAT HE HAD AGREED TO ATTEND THE COUNCIL OF THE FEDERATION MEETING BECAUSE GORBACHEV HAD AGREED BEFOREHAND TO A SEPARATE MEETING WITH THE 3 BALTIC LEADERS. HE HAD FOUND THE COUNCIL OF THE FEDERATION MEETING USEFUL. GORBACHEV HAD SET OUT HIS IDEA OF A FEDERATION OF SOVEREIGN STATES. BUT LITHUANIA WAS NOT GOVERNED BY SOVIET JURISDICTION. GORBUNOV'S OBSERVED THAT YELTSIN HAD PUT FORWARD CONSTRUCTIVE PROPOSALS ON DIRECT CO-OPERATION BETWEEN REPUBLICS. WHEN ASKED ABOUT RELATIONS BETWEEN GORBACHEV AND YELTSIN, HE NOTED THAT THE DIALOGUE HAD BEEN CONSTRUCTIVE AND CONDUCTED IN AN ATMOSPHERE OF MUTUAL RESPECT.

6. ASKED ABOUT THE MEETING WITH GORBACHEV AND RYZHKOV, LANDSBERGIS SAID THAT HE HAD EMPHASISED THE DIFFICULTY OF CONDUCTING A NORMAL POLITICAL DIALOGUE WHILE UNDER AN ECONOMIC BLOCKADE. HE HAD ASKED GORBACHEV TO RELAX THE PRESSURE ON LITHUANIA. HE REFERRED TO A GORBACHEV PROPOSAL THAT BOTH SIDES SHOULD TAKE STEPS SIMULTANEOUSLY. THIS WOULD BE DISCUSSED IN VILNIUS. LANDSBERGIS CONFIRMED THAT ON HIS RETURN TO VILNIUS HE WOULD ALSO BE DISCUSSING GORBACHEV'S PROPOSAL FOR A SUSPENSION OF THE INDEPENDENCE DECLARATION 'FOR THE PERIOD OF NEGOTIATIONS'. (GORBACHEV, AS WE SHALL BE REPORTING SEPARATELY, HAD USED THIS LANGUAGE DURING HIS DISCUSSION WITH THE USSR SUPREME SOVIET ON THE MORNING OF 12 JUNE). LANDSBERGIS WAS NOT TO BE DRAWN ON HIS OWN VIEW OF THE PROPOSAL. BUT HE SAID THAT THE LITHUANIANS WERE PREPARED TO DISCUSS ALL SUGGESTIONS. A VERBAL OR WRITTEN RESPONSE TO GORBACHEV'S PROPOSAL COULD BE EXPECTED SHORTLY.

7. GORBUNOV'S WAS MAINLY CONCERNED WITH THE QUESTION OF THE LEGAL STATUS OF HIS REPUBLIC DURING THE PERIOD OF TRANSITION TO INDEPENDENCE. HE CONSIDERED THAT TALKS TO ESTABLISH THIS STATUS WERE A PRIORITY. HE TOO HAD BEEN TOLD BY GORBACHEV THAT NEGOTIATIONS WOULD BE POSSIBLE IF THE LATVIAN INDEPENDENCE DECLARATION WERE FROZEN FOR THE PERIOD OF NEGOTIATIONS. THIS WOULD HAVE TO BE DISCUSSED BY THE LATVIAN SUPREME SOVIET. GORBUNOV'S CONSIDERED THAT 2 GUARANTEES WERE NEEDED TO BE WORKED OUT TO COVER THE TRANSITION TO INDEPENDENCE. FIRSTLY, A GUARANTEE OF FULL LATVIAN SOVEREIGNTY DURING THIS TIME: SECONDLY A BILATERAL AGREEMENT FOR RESOLVING POTENTIAL CONFLICTS WITH SOVIET LEGISLATION.

BRAITHWAITE

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SOVIET INTERNAL: VIOLENCE IN KIRGHIZIA

SUMMARY

1. AT LEAST 116 DEAD IN KIRGHIZIAN CLASHES. SITUATION REPORTED TO BE STABILISING. BUT TENSIONS BETWEEN KIRGHIZ AND UZBEKS LIKELY TO REMAIN.

DETAIL

2. LATEST SOVIET PRESS REPORTS FROM KIRGHIZIA GIVE THE IMPRESSION THAT THE SITUATION IS STABILISING AFTER A WEEK OF VIOLENCE, IN WHICH AT LEAST 116 DIED AND NEARLY 500 WERE INJURED. ENTERPRISES ARE RETURNING TO WORK IN OSH, THE ORIGINAL SCENE OF THE DISTURBANCES. AREAS OF KIRGHIZIA AND NEIGHBOURING UZBEKISTAN ARE UNDER A STATE OF EMERGENCY, INCLUDING THE KIRGHIZIAN CAPITAL FRUNZE WHERE SEVERAL THOUSAND DEMONSTRATORS HAD TRIED TO STORM THE COMMUNIST PARTY HEADQUARTERS. SOVIET INTERIOR MINISTER BAKATIN ANNOUNCED ON 7 JUNE THAT 3,000 TROOPS AND MILITIA HAD BEEN SENT TO MAINTAIN ORDER IN OSH. AN IZVESTIYA REPORT THAT CHERMUKHA (TEAR) GAS HAD BEEN USED IN THE ATTEMPT TO CONTROL THE OSH RIOTS. SOME 15,000 UZBEKS WERE REPORTED TO HAVE GATHERED ON THE BORDER BETWEEN THE REPUBLICS AIMING TO GET TO OSH BUT PREVENTED BY ARMY UNITS FROM DOING SO.

3. DEMONSTRATORS SET A 10 JUNE DEADLINE FOR LOCAL AUTHORITIES TO MEET A SERIES OF DEMANDS - INCLUDING RESIGNATION OF THE KIRGHIZ COMMUNIST PARTY FIRST SECRETARY AND ALL THE REPUBLIC PARTY BURO. THIS HAS APPARENTLY PASSED WITHOUT EVENT. 11 JUNE WAS DECLARED A DAY OF MOURNING IN KIRGHIZIA. FLAGS WERE FLOWN AT HALF MAST AND ALL ENTERTAINMENTS CANCELLED.

4. A TASS REPORT OF 11 JUNE NOTES THAT REGIONS OF NEIGHBOURING TADZHIKISTAN ARE NOW SUFFERING ACUTE SHORTAGES OF FUEL AND OTHER ITEMS BECAUSE RIOTS ARE CUTTING OFF ROAD LINKS THOROUGH KIRGHIZIA TO TADZHIKISTAN.

PAGE 1
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COMMENT

5. THESE ARE THE MOST SERIOUS RIOTS IN CENTRAL ASIA SINCE THOSE OF LAST YEAR IN NEIGHBOURING FERGANA WHEN UZBEKS ATTACKED THE MESHKHETIAN TURKISH MINORITY. IN SOME WAYS THESE LATEST RIOTS ARE MORE SERIOUS. THEY INVOLVED A DISPUTE BETWEEN 2 UNION REPUBLICS. MOSCOW MUST BE EXTREMELY CONCERNED AT THE PROSPECT THAT THE KIRGHIZ AND UZBEKISTAN BORDER WOULD COME TO RESEMBLE THAT BETWEEN ARMENIA AND AZERBAIDJAN. THE USSR MINISTER OF THE INTERIOR BAKATIN SPOKE LAST WEEK OF HIS FEAR THAT THESE RIOTS COULD DEVELOP INTO A MAJOR INTER-REPUBLICAN CONFLICT. AS FAR AS WE ARE AWARE THERE ARE NO TERRITORIAL CLAIMS. THE RIOTING APPEARS TO HAVE BEEN THE RESULT OF LAND AND HOUSING SHORTAGES BROUGHT ON BY POPULATION PRESSURE AND ECONOMIC DECLINE. THE SOVIET PRESS HAVE NOT BEEN HINTING (AS IT DID IN THE FEBRUARY RIOTS IN UZBEKISTAN AND TADZHIKISTAN) THAT RELIGIOUS EXTREMISM HAS BEEN PLAYING A ROLE.

6. AT PRESENT THE BORDER BETWEEN THE 2 REPUBLICS IS CLOSED AND A STATE OF EMERGENCY HAS BEEN ESTABLISHED IN REGIONS ON EITHER SIDE. SOVIET PRESS REPORTS SUGGESTED THAT REGULAR TROOPS AS WELL AS THOSE OF THE MVD (INTERIOR MINISTRY) HAVE BEEN USED TO QUELL THE DISTURBANCES. THIS PRESENCE COULD BE REQUIRED FOR SOME TIME. EXPERIENCE SUGGESTS THAT INTERCOMMUNAL VIOLENCE OF THIS KIND LEAVES LASTING RESENTMENT. THE KIRGHIZ, LIKE OTHER SMALLER CENTRAL ASIA NATIONALITIES HAVE TRADITIONALLY FEARED AND MISTRUSTED THE NUMERICALLY DOMINANT UZBEKS. THERE ARE LARGE NUMBERS (SOME HALF MILLION OR 12% OF THE POPULATION AT THE 1979 CENSUS) OF UZBEKS LIVING IN KIRGHIZIA.

BRAITHWAITE

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POSSIBLE ECONOMIC HELP FOR HE SOVIET UNION

SUMMARY

1. TELTSCHIK REVEALS IN STRICT CONFIDENCE THAT SOVIET UNION HAS ASKED FRG FOR NEW GUARANTEED CREDITS TO HELP WITH CURRENT DIFFICULTY IN MEETING DEBT SERVICE PAYMENTS. SOVIET UNION HAS ALSO APPROACHED FRG ABOUT A MAJOR WESTERN AID PACKAGE TO COVER THREE YEARS WHILE ECONOMIC REFORM GETS GOING.

DETAIL

2. I ASKED TELTSCHIK TODAY ABOUT THE FEDERAL GERMAN CONTACTS WITH THE SOVIET UNION CONCERNING ECONOMIC HELP FOR THE LATTER, IN WHICH HE HAD REPORTEDLY PLAYED A PART.

3. TELTSCHIK SAID THAT THE SOVIET UNION WAS HAVING DIFFICULTY IN MEETING CURRENT PAYMENTS ON DEBT SERVICING. WESTERN BANKS WERE THEREFORE AGREED INTERNATIONALLY THAT THEY COULD NOT AT PRESENT OFFER THE SOVIET UNION NEW CREDITS. THE GERMAN BANKS WERE CONSIDERING WHETHER TO WRITE OFF SOME DEBTS OR RESCHEDULE SOME PAYMENTS. SUCH A MOVE WOULD PUT THE SOVIET UNION IN THE GROUP OF COUNTRIES WHICH HAD REQUIRED DEBT RESCHEDULING. THAT WOULD BE A CATASTROPHE FOR A WORLD POWER, AND ESPECIALLY HUMILIATING FOR THE SOVIET UNION WHICH HITHERTO HAD BEEN PUNCTILIOUS ABOUT MEETING DEBT PAYMENTS. THE SOVIET UNION HAD ASKED THE FEDERAL GOVERNMENT FOR FRESH CREDITS WITH OFFICIAL GUARANTEES. NO FIGURE HAD BEEN NAMED. THE FRG HAD TAKEN NOTE AND WAS OPEN MINDED. ONE CONDITION WOULD BE ESSENTIAL: THAT THE PROVISION OF FRESH MONEY SHOULD BE HELPFUL IN REACHING AGREEMENT ON THE MATTERS BEING DISCUSSED IN 2 PLUS 4. THE GERMANS WERE SOUNDING OUT THE RUSSIANS IN THIS REGARD. THEY WERE BASICALLY WILLING TO ENTERTAIN THE IDEA OF FRESH MONEY WITHIN A REASONABLE AMOUNT.

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4. TELTSCHIK SAID THAT THE RUSSIANS HAD ALSO ASKED THE GERMANS ABOUT THE POSSIBILITY OF A SEPARATE, MUCH BIGGER CREDIT FROM THE WEST. THIS HAD FIRST BEEN RAISED BY SHEVARDNADZE WITH KOHL ON 5 MAY AND HAD BEEN ELABORATED ON BY GORBACHEV WHEN HE SAW TELTSCHIK TWO WEEKS AGO IN MOSCOW. GORBACHEV HAD SAID THAT TALK OF ECONOMIC REFORM HAD GONE ON FOR 5 YEARS IN THE SOVIET UNION AND ACTION MUST NOW BE TAKEN. THE SOVIET LEADERSHIP THOUGHT THAT THEY COULD ESTABLISH THE BASIC FEATURES OF A 'GUIDED MARKET ECONOMY' WITHIN 3 YEARS. THEY NOW REALISED THAT, DURING THOSE 3 YEARS, THEY NEEDED WESTERN HELP. THEY WERE WONDERING WHETHER THEY COULD SECURE WESTERN HELP WITH CONSUMER GOODS, GRAIN AND FOOD. THE RUSSIANS HAD MENTIONED NO CLEAR FIGURES BUT THE RANGE APPEARED TO BE DOLLARS 10-20 BILLION. THAT WAS TOO MUCH FOR ANY ONE WESTERN COUNTRY TO CONSIDER. KOHL'S VIEW WAS THAT THE WEST NEEDED TO DISCUSS WHETHER TO MEET THE SOVIET REQUEST AND, IF SO, HOW IT SHOULD BE DONE AND WHICH COUNTRIES SHOULD JOIN IN THE AID. KOHL WAS NOW CONSIDERING NEXT STEPS. HE HAD SPOKEN TO BUSH. HE WOULD PROBABLY WISH TO SPEAK BILATERALLY TO THE PRIME MINISTER AND MITTERRAND. HE MIGHT PROPOSE DISCUSSION DURING THE DUBLIN AND HOUSTON SUMMITS.

5. I SAID THAT MAJOR CREDITS FOR THE SOVIET UNION WOULD BE USEFUL ONLY IF THE SOVIET SYSTEM WAS ABLE TO APPLY THEM SENSIBLY. TELTSCHIK SAID THAT THE MONEY WOULD HAVE TO BE PROVIDED ON THE CONDITION THAT ECONOMIC REFORM TOOK PLACE AND THAT THERE WAS WESTERN INVOLVEMENT. THE LATTER MIGHT TAKE THE FORM OF A STAFF OF CONSULTANTS OR SOME OTHER ARRANGEMENT TO ENSURE THAT THE RUSSIANS HAD CLEAR WESTERN ADVICE AND THE WEST HAD FULL INFORMATION. IT WAS ESSENTIAL, BEFORE ANY MONEY WAS PROVIDED, THAT THE WEST SHOULD HAVE FULL CONFIDENCE THAT ECONOMIC REFORM WOULD REALLY BE CARRIED THROUGH. IN REPLY TO A FURTHER QUESTION, TELTSCHIK SAID THAT KOHL MIGHT NOT WISH TO MAKE AN EXPRESS CONDITION ABOUT LITHUNIA BUT THE UNITED STATES MIGHT WANT TO DO SO. ONE IDEA MIGHT BE TO TRY SOMEHOW TO LINK ECONOMIC REFORM IN THE SOVIET UNION TO DECENTRALISATION OF THE SOVIET STATE WITHOUT PARTICULAR REFERENCE TO LITHUANIA.

6. TELTSCHIK SAID THAT GENSCHER WAS NOT FULLY IN THE PICTURE ABOUT THE SOVIET APPROACHES TELTSCHIK REQUESTED THAT WE SHOULD NOT DISCUSS THE SUBJECT WITH THE AUSWAERTIGES AMT OR GENSCHER. IT SHOULD BE HANDLED EITHER BETWEEN THE PRIME MINISTER AND KOHL OR BETWEEN TELTSCHIK AND MYSELF.

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7. TELTSCHIK ASKED WHETHER GORBACHEV HAD RAISED THIS SUBJECT WITH THE PRIME MINISTER IN MOSCOW. I SHOULD BE GRATEFUL FOR ANYTHING I MAY SAY IN REPLY. IF YOU HAVE COMMENTS OR QUESTIONS ABOUT THE GERMAN POSITION, I SHOULD BE GLAD TO PURSUE THE MATTER WITH TELTSCHIK.

MALLABY

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PRIVY COUNCIL OFFICE
 WHITEHALL, LONDON SW1A 2AT

6 June 1990

Pl. Jim
 CDP/6/6

Dear Steffen,

ORDS PRESIDENT'S VISIT TO ST GALLEN CONFERENCE

During the Lord President's stay at St Gallen last week, he was approached by Professor Volodymyr Vassilenko who is representative of the Ukrainian SSR to the UN Commission on Human Rights and Professor at Kiev State University. We arranged for them to have a private bilateral discussion, which took place on 29 May. I thought that, partly in view of the Prime Minister's imminent visit to the USSR, it might be worth recording what transpired - although neither the Lord President nor I felt that anything very new emerged.

Vassilenko said that he wanted to talk about the participation of the USSR in the new Europe. The Republics were striving for greater independence, and in the short term when the Soviet state was so big, he expected the Union Republics to have a status rather different from that which they presently had. He wondered therefore what Sir Geoffrey thought the prospects were for them participating directly in the European process and pursuing their national interests in this way. Under the existing Ukrainian and USSR Constitutions, the Ukrainian Republic has the right to participate in foreign affairs, enter relations with other countries, sign treaties and join international organisations. The formal position was therefore that the Ukraine could now, other things being equal, be a member of European Institutions. He acknowledged that the Ukraine was not a separate member of COMECON or the Warsaw Pact, but this was the case for all the Soviet Republics. But the Warsaw Pact was not likely to be a significant feature on the scene in the future in any case. He noted that in his speech to the St Gallen Symposium the Lord President had said that a totalitarian USSR was detrimental to European security but that a democratic USSR could be a

worthwhile partner with the rest of Europe; he was not clear how the Lord President understood a "democratic USSR", which he thought could not exist so long as the nations within the USSR remained oppressed.

Responding, the Lord President said he had no clear view of the way the Union Republics could individually integrate themselves into the European process. He noted that, as Henning Christopherson had said at St Gallen the previous day, the Union Republics were different from the Baltic Republics whose absorption into the Soviet Union the vast majority of the members of the EC had not recognised; he thought that in practice any change in the status of, say, the Ukraine would depend on the federal authority of the Soviet Union, for all that the Ukraine has its own seat at the United Nations. As to the role of nationalities within a wider Union such as the USSR, and how this could be reconciled with democratic principles, this question was by no means unique to the USSR. He instanced the current discussions in Canada about the position of Quebec, or indeed the aspirations of some at any rate of the Scots within the UK. The union of the kingdoms was fundamental in the UK, as was the Federation in the USSR, but in all these structures there were degrees of subtlety, whether or not the systems of Government were democratic.

Vassilenko went on to explain that when the USSR was created in 1922 it was a free Union of only four Republics. The Caucasus, the Ukraine and Byelorussia all signed the treaty; but Stalin subsequently infringed the terms of that original treaty to create the unitary Soviet State. A key priority now was to review the Union treaty and get back to the original contract.

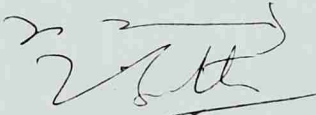
As to the Baltic Republics, he was clear that they originally had no intention of quitting the USSR. They had initially offered President Gorbachev negotiations for an Inter-Republic Conference to review the Union Treaty and only when he refused had they decided to leave the Union. They had gone their own way, denouncing the agreements between Stalin, Molotov and Ribbentrop as illegal and declaring themselves occupied States, against the background that President Gorbachev had promised two years ago a new constitution and had set up a Constitutional Commission of which he was the President, but which had never met and had done nothing.

But he stressed that the Ukraine and Byelorussia saw their position as very different. They wanted to sign a new Union Treaty, and were not contemplating declaring their independence; but equally they wanted to be direct participants in all the European processes as they unfolded. He was sure that the direct participation of the Union Republics in the European process would help to establish democracy in the USSR, would help to build real security and economic co-operation in Europe, and would also help President Gorbachev in his domestic political difficulties. If the Soviet Union remained in its present state, he saw great danger in the conflicts and social tensions that had emerged.

Commenting, the Lord President said that he had found this explanation of the background and the difference between the Baltic Republics and the Ukraine very helpful. The Ukraine and other Union Republics would need great skill and a readiness to talk with the Kremlin to negotiate a return to the original basis of the Union which they still regarded as legitimate. As far as participation in Europe and European institutions went, the UK understood and sympathised with what had been said, but would not want to act in a fashion that would precipitate conflict or disagreement with or within the USSR.

The meeting ended with brief personal reminiscences of the Lord President's visit as Foreign Secretary to Kiev and his meeting with the then Ukrainian Foreign Minister, and the Deputy Prime Minister of the Ukraine, Orlik (whom Vassilenko said would not be there much longer because he thought she would be forced out by the Ukrainian Parliament in the session now under way, along with a number of changes he foresaw in the old guard Government in the Ukraine); and finally mutual expectations of the success of the Prime Minister's own imminent visit to Kiev.

I am copying this letter to Charles Powell in No 10.


T J SUTTON
Principal Private Secretary

Stephen Wall Esq
PPS / Foreign and Commonwealth Secretary

SECRET



file pm 7
ck

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

MR. APLEYARD
CABINET OFFICE

PROJECT MARATHON

The Prime Minister has signed the messages proposed in your minute of 6 June. I attach the signed originals so that you can arrange for their despatch.

C. D. POWELL

6 June 1990

SECRET



Foreign and Commonwealth Office

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Tim Austin

6 June 1990

*FOR
9/6.*

Dear Charles,

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Support for Mr Gorbachev

With popularity, and potentially power, apparently ebbing from Mr Gorbachev we have started to consider whether our support in future might be directed more to the particular areas of Soviet reform favoured by the West, and less to Mr Gorbachev personally. The Foreign Secretary thought that you might like to see the enclosed, preliminary thinking by officials.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Office

C D Powell Esq
10 Downing Street

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SUPPORTING SOVIET REFORM DOES NOT NECESSARILY MEAN
SUPPORTING GORBACHEV

Threats to Gorbachev's Leadership

1. The immediate problem is Yeltsin who is not however challenging for Gorbachev's position as Union President. His programme amounts to seizing for the republics virtually all powers except defence and foreign policy - and even then not all foreign policy would remain at Union level. He is however not yet Executive President of Russia. He had to forge a kind of coalition to be elected Chairman of the RSFSR Supreme Soviet. He will have to do the same to get his policies adopted, or to be elected Executive President. So far brave and challenging words are very much in Yeltsin's style. But he knows that he cannot ride completely roughshod over Gorbachev, or more importantly over the Soviet constitution. But equally he knows that he is the man with the public support and Gorbachev is not. Both are looking for a modus vivendi.

2. The right wing are not capable of making an effective constitutional challenge at present. They could, if the present decline towards chaos accelerated which would also increase the possibility of an unconstitutional move. The right are unlikely to stage an effective come-back at the Party Congress in July. The expected split in the Party then will face Gorbachev with a further dilemma of which faction he should associate himself with.

3. The other radical reformers do not have their political or economic platforms together enough to amount to an effective challenge. The two main leaders emerging at the moment are Popov, Mayor of Moscow, and Sobchak (whom the Secretary of State met over lunch in Leningrad), now Mayor of Leningrad. Neither yet have a national following but they or others yet to emerge could well do by the 1995

elections.

4. Gorbachev's constitutional position is strong. Until the 1995 elections he can only be removed by the Congress of People's Deputies for unconstitutional activity. This would require a two-thirds vote.

5. But undoubtedly power is slipping away from Gorbachev:

- (a) he has no popular mandate and would probably not now get one;
- (b) he is still General Secretary of the increasingly split and discredited CPSU. He persists in calling himself a convinced Communist;
- (c) he is blamed for the current chaos and declining living standards;
- (d) he has pulled back from full-blooded market reform and is too associated with the latest "Ryzhkov" reforms to escape criticism when they collapse (several republics are refusing to implement the price rises which are an essential part of the reform).

6. Apart from being voted out, Gorbachev could fall in three ways:

- (a) he could resign if it became clear that he was unable to implement his policies. He has threatened to on a number of occasions;
- (b) he could call an early election and lose;
- (c) unconstitutionally.

Both (a) and (b) depend in large measure at the moment on how hard Yeltsin is prepared to push and on whether Gorbachev can use Ryzhkov as a scapegoat and move quickly to more radical reform. At best there will be a continued period of uncertainty with a real possibility of Ryzhkov's early replacement by a more radical alterantive, and with Yeltsin consolidating and (by his standards) biding his time. In the longer term the chances of Gorbachev winning the 1995 election are fading and the possibility of things coming to a head rather earlier than this must be mounting

in proportion as public perceptions of who has the answers shift from Gorbachev to the radicals and in particular Yeltsin.

7. We should therefore do well to distinguish more in our support for reform between its substance and Gorbachev's personal position. We do not want (yet) to be seen too publicly to be hedging our bets. The Embassy in Moscow has its lines out to the leading factions. The Prime Minister has seen Yeltsin and will be seeing Popov, and on the other hand the top Soviet military. The Foreign Secretary has met Sobchak. The main differentiation for the moment will be in forms of words:

(a) Whilst we can ascribe to Gorbachev the credit for changes so far we should avoid linking his name to the future without however too conspicuously "backing off".

(b) We could shift slightly the issues we address. Up to now we have tended to support "Mr Gorbachev's far-sighted reforms" and "perestroika". In point of fact perestroika as such is in effect dead as "restructuring" is no longer what is recognised as being necessary in the Soviet Union. What is needed is in practice demolition and a new start. Leading Soviet economists have been saying so for some time. We could therefore reasonably but gradually drop perestroika from our vocabulary of support and focus on the issues - the introduction of a full market economy and its benefits including the ways in which the West can cooperate with the Soviet Union if the move to the market is made - the workings of Parliamentary democracy and the rule of law, and again the West's possibilities of cooperation.

(c) We can perhaps be a little less influenced in future by our assessment of the effects on Gorbachev of particular lines of policy eg on Lithuania. We would need to strike a balance between appearing to take advantage of Gorbachev and/or Soviet weakness to fish in troubled waters, and very

proper Western interests. But we have been greatly inhibited up to now by concern not to rock Gorbachev. If we see Soviet public opinion moving away from him in directions more helpful to us in some regards we could take a more robust line.

(e) We can take a carefully balanced view of other potential leaders and their policies. We have been right to see Yeltsin, Sobchak and Popov at top level. We do not want to be sucked into internal rows between factions/republics about policy. But we should avoid too publicly being thought always to take Gorbachev's side.

Eg at the Prime Minister's Moscow press conference:

What do you think of Yeltsin/his policies?

- Not for me to discuss alternative policies for the development of Russia. I have long stressed our strong support for reform policies which will bring greater prosperity and happiness to all the people of the Soviet Union. For me, as you know, this means an open society and a free market. But the form which this takes in the Soviet Union is for its people to decide through the democratic process. We have Mr Gorbachev to thank for the fact that the peoples of the Soviet Union now for the first time have the possibility of deciding their own future.

If Yeltsin confronts Gorbachev it leads to chaos doesn't it?

- Again I do not want to be drawn into debating alternative roads for the Soviet Union. My understanding has been that there is a consensus in the Soviet Union in favour of reform towards an open democratic society and market economy. I happen to believe that this is the right road. It will take far longer to achieve than most people want. Consensus is hard to hold together when the going gets tough. But the goal is worth the effort.

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CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 071-270 0309

MO7799

6 June 1990

New Mike

PROJECT MARATHON

I enclose a copy of a telegram from Washington updating the position on Marathon and TSL.

Your press brief already covers the points made: clearly you would not comment on the kinds of claim reported in paragraph 2. But you may wish to keep your press office in the picture.

Paragraph 4 confirms that the messages from President Bush to President Mitterrand, Chancellor Kohl and Prime Minister Kaifu have been sent. (The text is that attached to Len Appleyard's minute of earlier today to No 10.)

I am sending copies of this letter and attachment to Ian McDonald (MOD), Donald MacLaren (FCO),

*Yours
D C J BALL*

D C J BALL

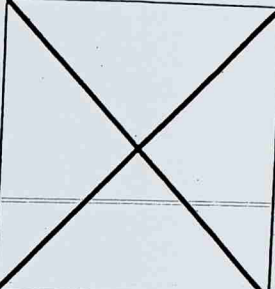
M V Coolican Esq
Department of Trade and Industry

cc. Mr Appleyard
Mr Reeves
Sir Percy Cradock
Mr Morris (No 10)

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MR POWELL

c Sir Robin Butler

PROJECT MARATHON

attached.

I undertook in my minute of 4 June to submit draft parallel messages from the Prime Minister to President Mitterrand, Chancellor Kohl and Prime Minister Kaifu, in support of the messages to be sent by President Bush. A draft is attached.

2. We now have the definitive version (also attached at Annex A) of the text of the President's messages which our Embassy in Washington confirms have been sent. For completeness President Bush mentions that a similar message has been sent to the Prime Minister. This is a reference to the earlier message, and no separate message will be sent. If the Prime Minister is content with the draft of her messages, I suggest that you might return them to me. I will arrange for them to be despatched by the FCO for delivery.

3. My minute of 4 June also referred to the COCOM discussions now in train about the potential export of fibre optics equipment at a lower level of technology. You will have seen Stephen Wall's letter to you of today which covers the position which the British delegations are taking at the High Level Meetings today and tomorrow.

4. I am sending copies of this minute and attachments to Stephen Wall (FCO), Simon Webb (MoD), Martin Stanley (DTI)

L V Appleyard
L V APPELYARD

Cabinet Office
6 June 1990

b

a. Breen

SECRET

Mitterand

h

DRAFT

Message from the Prime Minister to:

President Mitterand
Chancellor Kohl
Prime Minister Kaifu

President

~~George~~ Bush has written to inform you of his decision to refuse an application for an export licence by an international consortium to instal a transcontinental fibre optics system across the Soviet Union. I am writing to let you know that after careful consideration the British Government has taken a similar decision in respect of an export licence application from a different group of companies, also to lay a fibre optics link across the Soviet Union.

President

2. I strongly support ~~George~~ Bush's remarks on the importance of preventing the damage which the export of such technology to the Soviet Union would cause to our collective security. I hope very much that you will feel able to take a similar position if you receive applications from companies in your country. I believe that it is in our common interest to work together closely on this question.

With warm regards.

Ch.

SECRET

SECRET

ANNEX A

Message from President Bush to:

President Mitterrand
Chancellor Kohl
Prime Minister Kaifu

I am writing to inform you of my decision to deny an export licence application by an international consortium to instal a trans-Continental fibre optics system in the Soviet Union. After a careful review of this application, we concluded that allowing the export of this technology would cause extensive damage to our collective security at a time of great uncertainty about the future course of Soviet policy. Access to such technology and equipment would enhance Soviet military command and control capabilities and also complicate arms control verification.

Therefore, I request your support in denying the transfer of COCOM-embargoed fibre optics technology and equipment to the Soviet Union. I am sending similar messages to Margaret Thatcher and [other leaders] since firms in our countries are, for the present at least, the only ones capable of pulling together a consortium for a project of this nature and magnitude.

Warm regards

Sincerely

SECRET

Soviet Union - Kels 14 17





FILE PM

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

5 June, 1990.

Dear Keith,

Thank you for your letter of 25 May about the applications from Cable and Wireless and GEC for export licences for equipment to lay fibre optic cables across the Soviet Union.

When I wrote to you on 29 January, I said that I hoped to be in a position to let you have a decision before my visit to the Soviet Union later this week. I and my colleagues have carefully examined the proposals in the applications with the advice of our technical experts, taking into account the various considerations described in your letter. We have concluded that it would not be in the broader Western or national interest for the applications to be approved.

I understand that the United States Administration has reached the same view in respect of the application covering the American project to which you refer.

I realise that this decision will come as a disappointment to you, but I can assure you that it has not been reached without the most thorough consideration of all the factors.

Yours ever

Joseph

The Right Honourable Lord Joseph, C.H.

JO/KK

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FCO FOR SOVIET DEPARTMENT
CABINET OFFICE FOR A THOMPSON
FROM NA

SUBJECT: MILITARY REFORM

1. SUNDAY 3 JUNE ISSUE OF KRASNAYA ZVEZDA NEWSPAPER CONTAINS DESCRIPTION OF PROPOSED MILITARY REFORMS IN SOVIET ARMED FORCES IN ARTICLE BY SOVIET DEFENCE MINISTER MARSHAL YAZOV. COPIES OF THIS ARTICLE WILL BE FORWARDED IN THIS WEEKS BAG WITH A FULLER RESUME. MEANWHILE FOLLING ARE HIGHLIGHTS:

2. INTRODUCTION: THE PLAN FOR MILITARY REFORM HAS HAD SIZEABLE TEAMS WORKING ONIT WITH WIDE PARTICIPATION FROM OTHER INTERESTED PARTIES. THERE HAVE BEEN SEVERAL SESSIONS OF MILITARY COLLEGIUM. RESULTS WILL BE OUT WITHIN TWO MONTHS AND ARE SENT TO SUPREME SOVIET OF USSR. THE REQUIREMENT STEMS FROM DECISIONS AT SPRING 1985 PLENUM SETTING OUT NEW (DEFENSIVE) MILITARY DOCTRINE. SPECIFIC NEW LAWS ARE TO RESULT INCLUDING A DEFENCE LAW, A LAW ON NATIONAL SERVICE AND THE STATUS OF SERVICEMEN.

3. THE PLAN ADDRESSES THREE MAIN AREAS: BUDGETARY REFORM: REPLACING NUMERICAL (QUANTITATIVE) APPROACH TO TRAINING AND EXECUTION OF MILITARY DOCTRINE BY A QUALITATIVE APPROACH: AND THOROUGH DEMOCRATISATION OF MILITARY LIFE INCLUDING RADICAL IMPROVEMENTS IN CONDITIONS OF SERVICE.

4. MILITARY BUDGET WAS CUT IN 1989 BY 8.2% FORM 77.3 TO 70.9 BILLION ROUBLES. MILITARY INDUSTRY CAPACITY WILL REDUCE BY END OF 1990 BY 19.5%. IN RESPONSE TO SOVIET/USA AGREEMENT ON INTERMEDIATE AND SHORT RANGE WEAPONS (START) TWO TYPES OF MISSILE ARE BEING DISPOSED OF TOGETHER WITH THEIR UNITS. PLANNED WITHDRAWALS UNDERWAY FROM CZECHOSLOVAKIA/HUNGARY/MONGOLIA. ALREADY 270 :THOUSAND OF PLANNED UNILATERAL MILITARY MANPOWER CUT OF HALF MILLION HAS BEEN COMPLETED AND TWO MILITARY REGION HQ'S, TWO ARMIES FOUR ARMY CORPS TWENTY ONE

GENERAL DIVISIONS AND OTHER UNITS.

5. CIVIL DEFENCE TROOPS AND RAILWAY CONSTRUCTION TROOPS ARE PLANNED TO BE REMOVED FROM THE MILITARY TRAINING AND R AND D ESTABLISHMENTS WILL BE CUT.
6. THE ARMY SHOULD ONLY BE USED AGAINST EXTERNAL ENEMIES. QUALITY IS THE CATCHWORD, WITHIN THE DOCTRINE OF DEFENSIVE SUFFICIENCY
7. NUMBERS OF EQUIPMENT ORDERING AUTHORITIES WILL BE REDUCED WHILE THE GENERAL STAFF WILL COORDINATE WEAPON DEVELOPMENT. SO NO PARALLEL/DUPLICATED STRUCTURES WILL EXIST. THERE WILL BE 15 TO 20% CUT IN CENTRAL DISTRICT AND ARMY STAFFS. MORE THAN 30% OF GENERALS JOBS WILL GO. REDUCTIONS ARE BEING CONSIDERED IN NUMBERS OF DEPUTY MINISTERS OF DEFENCE
8. RADICAL INCREASE IN PROFESSIONALISM IS CENTRAL REQUIREMENT. 30-35% CUT IN NUMBERS OF MILITARY SCHOOLS AND 30-40% CUT IN MILITARY FACULTIES IN CIVIL HIGHER EDUCATION INSTITUTES. THE REMAINDER WILL BE REORGANISED TO STRENGTHEN THEM .
9. A CENTRAL PROBLEM IS TRANSITION TO VOLUNTEER ARMY. WE ARE CURRENTLY BASED ON ONE-THIRD VOLUNTEER (OFFICERS/NCOS) AND TWO THIRDS NATIONAL SERVICEMEN WHO GET THEIR SPECIALIST TRAINING DURING THEIR 2/3 YEAR SERVICE. WE CONSIDER THIS THE BEST MIX: BUT WE PLAN TO CUT NATIONAL SERVICE IN THE NAVY FROM 3 TO 2 YEARS IN 1992: AND FROM 1991 THE FLEET WILL CONDUCT SELECTIVE TRIAL OF CONTRACT SERVICE WHICH WILL THEN BE EXTENDED TO OTHER MILITARY AREAS. THE NATIONAL SERVICEMAN CAN THUS CHOOSE: EITHER SERVE FOR TWO YEARS ON MILITARY SERVICE, OR ON CONTRACT BASIS FOR THREE YEARS (FOR MONTHLY SALARY OF 150 ROUBLES OR MORE). THE SYSTEM WILL BE ADJUSTED IN THE LIGHT OF TRIAL EXPERIENCE. THE POSSIBILITY IS BEING CONSIDERED OF CUTTING ACTIVE CALL-UP SERVICE TO 18 MONTHS. ALTERNATIVE SERVICE VARIANTS UNDER CONSIDERATION.
10. NATIONAL ARMIES CAN PLAY A ROLE IN FORMING NATIONAL IDENTITIES AND PROTECTING THE MOTHERLAND. BUT EVEN IN 1920S/1930S AND WW2 ONLY 30-40% OF THE NATIONAL FORCES ACTUALLY STEMMED FROM THE REPUBLIC CONCERNED. AND IN CURRENT SITUATION THEY WOULD HAVE QUOTE NEGATIVE REPERCUSSIONS UNQUOTE
- 11/ POLITICAL SECTION OF FORCES IS ADDRESSED BUT WITHOUT SPECIAL MENTION OF CHANGES IN CONDITIONS OF SERVICE: THE 13TH 5 YEAR PLAN PROVIDES FOR 24 MILLION SQUARE METRES OF LIVING ACCOMMODATION FOR

THOSE OF MILITARY SERVICE OUTSIDE TOWN AREAS OF WHICH 19 MILLION WILL BE BUILT BY CONSTRUCTION TROOPS, AND FIVE MILLION SQUARE METRES FOR THOSE LEAVING SERVICES OR RETIRING. THE 14TH 5 YEAR PLAN ENVISAGES 25 MILLION SQUARE METRES.

13. MILITARY PENSIONS WILL INCREASE BY 15-20% AND OTHER PENSIONS ALSO WILL RISE. MENTION IS MADE OF NEGATIVE INFLUENCE OF UNCONSTITUTIONAL ACTIONS IN PRIBALTIC, TRANSCAUCASIAN AND OTHER AREAS.

14. PLAN IS FOR PERIOD UP TO YEAR 2000. FIRST: PLAN IS TO CARRY THROUGH NUCLEAR AND CONVENTIONAL ARMS CUTS, COMPLETE EXIT FROM CZECHOSLOVAKIA HUNGARY MONGOLIA AND PARTS OF GDR AND POLAND. START GRADUAL MILITARY REORGANISATION INCLUDING THE CONTRACT VOLUNTEER QUESTION). NEW LAWS WILL BE ENACTED WITH RESPECT TO RE-STATIONING OF UNITS ON SOVIET SOIL AND ON CONDITIONS OF SERVICE. THEN FORCES WILL BE REDUCED TO THE MINIMUM: REORGANISATION OF CENTRAL APPARATUS: FIXING NEW STRUCTURE FOR MILITARY DISTRICT: NEW TRAINING AND R AND D SYSTEM: VOLUNTEER ARMY AND DEMOCRATISATION

15. IN THE END WE EXPECT TO CUT STRATEGIC NUCLEAR FORCES BY 50% (ASSUMING SUCCESS IN CURRENT BUSH/GORBACHEV DISCUSSIONS)

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MR POWELL

c Sir Robin Butler

Project Marathon

In your minute of ~~25~~^{attached} May you asked for a draft reply from the Prime Minister to Lord Joseph about the Marathon project. The attached draft has been agreed by the Departments concerned.

2. The Department of Trade and Industry will be in touch to make arrangements so that the final version of the letter, together with the customary formal letters at official level, are delivered after 5 p.m. tomorrow evening. The timing has been agreed with the White House. The Department of Trade and Industry are co-ordinating a press line.

3. In his message of 1 June, President Bush accepted the Prime Minister's proposal that the two Governments should work together to prevent other countries from taking over the project. He indicated that he would be sending parallel messages to Chancellor Kohl, President Mitterrand and Prime Minister Kaifu. These are likely to be finalised and sent later this week. We shall submit draft parallel messages from the Prime Minister.

4. A possible problem has arisen over discussion at the High Level Meeting of COCOM on 6 June about the potential export of fibre optics equipment at a lower level of technology: at the 45 Mb/s level compared with the 140 or 565 Mb/s level involved in the Marathon applications.

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The Foreign and Commonwealth Office, in conjunction with the Department of Trade and Industry are seeking urgent clarification of the precise implications, and will report the outcome.

5. I am sending copies of this minute and attachment to Stephen Wall (FCO), Simon Webb (MoD), Martin Stanley (DTI)

L V Appleyard
L V Appleyard

Cabinet Office
4 June 1990

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C

Draft letter from the Prime Minister to
The Rt Hon The Lord Joseph CH PC

Thank you for your letter of 25 May about the applications from Cable and Wireless and GEC for export licences for equipment to lay fibre optic cables across the Soviet Union.

When I wrote to you on 29 January I said that I hoped to be in a position to let you have a decision before my visit to the Soviet Union later this week. I and my colleagues have carefully examined the proposals in the applications with the advice of our technical experts, taking into account the various considerations described in your letter. We have concluded that it would not be in the broader Western or national interest for the applications to be approved.

I understand that the United States Administration has reached the same view in respect of the application covering the American project to which you refer.

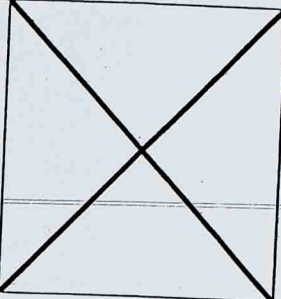
I realise that this decision will come as a disappointment to you but I can assure you that it has not been reached without the most thorough consideration of all the factors.

CDW

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Dear Minister

You will
want to see
this interview with

Resident Gorbachev

by Time Magazine.

There are some

fascinating bits.

Some contradictory
uses! etc

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TIME/JUNE 4, 1990

THE EYE OF THE STORM

By JOHN KOHAN MOSCOW

Even by his standards, it was an extraordinary week for the man in the spare, spacious office on the third floor of the Council of Ministers building inside the Kremlin. Any one of the setbacks that befell him between Monday and Friday would have been a severe test of his ingenuity and stamina. His attempt to revive a stagnant economy seemed only to be provoking fresh resistance from populace and parliament alike. Just as the war of nerves between the Kremlin and secessionists in Lithuania entered a new and delicate phase, Mikhail Gorbachev suddenly faced a challenge to his power much closer to home. His only real rival in the turbulent arena of Soviet politics, the maverick former Politburo member Boris Yeltsin, mounted an impressive campaign to become the president of the country's largest and most important republic, the Russian federation.

Nor was all quiet on the international front. With Gorbachev preparing to leave for this week's summit meeting in Washington, his host George Bush indicated that because too many Americans see Gorbachev as the bully of the Baltics, it might be difficult to lift trade restrictions against the Soviet Union. Meanwhile, Gorbachev's Foreign Minister, Eduard Shevardnadze, met with his West German counterpart, Hans-Dietrich Genscher, in Geneva. It was an upbeat meeting except on what may be the single most neuralgic point for Soviet foreign policy: Genscher reiterated that a unified Germany will be a member of NATO.

Despite all these new problems and reminders of old ones, Gorbachev was still trying to convey the impression

Photographs for TIME by David Burnett—Contact Press Images

THE SUMMIT

that he was driving events rather than reacting to them. In one of his boldest political gambles yet, he linked the implementation of economic reform—higher prices, lower state subsidies and the introduction of some free-market mechanisms—to a nationwide referendum. So much, he seemed to be saying, for the twin charges that he is unwilling to submit to genuine democracy and afraid of tough decisions. The immediate response of his fellow citizens was not encouraging. In Moscow and other cities, panicky shoppers stripped stores of what little remained on the shelves. Miners in the Donbass region who struck for three weeks last summer said they would protest the impending price rises and call for a nationwide strike next month. While Gorbachev's critics were puzzling over that ploy, he made a tantalizing new offer to the Lithuanians: their own state in two to three years if they "freeze" their unilateral declaration of independence. Then, when he met with French President François Mitterrand for a tour of the horizon, Gorbachev reiterated his insistence that ending the cold war means retiring NATO.

In the midst of these multiple challenges, Gorbachev met for an hour last Tuesday with five journalists from TIME for his only interview before leaving for the summit. All around the world, and all around the Soviet Union, people may be wondering how long Gorbachev will last, and how he has survived with so many things going so wrong. Those questions, however, were far from his thinking. He was the man at the eye of the storm, supremely confident that he will still be working his will and wit on the world when the thunder and gale-force winds are spent.

Dispersing quickly with protocol, Gorbachev motioned his visitors to join him, along with two aides and an interpreter, in deep-cushioned brown leather chairs ranged around a small oval table of stylishly crafted, elegantly polished black wood. The intimate setting was in marked contrast to the traditional long, rectangular, green baize-covered table at which delegations in Communist countries square off over battlements of bottled mineral water.

Gorbachev was at the top of his form as a master of human interaction. He has elevated eye contact and hand gestures to an art form, using both not just for emphasis but also for nuance: a little wink when he wants his listeners to join him in a smile, a rabbit chop or a wagging finger when he wants them to remember who is boss. His probing, dark brown eyes are constantly scanning his listeners, looking by turns stern, quizzical, amused, playful. When eyes

meet, they both challenge and hint at shared confidences. Whatever lies nearby—a fountain pen, a gray glasses case from a Paris optician, his gold-rimmed bifocals—quickly becomes a prop for Gorbachev's one-man show. When the hands are at rest, his thumbs twiddle, not so much in impatience as with excess energy. He modulates his baritone voice for maximum effect, sometimes dropping the volume so that visitors automatically lean toward him. His lilting south Russian intonation softens the harsh edge of a remonstrance.

Nearly five years ago, when Gorbachev gave TIME his first face-to-face interview with Western journalists, he had been in office for seven months. Then, he relied extensively on typewritten notes, color-coded in red, blue and green. Last week he spoke extemporaneously on everything from ecology to German unification to the concept of "civil society." He made knowing



Campaigner Boris Yeltsin pressing the flesh in Red Square

references to American politics and economics, not always drawing conclusions favorable to his own country. Highlights:

- Like virtually all his fellow citizens, Gorbachev is absorbed by the Soviet Union's domestic problems. He described as a "shift in direction comparable in magnitude to the October Revolution" the package of reform measures that his Prime Minister, Nikolai Ryzhkov, publicly announced two days later. He added, however, that they would not require so many sacrifices as Poland's "shock therapy," which entailed skyrocketing prices and widespread unemployment.

- The only foreign policy issue that Gorbachev wanted to dwell on at any length was German membership in NATO. He asserted, almost pugnaciously, that the issue will be an area of "major disagreement" when he sits down with George Bush in the Oval Office.

- In a thinly veiled jab at West German Chancellor Helmut Kohl, Gorbachev said his "biggest concern" in foreign policy was "some politicians who still think about international relations mostly with respect to

their own terms of office and electoral ambitions at a time when we are trying to lay down the foundations for a new international community."

- Hinting at the offer he would make later in the week, Gorbachev stressed his commitment to seeking a "political solution" in the Baltics and said there were "new and encouraging signs" of a way to end the crisis. The next day the Lithuanian parliament suspended some of its secessionist legislation, though it stopped short of freezing its March 11 declaration of independence.

- Of all the troubles he faces, Gorbachev said he is most concerned about the growing "split among the supporters of *perestroika*" and the challenge to his authority "from the extreme left" and from "ones who pretend to be populists but who don't really represent the people's interest at all." He clearly had in mind Yeltsin, who was politicking vigorously for the post of the presidency of the Russian federation. Gorbachev lobbied personally on behalf of the federation's current Prime Minister, Alexander Vlasov, and accused Yeltsin of favoring a "collapse" of the Soviet Union. But at the end of the week, Vlasov withdrew his candidacy after a verbal drubbing from speakers at the Russian Congress of People's Deputies. The only serious remaining rival to Yeltsin was Ivan Polozkov, the conservative party boss from Krasnodar who has made no secret of his support for another Gorbachev rival, Yegor Ligachev.

On Saturday, Yeltsin was narrowly ahead of Polozkov in a key round of balloting, but failed to clinch the presidency. More feverish politicking is expected this week. One thing is certain: Gorbachev will continue trying to position himself as the centrist alternative to what he called in the interview "crazies" like Yeltsin on the left and the hard-liners on the right.

With such a cacophony of debate and criticism at home, Gorbachev will undoubtedly appreciate the welcome awaiting him in Washington, Minneapolis and San Francisco. It is one of the many ironies of the Gorbachev phenomenon that he has to travel abroad, to the heart of what his predecessors considered the enemy camp, to hear crowds cheer for him. However, in the interview last week, he seemed in no danger of succumbing to the sour mood of so many of his countrymen. Every bit as significant as what he said was an almost eerie serenity rooted in absolute certitude about his course. "My confidence," he said, "comes from knowing that what we're doing is right and necessary. Otherwise, I wouldn't be able to bear the burden." ■

"I AM AN OPTIMIST"

Expressing impatience toward his critics and advice for foreign heads of state, Gorbachev sees himself as the leader of a new revolution and a visionary for the end of the century



After greeting his visitors from TIME, Mikhail Gorbachev observed that since he had already prepared written answers to a list of questions submitted in advance, "there's really no need to waste any more time or paper." He gave a hearty laugh, then invited the group to join him at a small oval conference table in the corner of his office and, without ceremony, launched into the subject that is most on his mind these days—the domestic economy.

I've just come from a meeting of the Presidential Council. We were discussing radical measures for the reform of our economy. At this point we need only a short period of time, a few months, to take some important steps that, in essence, will mean the transition to a regulated market economy. In Russian that word, regulated, is difficult to pronounce. It's even more difficult to accomplish.

In many countries the development of a full-fledged market economy has taken centuries. For us the next year or two will be the most intensive stage of the transition. Shortly, Prime Minister Ryzhkov will report to the Supreme Soviet on the basis of the discussion and analysis that we've just had in the Presidential Council.

To put it briefly, what we're talking about is a shift in direction comparable in magnitude to the October Revolution, because we will be replacing one economic and political model with another.

Often people ask where we are going, whether we are retreating from socialism or moving toward socialism. As we move along this path, our point of departure is to make good on the potential of the socialist idea. The very fact that I'm saying this is further proof that I'm a convinced socialist. I think in the questions you sent me, you were probing my ideological positions. Well, I am a communist. I'm sure that answer doesn't make you too enthusiastic, but it shouldn't make you panic either. It's quite normal.

Q. You compare your economic reform to the October Revolution. The revolution came as a great shock to your society.

THE SUMMIT

A. This will be a shock. But not a Polish one.

We have given careful thought about which way to go. One alternative was shock therapy. Instead we have decided to proceed radically, but on the basis of the special characteristics of our economy. Most Western economists believe we're doing the right thing. We can't just follow someone else's model automatically. There was a time when we tried to impose our model on others. It would be a disaster if we just borrowed blindly another country's model. That's why we think we should take a radical path but without shocks.

Q. But you said you were going to accomplish all this in a year or two.

A. That's for the transition. It will take one or two years to introduce the market mechanisms and the infrastructure. But then it will take a long time to develop a real market economy. First we have to adopt and implement various laws on taxes, enterprise, antitrust, credit, finance and social protection—the safety net—all within the context of a market economy.

Q. And private property?

A. Well, life will show us. I wouldn't rule it out. We'll be phasing out state property and establishing shareholder companies, leasehold properties, cooperative enterprises and individual employment. Broadly speaking, self-employed people will include those who work in their own shops or on their own plots of land. In developed Western countries, there are various concepts of a market economy. For example, there is a more liberal approach in the U.S., while in some European countries, such as France and Scandinavia, there is more government regulation; a significant portion of the economy is publicly owned. But even there, everything operates within the framework of a market.

Q. Most Soviet and Western economists warn that you can't have radical reform of the Soviet economy without inflation and unemployment—and probably large amounts of each.

A. I think both things will happen. You should bear in mind that we have quite a few factories in the Soviet Union that are simply inefficient. They're going to have to reorient their production. People will have to be retrained. Many will have to find new occupations. That's why we are establishing a system of social protection that will enable these people to make the transition. In America and other developed Western countries, most people are employed in the services sector, while two-thirds of our people are in the production sector. We've got a lot of work ahead of us to expand jobs in the services sector. We'll be looking at other countries as we decide which way to go. We feel ourselves part of a

global civilization, and we want to be organically included in the entire world economically.

At the same time, however, it would be an [environmental] catastrophe if all the countries of the world tried to achieve the standard of living of the U.S. America already consumes a disproportionate percentage of the world's energy resources. That's why I stress the conflict between consumer society and nature.

Q. But it seems that many people in your country are concerned not with the conflict between nature and progress but with the absence of progress itself; they're not sure whether you can deliver on improved living standards.

A. You'd be mistaken if you think people are not troubled by the environment, by the conflict between industry and nature. Their concerns have caused 1,000 factories to be shut down. The result has been the loss of 10 billion rubles' worth of production. Just look at the Congress of the Russian Federation, which is debating the question of sovereignty. Many speakers are defining sovereignty precisely in terms of how most efficiently to use the resources of the republic.

Of course you're right that technological progress has stimulated the search for new forms of economic management and organization. The old system rejected technological achievement. Now, by making the transition to market mechanisms, we're going to adopt state programs that stimulate science and education, and we're also going to convert our defense industries in a way that shifts our society onto the path of scientific and economic progress.

Perestroika has already awakened our people. They've changed. We have a different society now. We will never slip backward. There's still a question of whether the process will go slower or faster, whether it will be more or less painful. But we will certainly keep moving ahead. There might be certain zigzags along the way. That's unavoidable when a country is undergoing major changes. But the fact remains that this change, *perestroika*, is a fitting conclusion to the 20th century. It is an event that has engaged not only the Soviet people but people throughout the world, including those from societies quite different from ours.

From a strategic standpoint, I'm pleased with what we have accomplished. We've given a powerful impetus to the process of new political thinking both within the Soviet Union and around the world. Of course there are a lot of problems that are cause for concern. In domestic affairs, we're troubled by socioeconomic tensions that can be exploited by both the extreme left and the extreme right. People with their own agendas and ambitions are trying to mislead our society.



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In foreign policy, our biggest concern is with some politicians who still think about international relations mostly with respect to their own terms of office and electoral ambitions at a time when we are trying to lay the foundations for a new international community. Such politicians look for partners who have the same incorrect approach. If people don't understand what's most important, then there can be no genuine international cooperation.

Q. You say there is a danger of these concerns' being exploited both from the right and from the left. Which is the greater danger?

A. The biggest danger would be a split among the supporters of *perestroika*. We've got to solidify the main trend. We understand those whom we call healthy conservatives, who support a commonsense approach. We have to take into account their doubts and concerns. We invite their cooperation. On the left too there are people who are worried that *perestroika* is not moving fast enough. Their hopes and concerns are quite normal, and we must take account of them. What is very dangerous is extremism. I'm thinking of the people I call the crazies. These are the ones who pretend to be populists but who don't really represent the people's interests at all.

Q. You used the chilling phrase civil war when you were recently on a visit to the Urals. In what sense does this danger exist, and how can it be averted?

A. I'm glad you asked, because I think the answer will be of interest not just to the readers of *TIME* but to the Soviet people as well. I have been personally criticized for being too soft or too democratic. I don't know if it's possible to be too democratic, but that's what is sometimes said. And I'm also criticized for being indecisive. Some people are nostalgic for the past. I think we should move along the path we have chosen, which is the path of developing and expanding the processes of democratization and *glasnost*. We are committed to that. We'll be guided on that path by the rule of law. That means there should be one law for everyone: everyone should be equal before the law. Nor should we yield to pressure from those who would like us to tighten the screws, as they put it. Of course we'll find some screws loose, and they will have to be tightened. But repression, witch-hunts, the search for enemies—all that is unacceptable. It's not what we want, and it's not what our people want.

What I have to do is use my personal authority and my political powers as President to speed up our progress toward becoming a state fully governed by the rule of law. That won't be easy. In these politically charged times and in this turbulent society, overburdened as it is with all kinds of problems, some people are trying to fuel the flames and light the fuses. There's no question that these

extremists exist. We should not ignore their activities. It's because of them that we've had bloodshed in some parts of our country, particularly in the form of ethnic conflict.

We should take advantage of the chance we have to bring about real change and to build a democratic country based on the rule of law, a real civil society.

Q. We must ask you about the Baltics, secession and nationalism.

A. As far as separatism is concerned, I've already answered. As for my view on the development of our federation, I'm speaking about the Baltics almost every day. We're seeking a political solution, and we're doing so precisely at this moment. As President, I took an oath of office to uphold the constitution. Certain anti-constitutional developments are taking place. They began just as we started our Congress of People's Deputies. The congress considered the situation, declared the decisions of the Lithuanian parliament illegal and instructed me as President to uphold the constitution. As I said to Senator [George] Mitchell [the majority leader] when he visited me [last April], if an American President had been given that task, he probably would have accomplished it in 24 hours. But it's not like that here. For us the presidency is a new experience.

We really hope to find a solution to this extremely sensitive issue within the framework of our constitution. We are looking for a way to restore constitutional order and authority, and to do so by political means. Let me just stop there, particularly because recently we've seen some new and encouraging signs.

Q. Do you expect a major disagreement with President Bush about a united Germany's being in NATO?

A. I wouldn't say I expect a major disagreement—I'll state for a fact that there will be one. But I do expect the differences to be narrowed as a result of my discussions with President Bush. I

hope the character of the relationship I've developed with the President will permit us to move forward rather than backward in our discussions. When two partners meet, each side has its own interests to look after, and the other side must take that into account. The main thing is to find as much harmony as possible between the two sides' positions. If, in any area of Soviet foreign policy, we're doing something that damages the interests of the U.S., then that policy cannot be successful. If, however, we're able to establish a better balance in our relations with the U.S., then both sides can achieve their ends.

In foreign policy too we have to get rid of the command-administrative system [jargon for dictatorial rule]. There's no other choice. It's the imperative of our time.



“In these politically charged times and in this turbulent society, some people are trying to fuel the flames and light the fuses.”

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Q. Looking at the things that have happened in Eastern Europe and in your own country in the past few years, many Americans wonder whether you had any idea of what was going to happen, if it was part of your plans, or whether you have been as surprised by events as we have been.

A. I had an idea—an idea to change our society on the inside and also to change what is going on outside, around our country, and to do so on the basis of new realities. But when people speak to me about various models and timetables, as though all this had happened according to a train schedule, I can only smile. I recently spoke to party members in the electoral district where I was elected to the 28th Party Congress [scheduled to take place this summer]. I told my listeners: If anyone says to you there are simple solutions to our problems, if anyone promises that such a thing exists, then that person is nothing but a con artist; he's out to deceive you. At such turning points in history, all sorts of people come forward in the political, economic and cultural arenas. Some are just a bit strange, while others are downright dangerous. It's important to know which kind you're dealing with. No one will announce that he is out to destroy society or that he is against the interests of the people; he will bare his chest and claim to be marching under the banner of revolution and the people's interests. But people are beginning to see things more clearly. They know who their real friends are. They're giving credit where it's due—to those who are genuinely devoted to *perestroika* and to this tough challenge we face.

This is really a very demanding time for all of us. We have to look at things carefully; we have to analyze where we are and anticipate where we are going as we move forward to a new society.

I am an optimist.

Q. How can you be so relaxed for someone who faces such huge problems?

A. My confidence comes from knowing that what we're doing is right and necessary. Otherwise, I wouldn't be able to bear the burden.

During the interview, Gorbachev handed across the table a typewritten document with his signature on the first page. It contained his dictated answers to these questions submitted several weeks earlier.

Q. Some fear that Newtonian physics governs superpower relations: What goes up must come down. They warn that our countries' interaction has in the past been prone to wild swings between euphoria and depression, cooperation and conflict, thaw and chill. Do you see any such danger? How can we avoid such cycles? How can the recent progress be made permanent?

A. I do not believe that any relentless "law of the cycles" exists in relations between our two countries or in international affairs generally. Everything is in human hands, primarily of course in the hands of policymakers.

In the past, when the entire infrastructure of confrontation—from ideological intransigence to the arms race as the mainstay of security policy—was still intact, fluctuations and even abrupt swings were probably inevitable in our relations.

A return to where we were yesterday is hardly possible now, if only because politicians have become quite well aware of the integrity and interdependence of our world. And also because there

is little chance that either side could revive the "enemy image" that used to fuel the cold war and confrontation.

We have come to understand clearly our own best interests and present-day world realities. We have learned too much about each other to be able to revert to old preconceptions and ideological clichés. Besides, if the Soviet Union and the U.S. are to keep their relations on the basis of reason, they simply cannot afford confrontation with each other. Each simply has too many immense, crucial problems, and there are global threats looming over the entire human race.

As President of my country, I obviously protect the interests of the U.S.S.R. Yet I also have concern and respect for the legitimate interests of the U.S. I try to understand what worries the Americans. If both sides take this approach, we will be able to accomplish a great deal and make steady and continuous progress in our relations.

New steps forward are the best guarantee against backsliding—in arms reductions, which still cannot keep pace with political changes; in our cooperation on transnational problems; in economic, scientific, technological and cultural exchanges; and in simple human contacts among people of different generations and occupations.

Q. What are the most important themes to have emerged in the past several years?

A. Everyone remembers where we stood in the mid-'80s. The arms race was gathering momentum. The nations of the Third World were in a terrible plight. Regional conflicts constantly threatened to get out of control. Enmity kept the world permanently disturbed and waiting for disaster, for global explosions.

So looking back on those years, I see a number of major changes in people's minds and on the political scene.

First, the bankruptcy of militarism and its dangers have become more obvious. Attitudes toward war and military power as instruments of state policy have changed. People have begun to realize that the earth is getting too small for wars and that they have to put an end to the spiraling arms race. The burden of



"If, in any area of Soviet foreign policy, we're doing something that damages the interests of the U.S., then that policy cannot be successful."

GORBACHEV INTERVIEW

today's military spending has proved too heavy even for rich nations such as the U.S. To sum up, toward the end of the 1980s there appeared a glimmer of hope that the global political process could be demilitarized.

Second, it was during the 1980s that mankind for the first time seriously began to think in ecological terms. The need for radically reassessing the relationship between mankind and the planet was made manifest by Chernobyl, acid rain, ozone-layer depletion, the greenhouse effect, vanishing forests and freshwater shortages. The ecological movement is now on the rise. Government policies are beginning to change. International ecological cooperation has begun. Yet it will take a tremendous effort to overcome the inertia of mindless devastation of the environment, or even restrain the inertia generated by the industrial era.

Third, and this is related to the first two points, there is a greater awareness now that the countries and peoples of the East, the West, the North and the South—however different their social systems and levels of development, and however dissimilar their cultures, beliefs and ideologies—are parts of a single world and have basic, vital interests in common. These elements of unity and this new social self-awareness form the foundation on which modern world politics should be built. And this is already happening.

Fourth, the 1980s marked a major watershed in the history of the Soviet Union. The logic of life confronted us with the need for profound changes in the context of our socialist choice. Hence our *perestroika*. For our people, progress is inconceivable without the socialist idea. Hence also the powerful tendency toward democratic change here. Hence too the new thinking in foreign policy. Changes inside the U.S.S.R. have had a profound impact on world developments; there is a new international situation, with greater prospects for a period of peace in the development of civilization and vast opportunities for a better life for people everywhere.

We continue to back up our new philosophy with deeds, with action, with the force of example. *Perestroika* and new thinking are inseparable.

Fifth, after the Soviet Union, the democratic tide has swept other countries, especially those with closer ties to us. Naturally, developments took a different course in each of these countries. But they also had a common logic, with a dramatic increase in the social and political activity of citizens seeking to gain genuine control over their lives and the policies of their governments.

Whether these developments are to bring about true progress and real innovation will depend on how firmly we establish in world politics the principles of freedom of choice and the renunciation of force, which does not mean just military force. As far as we in the Soviet Union are concerned, this matter has been settled once and for all. But others still seem to be tempted to resort to old methods and confrontational approaches, where one side's victory is another's defeat.

New thinking does not come easily. It turns out that one must learn it the hard way, as I see both in my own country and in the U.S.

Summarizing the essence of the historic turn that occurred in the 1980s, I would say this: within a very short span of time, people have begun to regain hope for a better future.

Q. More specifically, what are the most important changes since you were last in Washington for your summit meeting with former President Reagan in December 1987?

A. Over these 2½ years, relations between our two countries have changed in a fundamental way. A mutual understanding has emerged that the cold war has become a thing of the past. And a great deal has been done to make that really happen. We have started to build a relationship on a new basis. We've agreed that the disputes between us can be resolved and, furthermore, that those disputes are less significant than the new challenges that confront mankind. As a result, a process of actually reducing nuclear and conventional arms has become possible and is now under way. Regional conflicts have become a subject on which we can work constructively together.

Our ties have grown noticeably in such areas as science, education and culture, and particularly in informal human contacts. We have increased the flow of all kinds of information about each other in both directions, and it is becoming more objective.

It's necessary to protect and augment what has been accomplished in Soviet-U.S. relations. We live in dramatic times. Events can take sharp and unexpected turns. That makes it all the more dangerous to have in our minds the stereotypes of the cold war. Yet those stereotypes are still alive. Let me put it this way: the strength of our relationship is being tested, and it will be tested again in the future. We should keep that in mind.

In my assessment, President Bush and I have come to trust each other more since our discussions at Malta. Contacts that fol-

"I DETEST LIES"

Q. Many have said that you are presiding over the dismantlement of communism. What does it mean to be a communist today, and what will it mean in years to come?

A. I am now, just as I've always been, a convinced communist. It's useless to deny the enormous and unique contribution of Marx, Engels and Lenin to the history of social thought and to modern civilization as a whole. They turned the idea of socialism into a real force for progress. They bear no responsibility for the distortions of that idea that occurred when it was put into practice.

To be communist, as I see it, means to not be afraid of what is new, to reject obedience to any dogma, to think independently, to submit one's thoughts and plans of action to the test of morality and, through political action, to help working people realize their hopes and aspirations and live up to their abilities. I believe that to be a communist today means first of all to be consistently democratic

and to put universal human values above everything else. It also means to be able to identify with the vital interests of the people and to understand the importance of the international and global issues that define mankind's common destiny. !!?

At the same time, it is far from harmless to cling to conclusions reached in a different historical period. Having abandoned its political monopoly, the Communist Party should work democratically for the consolidation of our society. It must set its sights on profound, radical changes while still pursuing the socialist goal we've chosen. What I value in Marxist theory is the idea of constant movement and development, and also its rigorous respect for the truth. I detest lies, and I resent anyone who makes one-sided judgments and pretends to have absolute knowledge about what is going to happen and what should be done. The Stalinist model of socialism should not be confused with true socialist theory. As we dismantle the Stalinist system, we are not retreating from socialism but are moving toward it. ■

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lowed between the Kremlin and the White House support this conclusion.

Q. How would you judge public support today for what you are trying to do?

A. I have recently been to the Urals, and I have met with working people in Moscow many times in their workplaces, in the streets and at mass gatherings. People speak candidly, critically and sometimes even sharply. But the need for *perestroika* is rarely questioned. People are saying, Don't delay decisions, don't be content with half measures—act pre-emptively. And they're right.

Frankly, as our society was groping for a way out of the twilight of stagnation, it took us some time to become aware of the depths of the crisis. Today everyone is working against the clock. But we have already climbed a long, steep slope since the spring of 1985 [when Gorbachev assumed power]. We did not do all that just to roll downhill again. Those five years have not been lost. We have gained experience; we have new knowledge, which we lacked at the first stage of *perestroika*. We have become wiser, we have learned to take a more reasoned and competent approach to the fundamental tasks of *perestroika*. So some preparatory phase—what I would call a phase of quantitative accumulation—was inevitable and necessary. What's more, it has persuaded us that, in principle, we are on the right track.

New, all-embracing democratic structures are coming to replace the command system in managing the country's affairs. We have made headway in dismantling monopolies both in politics and in the economy. At the party congress we're going to have to discuss quite thoroughly how the party is to act in a situation of real political pluralism, how it is going to fit into a multiparty system. This is going to be an important task, crucial to the future both of the party and of the country.

The Communist Party was not just part of the superstructure of the command system—it was its nerve center. Therefore the party bears the stamp of all the flaws of that system. That's why today it comes in for a lot of sharp criticism, including often unfair attacks. The party has embarked on the path of profound self-reformation. It is making itself much more democratic. This will enable it to be revived as a powerful, organized political force, a force that our society and people need, and that will help to move *perestroika* forward and bring people together. That's particularly important at a time when the decentralization of state control coincides with some centrifugal tendencies.

We have sorted out our economic affairs and seen the depth

of the crisis caused by the command system. We have tried some new methods of economic management. A few times, we burned our fingers, but even that has taught us some lessons. We've made our choice, without reservation. A few months, maybe a year, will decide everything. We shall rely on a variety of forms of property and real autonomy, along with entrepreneurial risk and initiative, for the producers. We'll put an end to the rule of government agencies. Once the economic reform really gets under way and millions of people become aware of their places in the new order and pitch in vigorously, they'll become more optimistic and confident of their future.

The Soviet Union is a rich country. It has unique natural resources, a powerful production base, advanced science and a talented people. More radical reform will enable us to address our social problems better, to live up to the expectations of our people and to realize the potential of our country, both for its own welfare and that of the rest of the world.

Q. Would you elaborate for us on your vision of a Soviet federation and how it would be different from the Soviet Union in its present form?

A. Democratization and *glasnost* have led to a rapid process of national revival. In principle, it is a positive process, but it has also brought selfish nationalistic tendencies to the surface. Events in the Baltics, the Caucasus and elsewhere have caused concern abroad as well as within our country. A solution to this truly historic problem can be found, and we are coming closer to it. We still prefer the term union to confederation, although it is certainly true that certain confederative elements might be used.

When the U.S.S.R. was born, there was a heated debate. Lenin was of the view that the Union should be a federation of equal republics, while Stalin in effect favored a unitary state. Lenin's approach was formally adopted in 1922, but in

real life things turned out quite differently. It's only now that we are beginning to create a new Union in the original sense of that concept. A truly democratic multinational state and the progress of *perestroika* are mutually interdependent; each depends very much on the other.

You ask how a new Union would differ from what we have now. There should be real sovereignty for the republics in all spheres of their life. That means a degree of freedom that would enable every people to feel that it is in full control of its land, to protect its roots and its language, and to develop its national culture in a comprehensive way. There should be qualitatively new relations between the republics and the center, and also among individual republics.



“For us, NATO is a symbol of the past, a dangerous and confrontational past. And we will never agree to assign it the leading role in a new Europe. I want us to be understood correctly on this.”

Q. You are a Russian as well as a Soviet citizen; how does this aspect of your identity and background influence your thinking about the future of your country?

A. My awareness of myself as a Russian and, at the same time, as a Soviet is quite natural for me. This is equally true for millions of my countrymen. I was brought up within Russian culture and Russian traditions, but that just makes it all the easier for me to be an internationalist. That's because Russian culture and what is called "the Russian idea" are remarkably receptive to the national heritage of other peoples. Both in past centuries and in the Soviet period, the Russian people have demonstrated an inclination toward friendship and cooperation with other nations. But our people have also demonstrated their unselfish responsibility for the integrity of the country as a whole, which history has shaped into a multinational entity. Russians have that heritage in their blood, in their genes, regardless of their political views or philosophy.

Many things happened in the past, including distortions of the nationalities policy. There was even imperial oppression of various nationalities as well as attempts to Russify other peoples. But that wasn't the fault of the Russian people themselves. They have a clear conscience. What is more, they often sacrificed what they had in order to help others, particularly smaller peoples.

I might add that the interests of all the peoples of our country are important to me. I cannot conceive of a moral policy without internationalism. I am outraged by any chauvinism, any nationalism, any lack of respect for the character and traditions of any nation.

Q. You have repeatedly called for a "common European home." President Bush calls for a "Europe whole and free." What do you see as the differences—and the similarities—between your view and his?

A. I believe that both phrases strike a similar note. So does President [François] Mitterrand's idea of a European confederation. My own vision comes down to this: not only should military confrontation between the alliances come to an end, but alliance-based coexistence should become a thing of the past. The process of European and global integration, which is already so promising, would gradually create a new economic environment. Politically, we are already entering a new phase that should be characterized by the establishment of permanent security structures instead of NATO and the Warsaw Treaty Organization.

I envision Europe as a union of states with common institutions to assure military and environmental security, along with cooperation in science and culture. Each state would retain its local and national character and have the right to protect its special interests without prejudice to others. Borders must remain inviolable, but they should also acquire a new quality of openness, permitting all kinds of cooperation and communication, as long as it is based on equity and mutual respect.

You ask how my approach differs from that of President Bush. Indeed, there are some differences. According to the American scenario, as far as I can tell, NATO—and that means a NATO strengthened by the inclusion of a united Germany—should be the foreman and guarantor in the building of a new European order.

I can understand that Americans and many Europeans have their own perception of this organization. They give it credit for keeping peace throughout the cold war. On that basis, we are being told that the role of NATO, in the new phase as well, will be entirely positive and will even serve the interests of the Soviet Union. But that's just not serious. For our people too, NATO is associated with the cold war—but as an organization designed from the start to be hostile to the Soviet Union, as a force that whipped up the arms race and the danger of war. Regardless of what is being said about NATO now, for us it is a symbol of the past, a dangerous and confrontational past. And we will never agree to assign it the leading role in building a new Europe. I want us to be understood correctly on this.

We have in mind an alternative approach. One key element would be to institutionalize European development and establish totally new structures on a Pan-European basis, naturally with the U.S. and Canada actively involved. Another would be to synchronize the political and disarmament processes with the pace of German unification, or at least link them as closely as possible. Incidentally, in our view, this synchronization is one of the main functions of the "two plus four" mechanism [the current negotiations among the wartime Allies—the U.S., Britain, France and the Soviet Union—plus the two Germans].

Another point of difference we have with the American viewpoint concerns the issue of foreign military presence in Europe. We are ready to bring our own soldiers home. We're already doing

so. The U.S. Administration assumes that Soviet troops on foreign territory are an absolute evil while American troops are always good. Therefore the Americans are looking for any pretext to delay their departure.

AMERICAN HISTORY "IS INSTRUCTIVE"

Q. In your speech before the U.N. General Assembly on Dec. 7, 1988, you singled out the French Revolution and the Russian Revolution for the "powerful impact" they had on "the very nature of history." Quite a few people—and not just Americans—wondered why you omitted mention of the American Revolution.

A. It's not correct to conclude that we underestimate the importance of the American Revolution. The history of the U.S. is studied in our schools and universities. The American struggle for independence, the Civil War against slavery and for the unity of the nation—all this is instructive; it's an important and integral part of world history. Many Russian democrats drew inspiration from the ideals of the American Revolution. Lenin called it one of the few truly democratic revolutions. The American Declaration of Independence is a remarkable document. In the words of Marx, it's the first declaration of human rights. As we build a democratic society based on the rule of law, we study the democratic experience of the American people with interest.

Still, the wellspring of *perestroika* is in our own national soil and our own history. That isn't to deny that some outside factors also provided incentives for *perestroika*. We have rejected once and for all the self-isolation in which we were immersed for so long. ■

Q. Would you elaborate on your view of German unification?

A. We accept that there will be a unified German state in Europe. That is the natural right of the German nation. But let me remind the Germans that the unification of the two Germans concerns not only them. It is pivotal to the entire European process; it affects the vital interests of many countries in Europe, including the Soviet Union, which sacrificed more than anyone to make sure that war should never again come from German territory. Not even the most sincere assurances given now, in this headlong rush, can substitute for solid international guarantees that Germany will always pursue peaceful development and peaceful policies toward other countries.

One final point on this subject: it sometimes seems to me

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that some in the West pretend to be more enthusiastic about German unification than they really are. They even hope to use us to put a brake on unification, so that we will get the blame and end up at loggerheads with the Germans.

Q. In the wake of the elections in Eastern Europe, why do you believe so many citizens who have experienced communism for four decades now seem to be rejecting that philosophy and political system?

A. Well, they don't just "seem" to be rejecting that system—they are rejecting it. But what they are rejecting is the lack of freedom; they're rejecting a system that has done violence to their national character and national rights; they're rejecting ossified ways of thinking. When a society breaks dramatically with the past, when former idols and heroes are overthrown, it's like a dust storm. It's difficult to see what will emerge in the end. I'm convinced that the radical changes in Central and Eastern Europe in no way signal "the collapse of socialism." Genuine socialist values will not sink into oblivion. Even in the present environment of turbulent change they assert their right to exist.

I believe our relations with the countries of Central and Eastern Europe will undoubtedly become richer, more honest and more substantial—to the benefit of us all.

Q. What is your vision of the next century and of the role of the Soviet Union in it?

A. What the 21st century will be like depends on whether we learn the lessons of the 20th century and avoid repeating its worst mistakes. In my view, one of the principal lessons is that the end, no matter how noble and attractive it may seem, never justifies indiscriminate means. On the contrary, the means that we can choose, in the final analysis, either help us to reach our goal, or distort that goal, or lead us in the wrong direction altogether. For example, it would be disastrous if we began to renew our entire system of social relations by acting like a bull in a china shop.

Another lesson we should have learned has to do with the fate of the socialist idea. In the 20th century socialism has gained millions of supporters. It has become a powerful factor in the ideological and political debate, contributing to social and political progress in many countries. Nowhere, however, has the socialist idea been adequately put into practice. Socialism is not an artificial model that can be imposed on society. Any attempt to make people live, so to speak, according to a timetable is not just a utopian fallacy—it can lead to intolerance and violence.

Back at the time of the 1917 Revolution, there was a slogan to the effect that socialism is the vital and creative endeavor of the

masses. Only now are we beginning to understand the real meaning of those words. Only through democratization and *glasnost* are we finally involving the individual and his talents in a way that is socially creative.

As we approach the end of the 20th century, we must recognize that we are one civilization. This simple but important truth should tell us a great deal about international politics and international relations. There must be a balance of interests; otherwise new upheavals await us. To accept the idea of mutual security means abandoning the idea of "world leadership," which implies supremacy over others.

Then, too, we should be aware of the contradictory nature of progress and of the conflict between consumerism and nature.

I really don't even want to attempt a detailed forecast of what will happen to the U.S.S.R. Our future will depend on the present; where we end up will depend on how we come through this extremely critical passage that we're making right now as we introduce radical changes in our society, all in the context of world civilization.

We are only now really beginning to feel that *perestroika* is a revolution. That is why some people are beginning to panic. They shout about anarchy; they predict chaos, war, total ruin and so on. They're intellectually unprepared for the kind of major changes that are objectively necessary. That's one reason I have recently stressed the role in *perestroika* of science and education. They can help us change the mentality of society and free ourselves from the grip of outdated, sometimes fundamentally erroneous concepts of economics, politics, culture, morality and philosophy. I'm thinking, for example, about old egalitarian principles that reduce everyone to the same level and old approaches to public wealth that excessively stress the distribution of goods at the expense of other considerations.

No amount of agitation or propaganda can break those shackles. Changing our mentality has turned out to be the greatest problem for *perestroika*.

The Soviet people have the strength to implement *perestroika*. The success of *perestroika* will lead to a fundamentally healthier international environment and therefore to more favorable conditions for every country to address its own problems better.

I believe that in the 21st century the Soviet Union will be a profoundly democratic state, and its economy will form an important and integral part of a new global economy. I see a society that has found a way to harmonize its relations with nature. I see a country on the way to moral stability—a country that has revived its old spiritual values and enriched them with new ones. ■



"I am a communist. I'm sure that answer doesn't make you too enthusiastic, but it shouldn't make you panic either. It's quite normal."

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JEDDA FOR SECRETARY OF STATE'S PARTY

FROM HEAD OF SOVIET DEPARTMENT

DEFECTION OF BOLSHOI STAR

1. BOLSHOI STAR DANCER IREK MUKHAMEDOV AND HIS WIFE APPLIED AT KENSINGTON POLICE STATION TODAY, 1 JUNE FOR "POLITICAL ASYLUM". THE HOME OFFICE WILL INTERVIEW THEM EARLY NEXT WEEK.
2. THE COUPLE CAME FROM SAPIN WHERE THE BOLSHOI HAS BEEN PERFORMING. THEIR OPEN, AND KNOWN, PURPOSE FOR BEING IN LONDON WAS TO NEGOTIATE GUEST APPEARANCES FOR NEXT SEASON. IT IS UNLIKELY THEREFORE THAT THEY WILL BE MISSED OR THAT THE STORY WILL BREAK UNTIL NEXT WEEK. THEY ARE SPENDING THE WEEKEND WITH PERSONAL FRIENDS.
3. WE HAVE NEVER YET SENT A SOVIET CITIZEN BACK AGAINST THEIR WILL. IT SEEMS THAT MUKHAMEDOV'S REASONS ARE ARTISTIC COUPLED WITH CONCERN AT THE MANAGEMENT OF THE BOLSHOI, RATHER THAN POLITICAL. THE CHANCES ARE THAT THE HOME SECRETARY WILL GIVE THE COUPLE PERMISSION TO REMAIN. THE ROYAL BALLET WHO THE COUPLE HAVE TOLD OF THEIR INTENTION, WILL NATURALLY BE READY TO OFFER WORK. IT WILL THEN BE IMPOSSIBLE TO KEEP IT QUIET ANY LONGER. IT IS VERY UNFORTUNATE TIMING JUST BEFORE THE PRIME MINISTER'S VISIT, BUT IT DOES NOT LOOK AS IF THERE IS MUCH TO BE DONE ABOUT IT. THESE THINGS ARE NOWADAYS TAKEN LESS TRAGICALLY BY THE RUSSIANS THAN WHEN SAY NUREYEV LEFT.
4. IF THE RUSSIANS ASK ABOUT THEIR WHEREABOUTS, YOU SHOULD, PENDING FURTHER INSTRUCTIONS, DENY KNOWLEDGE AND SAY YOU WILL REFER THE ENQUIRY TO LONDON.

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MY TELNO 1019: YELTSIN'S PROGRAMME

SUMMARY

1. YELTSIN'S POLITICAL PROGRAMME POSES A MAJOR CHALLENGE TO THE AUTHORITY OF GORBACHEV AND THE ALL-UNION GOVERNMENT. IF IT COMES TO A POWER STRUGGLE THE CONSEQUENCES WILL BE UNPREDICTABLE - BUT ALMOST CERTAINLY DAMAGING FOR GORBACHEV AND FOR THE COUNTRY.

DETAIL

2. THE FOLLOWING ARE SOME OF THE MAIN POINTS OF YELTSIN'S POLITICAL PROGRAMME AS SET OUT IN HIS PRE-ELECTION SPEECHES IN THE RUSSIAN CONGRESS, AND AT HIS PRESS CONFERENCE ON 30 MAY.

RUSSIAN SOVEREIGNTY

3. YELTSIN'S PROGRAMME CONTAINS COMMITMENTS TO:

- A NEW LAW ON THE SOVEREIGNTY OF RUSSIA WITHIN A REFORMED SOVIET UNION:
- COMPLETE INDEPENDENCE OF THE LEGAL SYSTEM AND INTERMEDIATE POLITICAL ORGANS FROM PARTY CONTROL:
- A LAW ON THE FULL ECONOMIC INDEPENDENCE OF ENTERPRISES AND ORGANISATIONS IRRESPECTIVE OF THEIR SUBORDINATION:
- A LAW ON THE ECONOMIC INDEPENDENCE OF REGIONS AND ON LOCAL SELF-GOVERNMENT AND TAXATION:
- THE ESTABLISHMENT OF A COMMISSION TO DRAFT A NEW CONSTITUTION TO BE PUT TO A REFERENDUM:
- THE HOLDING, NOT LATER THAN MAY 1991 OF PRESIDENTIAL ELECTIONS BY UNIVERSAL SUFFRAGE WITHIN THE REPUBLIC:
- THE INTRODUCTION OF LEGISLATION PRIOR TO SUCH ELECTIONS TO ESTABLISH AN EXECUTIVE PRESIDENCY.

DEFENCE AND SECURITY

- THE UNITING OF THE INVESTIGATORY SERVICES OF THE KGB AND THE MINISTRY OF INTERNAL AFFAIRS INTO A SINGLE ORGANISATION SUBORDINATED TO THE RUSSIAN SUPREME SOVIET:
- THE ESTABLISHMENT OF AN RSFSR KGB, NOT SUBORDINATED TO ANY POLITICAL PARTY:

- A LAW OUTLAWING NUCLEAR TESTING ON THE TERRITORY OF RUSSIA:
- SUPPORT FOR THE IDEA OF A MOVE TO A PROFESSIONAL ARMY AND THE ESTABLISHMENT OF ALTERNATIVE SERVICE FOR CONSCIENTIOUS OBJECTORS.

ECONOMIC POLICY

- REPEATED AFFIRMATIONS OF SUPPORT FOR THE CREATION OF A MARKET ECONOMY:
- A RECOMMENDATION THAT THE USSR GOVERNMENT'S PROPOSALS FOR PRICE RISES SHOULD NOT BE ACCEPTED BY RUSSIA: (ELTSIN ADDED AT HIS PRESS CONFERENCE THAT THE GOVERNMENT (IE RYZHKOV AND HIS TEAM - NOT GORBACHEV) SHOULD RESIGN:
- THE RUSSIAN REPUBLIC SHOULD HAVE INDEPENDENT CONTROL OVER ITS INTERNAL AND EXTERNAL ECONOMIC POLICY, AND CHOOSE ITS OWN FOREIGN BUSINESS PARTNERS:
- THE REPUBLIC'S HARD CURRENCY BUDGET SHOULD BE BROUGHT UNDER THE CONTROL OF THE RUSSIAN PARLIAMENT:
- A CUT OF 10-15% IN CONTRIBUTIONS FROM THE RUSSIAN BUDGET TO THE MILITARY INDUSTRIAL COMPLEX:
- AN END TO ALL RESTRICTIONS ON THE RIGHT OF ENTERPRISES TO USE THEIR OWN HARD CURRENCY RESOURCES:
- THE RAISING OF ADDITIONAL HARD CURRENCY RESOURCES - INCLUDING LOANS FROM FOREIGN STATES - FOR THE PURCHASE OF GOOD IN SHORT SUPPLY TO THE VALUE OF AT LEAST 20 BILLION ROUBLES:
- TO BEGIN WITHOUT DELAY THE TRANSFER TO WORLD PRICES BOTH WITHIN THE REPUBLIC AND WITH FOREIGN PARTNERS:
- A SHARP CUTBACK IN AID TO OTHER COUNTRIES:
- SALE TO THE POPULATION OF LAND, FLATS UNUTILISED QIUPMENT, SHARES IN STATE ENTERPRISES:
- CONSIDERATION TO BE GIVEN TO THE RELEASE AND FREE SALE OF PARTY OF THE COUNTRY'S STRATEGIC RESERVE OF FOOD AND OTHER PRODUCTS.

RELATIONS WITH GORBACHEV

4. YELTSIN SAID HE WAS IN FAVOUR OF BUSINESS-LIKE RELATIONS AND DIALOGUE WITH THE PRESIDENT AND THE USSR GOVERNMENT PROVIDING THIS DID NOT INFRINGE THE SOVEREIGNTY AND INTEREST OF THE REPUBLIC. IN HIS PRESS CONFERENCE HE SAID THAT, ALTHOUGH HE HAD BURIED ALL PERSONAL ANIMOSITY TOWARDS GORBACHEV AND HOPED FOR A PRODUCTIVE WORKING RELATIONSHIP, THE RSFSR WOULD ONLY BE ABLE TO SUPPORT MEASURES OF THE UNION GOVERNMENT IF IT CONSIDERED THEM SENSIBLE AND APPROPRIATE

COMMENT

5. THIS PROGRAMME PRESENTS A DIRECT CHALLENGE TO GORBACHEV AND THE ALL-UNION GOVERNMENT ACROSS A WHOLE RANGE OF MAJOR POLICY ISSUES.

THE SENSITIVITIES INVOLVED IN, FOR EXAMPLE, HIS PROPOSAL THAT RUSSIA HAVE ITS OWN KGB, AND CONTROL ITS OWN HARD CURRENCY, ARE OBVIOUS. THE PROPOSAL TO BAN NUCLEAR TESTING IN RUSSIA WOULD, IF IMPLEMENTED, PREVENT THE MILITARY FROM MOVING THEIR TEST GROUNDS FROM SEMIPALATINSK (IN KAZAKHSTAN) TO NOVAYA ZEMLYA. THE RECOMMENDATION THAT RUSSIA REJECT THE FEDERAL GOVERNMENT'S PROPOSALS FOR PRICE RISES FOLLOWS THE LEAD ALREADY SET BY THE UKRAINE. THERE, THE SUPREME SOVIET HAS ALREADY VOTED TO REFUSE TO APPLY PRICE RISES IN THE REPUBLIC. IF YELTSIN WERE TO GET A SIMILAR VOTE THROUGH THE RUSSIAN CONGRESS OR SUPREME SOVIET IT WOULD MAKE IT IMPOSSIBLE TO IMPLEMENT THIS PART OF THE GOVERNMENT'S ECONOMIC REFORM PROGRAMME.

6. IT IS IMPOSSIBLE TO FORECAST HOW THIS POWER STRUGGLE OF USSR V RSFSR IS GOING TO WORK OUT. MUCH IS GOING TO DEPEND ON HOW MUCH YELTSIN AND GORBACHEV ARE PREPARED TO SEEK ACCOMMODATION RATHER THAN CONFRONTATION. BUT EVEN WITH THE BEST WILL IN THE WORLD (AND THIS DOES NOT EXIST ON EITHER SIDE AT PRESENT) THE ISSUE IS GOING TO TAKE VERY CAREFUL HANDLING IF IT IS NOT TO HAVE SERIOUSLY DAMAGING RESULTS FOR GORBACHEV'S POLITICAL AND ECONOMIC PROGRAMMES. IN SOME WAYS YELTSIN'S POSITION IS EXTREMELY STRONG. HE HAS THE BACKING OF HIS CONGRESS AND WIDESPREAD POPULAR SUPPORT. THE INCREASING UNPOPULARITY OF GORBACHEV AND RYZHKOV IS CAUSING MORE AND MORE PUBLIC SYMPATHY TO FLOW TO YELTSIN. IF IT COMES TO DISPUTES - EG OVER WHO CONTROLS SIBERIAN OIL - THE WORKERS ARE LIKELY TO BACK YELTSIN AND NOT GORBAHCEV.

7. YELTSIN'S PROPOSAL FOR A NATIONAL PRESIDENTIAL ELECTION IN THE RSFSR WITHIN A YEAR IS GOING TO FURTHER DAMAGE GORBACHEV. THERE ARE NOT MANY NOW WHO BELIEVE THT HE COULD WIN ELECTION TO THE USSR PRESIDENCY. BUT YELTSIN'S PROPOSAL - IF ACCEPTED BY THE RUSSIAN CONGRESS - WILL POUT HIM UNDER STRONG PRESSURE TO HOLD SUCH AN ELECTION. IF HE HOLDS BACK, HIS CREDIBILITY ASA NATIONAL LEADER WILL BE FURTHER UNDERMINED.

8. SHAKHNAZAROV, GORBACHEV'S AIDE, PUT A FAIRLY BRAVE FACE ON THE SUBJECT OF YELTSIN WHEN I SAW HIM YESTERDAY. HE SAID THE SITUATION WAS VERY COMPLEX. ON THE POSITIVE SIDE, WITH YELTSIN'S VICTORY THE COUNTRY HAD TAKEN A MAJOR STEP TOWARDS A REAL MULTI-PARTY SYSTEM. THERE WAS NOW A LEADER OF THE OPPOSITION WHOM THE PRESIDENT HAD TO TAKE ACCOUNT OF. HE AGREED THAT MUCH WOULD DEPEND ON THE EXTENT TO WHICH THE TWO MEN COULD WORK TOGETHER. HE REITERATED THE POINTS MADE BY GORBACHEV IN CANADA WHICH HE DESCRIBED AS GORBACHEV'S TERMS FOR SUCH COOPERATION: YELSTIN MUST ACCEPT THE COUNTRY'S 'SOCIALIST CHOICE:' HE MUST RESPECT THE INTERESTS OF THE UNION AS WELL AS THE

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RSFSR: AND HE MUST SHOW WILLINGNESS TO WORK WITH GORBACHEV.

9. SPEAKING PERSONALLY, SHAKHAZAROV SAID THAT HE THOUGHT THERE WERE DANGEROUS ELEMENTS IN YELTSIN'S CHARACTER. HE WAS UNPREDICTABLE AND IMPULSIVE AND HAD NO DEPTH OF POLITICAL CULTURE. HE HAD AN ABLE TEAM AROUND HIM, HOWEVER, WHO HAD PUT TOGETHER HIS POLITICAL PROGRAMME

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PRIME MINISTER

The principle male dancer of the Bolshoi Ballet has chosen this weekend (of all weekends) to defect to the United Kingdom. We are keeping him hidden for a day or two, but it is only a matter of time before the news breaks. We shall simply have to say we did nothing to encourage him: he just turned up (which is true).

C DP

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CHARLES POWELL

1 June 1990

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LITHUANIA: VIEWS OF SHAKHNAZAROV

SUMMARY

1. FOLLOWING MY CALL ON USPENSKY (MY TELNO 998) I PUT THE SAME FORMULA ON INDEPENDENCE TO SHAKHNAZAROV, ONE OF GORBACHEV'S PERSONAL AIDES. HE TOOK NOTE. HE SAID GORBACHEV NEEDED ANOTHER GESTURE FROM THE LITHUANIANS BEFORE HE COULD AGREE TO NEGOTIATE.

DETAIL

2. I HAD A LONG CONVERSATION WITH GOERGY SHAKHNAZAROV, GORBACHEV'S PERSONAL ADVISER, ON 31 MAY DURING WHICH WE HAD A BRIEF EXCHANGE OF VIEWS ON LITHUANIA.
3. SHAKHNAZAROV SAID THAT IT WAS VITALLY IMPORTANT THAT THE SOVIET UNION REMAINED INTACT. IF THERE WAS A COLLAPSE, THERE WOULD BE A RELEASE OF ENERGY 'LIKE AN ATOMIC EXPLOSION' WHICH COULD AFFECT THE WHOLE OF EUROPE. THE FEDERATION COUNCIL WOULD BE MEETING SOON TO DISCUSS THIS. SHAKHNAZAROV THOUGHT THAT THE RIGHT WAY FORWARD WOULD BE TO GET TOGETHER A REPRESENTATIVE DELEGATION FROM EACH REPUBLIC TO WORK OUT THE NEW STRUCTURES. MOSCOW'S RELATIONSHIP WITH EACH REPUBLIC COULD VARY. SOME REPUBLICS COULD HAVE FEDERAL STATUS: OTHERS, PERHAPS, CONFEDERAL STATUS. IN SOME CASES, ARRANGEMENTS MIGHT BE RATHER SIMILAR TO THOSE OF THE BRITISH COMMONWEALTH: BUT OF COURSE, FOR GEOGRAPHICAL REASONS, TIES WOULD REMAIN MUCH CLOSER.
4. TURNING TO LITHUANIA, SHAKHNAZAROV SAID THAT THE STARTING POINT WAS THAT MOSCOW'S LEGAL POSITION WAS IRREPROACHABLE. TO JUSTIFY THIS, HE REHEARSED THE ARGUMENT FREQUENTLY USED BY GORBACHEV THAT EVEN ILLEGAL OR SHOTGUN WEDDINGS REQUIRE AN ORDERLY DIVORCE SETTLEMENT BASED ON SOUND LEGAL PRINCIPLES.
5. I THEN MADE THE POINTS IN YOUR TELNO 956 EXPLAINING THAT I HAD

BEEN ASKED TO PUT THESE TO CHERNYAEV, BUT THAT AS HE HAD BEEN TOO BUSY, I HAD PUT THEM TO USPENSKY. THE URGENT REQUIREMENT WAS TO GET NEGOTIATIONS STARTED. COULD NOT THE RUSSIANS ACCEPT THAT THE LITHUANIAN OFFER TO SUSPEND IMPLEMENTATION OF THEIR POST-INDEPENDENCE LEGISLATION WAS TANTAMOUNT TO A SUSPENSION OF THE INDEPENDENCE DECLARATION ITSELF? THERE MIGHT BE AN ELEMENT OF FICTION IN THIS, BUT IT WAS THE SORT OF FICTION THAT WAS NEEDED IF BOTH SIDES WERE TO BE ABLE TO AGREE TO BEGIN TALKING. I SAID THAT ONE THING THAT COULD BE LEARNT FROM THE DISMANTLING OF OUR EMPIRE - ABOUT WHICH RUSSIANS WERE ALWAYS ASKING ME - WAS THAT WE HAD ALWAYS ENDED UP TALKING TO THOSE WITH WHOM WE HAD INITIALLY REFUSED TO NEGOTIATE.

6. SHAKHNAZAROV TOOK CAREFUL NOTE OF THIS IDEA BUT DID NOT COMMENT DIRECTLY. HE SAID, HOWEVER, THAT MOSCOW STILL NEEDED ANOTHER GESTURE FROM THE LITHUANIANS. THE LAST LITHUANIAN OFFER HAD BEEN A CONCESSION: BUT THE LITHUANIANS HAD REPRESENTED IT IN PUBLIC AS A MAJOR VICTORY. THE SOVIET UNION, AS A MAJOR POWER, COULD NOT BE SEEN SIMPLY TO CAVE IN. SO THERE HAD TO BE ANOTHER CONCESSION FROM LITHUANIA. GORBACHEV HIMSELF STILL HAD A LITTLE FLEXIBILITY: BUT HE HAD TO TAKE ACCOUNT OF RUSSIAN PUBLIC OPINION. MOST RUSSIANS WERE NOT YET READY TO SEE THEIR EMPIRE DISMANTLED. YELTSIN TOO WOULD FIND THIS OUT. NOW THAT HE WAS PRESIDENT, HIS POSITION ON LITHUANIA WOULD CHANGE.

7. BEFORE ENDING THIS CONVERSATION, I TOLD SHAKHNAZAROV THAT THE PRIME MINISTER WAS VERY CONCERNED ABOUT LITHUANIA AND WOULD CERTAINLY BE WANTING TO DISCUSS IT WITH GORBACHEV.

8. I AM REPORTING SHAKHNAZAROV'S VIEWS ON GERMANY AND NATO BY SEPARATE TELEGRAM.

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From the Private Secretary

MR. APPELYARD

PROJECT MARATHON

I attach a copy of a message to the Prime Minister from President Bush, accepting our proposal for dealing with Project MARATHON. I should be grateful if the necessary follow-up action could now be put in hand with the companies and with other Governments. The Prime Minister ought to reply in due course, informing the President of the action we have taken.

I am copying this minute and attachment to Stephen Wall (Foreign and Commonwealth Office), Simon Webb (Ministry of Defence) and Martin Stanley (Department of Trade and Industry).

C.D. POWELL

1 June 1990

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PART 17. ends:-

Moscow tel. 1025 31.5.90

PART 18 begins:-

CAF to C. Appleyard 1.6.90