

CONFIDENTIAL

FM MOSCOW

TO FLASH WASHINGTON

TELNO 1095

OF 27 MAY 91

AND TO DESKBY 271730Z FCO LONDON

MRS. THATCHER: TALKS WITH GORBACHEV

MRS. THATCHER SPENT TWO AND A HALF HOURS THIS AFTERNOON 27TH MAY WITH GORBACHEV. A FULLER ACCOUNT FOLLOWS. BUT GORBACHEV TOLD HER THAT HE WOULD BE SPEAKING TO PRESIDENT BUSH AT 1100 P.M. MOSCOW TIME TODAY (2000 GMT). MRS. THATCHER THEREFORE ASKED THAT THE FOLLOWING BRIEF ACCOUNT BE PASSED TO THE PRESIDENT OR TO SCOWCROFT BEFORE THE CONVERSATION TAKES PLACE.

2. GORBACHEV SPOKE AT LENGTH ABOUT HIS CURRENT EXCHANGES WITH THE NINE REPUBLICS (THE 'NINE PLUS ONE'). HE SAID THAT THE TALKS WERE GOING WELL, AND THAT IN PARTICULAR THEY WERE GETTING TO GRIPS WITH THE ECONOMIC ISSUES. HE BELIEVED THAT AGREEMENT WOULD BE FORTHCOMING ON A SINGLE CURRENCY, ON CONTROL OF THE MONEY SUPPLY, ON PRIVATISATION, ON PRICE REFORM, ON A SPECIFIC DIVISION OF TAXES BETWEEN UNION, REPUBLICS, AND LOCAL AUTHORITIES, AND ON THE RESERVATION TO THE UNION OF A SMALL NUMBER OF SECTORS (E.G. TRANSPORT, ENERGY, SPACE AND SCIENTIFIC POLICY.) HE CONSIDERED THAT THESE MEASURES REPRESENTED EXACTLY THE KIND OF MARKET ORIENTATED REFORM WHICH THE WEST HAD BEEN DEMANDING.

3. HE THEREFORE VERY MUCH HOPED THAT THE WEST WOULD NOW DELIVER ITS SIDE OF THE BARGAIN IN ACCORDANCE WITH ITS EASTERN PRINCIPLE OF 'NO REFORM, NO HELP'. HE NEEDED POLITICAL SUPPORT FOR THE CONTINUED PROCESS OF REFORM. HE WAS MOST UNHAPPY ABOUT THE WAY THE WAY SOME POLITICAL GROUPS IN THE USA WERE NOW ARGUING THAT PERESTROIKA WAS FAILING, THAT HE HIMSELF HAD RUN OUT OF STEAM, AND THAT IT WAS THEREFORE NOT IN THE AMERICAN INTEREST TO GO ON SUPPORTING EITHER.

4. IN CONCRETE TERMS, WHAT HE NEEDED FROM THE WEST IN EXCHANGE FOR HIS ECONOMIC REFORMS WAS FINANCIAL SUPPORT FOR THE STABILISATION OF THE CURRENCY TO SUPPORT HIS AIM OF ROUBLE CONVERTIBILITY BY 1992: AND INVESTMENT IN SOVIET INDUSTRY, ESPECIALLY UN THE ENERGY AND FOOD SECTORS. DESPITE CURRENT DIFFICULTIES THE SOVIET PAYMENT RECORD WAS FIRST CLASS. OVER THE PAST DECADE THE SOVIET UNION HAD

BOUGHT BILLIONS OF DOLLARS WORTH OF GRAIN: FOR WHICH IT HAD PAID ON THE NAIL, AND FOR WHICH IT DID NOT OWE A PENNY. THE WEST SHOULD TAKE THIS TO INTO ACCOUNT.

5. MRS. THATCHER ASKED WHETHER THIS WAS WHY GORBACHEV WISHED TO BE ASSOCIATED WITH THE FORTHCOMING G7 SUMMIT. DID HE PRIMARILY NEED THE POLITICAL SUPPORT THAT WOULD COME FROM A SUCCESSFUL MEETING? OR DID HE NEED IT TO GENERATE CONCRETE HELP? GORBACHEV INDICATED THAT HE NEEDED BOTH, ALTHOUGH HE WAS PERFECTLY AWARE OF THE POLITICAL RISK OF DISAPPOINTED EXPECTATIONS.

6. MRS. THATCHER TOLD GORBACHEV VERY FIRMLY THAT HE SHOULD HAVE NO DOUBT ABOUT THE STURDY POLITICAL SUPPORT WHICH THE PRESIDENT ACCORDED TO TO PERESTROIKA AND TO GORBACHEV HIMSELF. IT WAS IN THE WEST'S INTEREST THAT THE SOVIET REFORMS SHOULD SUCCEED AND WESTERN GOVERNMENTS KNEW THIS WELL. SHE EMPHASISED HOWEVER THAT WESTERN CREDITS WOULD ACTUALLY DAMAGE THE SOVIET ECONOMY IF THE REFORMS WERE NOT IN PLACE TO RECEIVE THEM.

COMMENT

7. MRS. THATCHER COMMENTED TO ME THAT GORBACHEV SEEMED GENUINELY CONFIDENT THAT HE COULD HAVE THE NEW UNION TREATY (EMBRACING NINE REPUBLIC'S IN THE FIRST INSTANCE) FULLY NEGOTIATED AND SIGNED IN JUNE. HE THEREFORE CONSIDERED THAT HE COULD IF INVITED COME TO THE G7 SUMMIT WITH CONCRETE EVIDENCE OF HIS DETERMINATION TO REFORM THE SOVIET ECONOMY.

8. MRS. THATCHER ADDED THAT GORBACHEV SEEMED TO BE GENUINELY AND SERIOUSLY CONCERNED BY WHAT HE SAW AS WANING SUPPORT IN THE USA FOR HIS EFFORTS. HE SPOKE MUCH ON THE SAME LINES AS IN HIS RECENT INTERVIEW WITH MURDOCH.

9. MRS. THATCHER ASKED THAT HER VERY WARMEST GOOD WISHES SHOULD BE CONVEYED TO THE PRESIDENT AND MRS BUSH, AND TO THEIR STAFF.

10. I AM PASSING THE FOREGOING TO THE US AMBASSADOR.

BRIATHWAITE

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