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MY TELNO 1095: MRS THATCHER: TALKS WITH GORBACHEV

SUMMARY

1. IN DISCUSSION WITH MRS THATCHER ON 27 MAY, GORBACHEV DISCLAIMS ANY INTENTION OF ASSUMING DICTATORIAL POWERS. INTERNAL POLITICAL CHANGE TAKING PLACE VERY FAST IN THE SOVIET UNION AND IMPROVISATION NECESSARY. THE APRIL PRICE RISES HAD BEEN VITAL ALTHOUGH SOME HAD TRIED TO EXPLOIT THEM POLITICALLY.
2. THE 9 + 1 AGREEMENT EMERGED WHEN GORBACHEV WARNED THAT THE CHOICE WAS COOPERATION OR CHAOS. HIS THREAT TO RESIGN SOBERED UP THE PARTY AT THE 25 APRIL PLENUM. THE 9 + 1 AGREEMENT CONTAINS STABILISATION MEASURES, INCENTIVES TO ENTERPRENEURS, AND PROVISIONS TO ACCELERATE THE MOVE TO A MARKET ECONOMY. EMPHASIS ON FOREIGN INVESTMENT AND DENATIONALISATION.
3. DRAFT UNION TREATY SHOULD BE READY FOR DISCUSSION IN REPUBLICS NEXT MONTH. WOULD INVOLVE SINGLE CURRENCY AND BANKING SYSTEM, CUSTOMS UNION, JOINT CREDIT SYSTEM, ALL WITHIN SINGLE ECONOMIC SPACE. TAXATION SYSTEM STILL TO BE RESOLVED. CONFIDENT THAT MOLDOVA, ARMENIA AND GEORGIA WILL EVENTUALLY SIGN UP.
4. GORBACHEV UNYIELDING ON BALTIC STATES. URGES COMMITMENT FROM G7 TO SOVIET REFORM: MUST BE PREPARED TO PAY TO SAFEGUARD PROCESS OF WORLDWIDE SIGNIFICANCE. EXPRESSES CONCERN THAT SOME IN THE US ARE URGING BUSH TO TAKE A TOUGHER, UNFORTHCOMING LINE ON US/SOVIET RELATIONS.

DETAIL

5. THE FOLLOWING IS A FULLER ACCOUNT OF MRS THATCHER'S DISCUSSION WITH GORBACHEV YESTERDAY AFTERNOON (27 MAY). IT IS BASED ON NOTES PROVIDED BY PROFESSOR POLLOCK, HER INTERPRETER (NO MEMBER OF THE EMBASSY WAS PRESENT):

(I) ATTITUDE TO POWER: GORBACHEV DISMISSED A SUGGESTION FROM SOME QUARTERS THAT HE HAD DICTATORIAL AMBITIONS. IRONICALLY, THOSE SUCH AS YELTSIN, SOBCHAK (MAYOR OF LENINGRAD) AND POPOV (MAYOR OF MOSCOW) WHO HAD MADE SUCH ALLEGATIONS WERE NOW ARGUING IN FAVOUR OF INCREASED POWERS FOR THEMSELVES:

(II) INTERNAL POLITICS: CHANGE WAS CURRENTLY TAKING PLACE VERY RAPIDLY. IT WAS DIFFICULT TO ADJUST TO THE PACE: IMPROVISATION WAS NECESSARY. MARCH/APRIL HAD BEEN A CRITICAL PERIOD, WITH PRICES RISING, INCOMES FALLING, AND A STRUGGLE BETWEEN THE CENTRE AND THE REPUBLICS. THERE HAD BEEN GENERAL AGREEMENT BEHIND THE SCENES THAT PRICE RISES, HOWEVER PAINFUL, WERE NECESSARY, ALTHOUGH POPOV AND SOBCHAK HAD PROTESTED PUBLICLY AGAINST WHAT THEY HAD ACCEPTED PRIVATELY. BOTH LEFT AND RIGHT HAD TRIED TO EXPLOIT THE INCREASES FOR POLITICAL ADVANTAGE:

(III) 9 + 1 AGREEMENT - GENESIS: IN THE WAKE OF THE PRICE RISES (AT THE BEGINNING OF APRIL), GORBACHEV HAD WARNED REPUBLICAN LEADERS THAT THE CHOICE WAS COOPERATION OR CHAOS. THIS HAD LED TO THE 9 + 1 AGREEMENT, WHICH HAD BEEN GREETED WITH RELIEF. PEOPLE WERE WEARY OF CRISIS AND CONFRONTATION. GORBACHEV HAD, HOWEVER, BEEN CHALLENGED AT THE PARTY PLENUM ON 25 APRIL, WHEREUPON HE HAD TAKEN THE OFFENSIVE AGAINST HIS DETRACTORS AND HAD THREATENED TO RESIGN. THIS HAD BEEN A SHOCK TO A MAJORITY IN THE PARTY AND HAD LED TO A GENERAL REACTION IN HIS SUPPORT. IT HAD BEEN A TURNING POINT. THEREAFTER GORBACHEV MOVED QUICKLY, IN CONJUNCTION WITH LUKYANOV, TO HAVE THE 9 + 1 AGREEMENT ENDORSED BY THE SUPREME SOVIET:

(IV) 9 + 1 - FUTURE IMPLEMENTATION: THE 9 + 1 AGREEMENT COMMITTED THE REPUBLICS, AS WELL AS THE UNION GOVERNMENTS. IT WOULD INVOLVE ECONOMIC STABILISATION MEASURES, INCENTIVES TO ENTREPRENEURIAL ACTIVITY, AND MEASURES DESIGNED TO ACCELERATE THE MOVE TO A MARKET ECONOMY. PAVLOV WAS PREPARING THE NECESSARY ENABLING LEGISLATION. KEY ELEMENTS IN THE PROGRAMME WERE INCREASED FOREIGN INVESTMENT AND DENATIONALISATION. THE LATTER WOULD TAKE TIME SINCE IT INVOLVED DISMANTLING A STATE 'SUPER MONOPOLY'. BUT PAVLOV WOULD PRESS AHEAD AS RAPIDLY AS POSSIBLE. THERE SHOULD BE RESULTS WITHIN TWO YEARS. FOREIGN INVESTMENT WOULD HELP THE PRIVATISATION PROCESS: THE SOVIET UNION MUST BE INTEGRATED INTO THE WORLD ECONOMY. ANOTHER IMPORTANT TASK WAS CHANGING POPULAR ATTITUDES TOWARDS PRIVATE PROPERTY. IN UNDERTAKING THESE REFORMS, GORBACHEV DERIVED

INSPIRATION FROM WHAT MRS THATCHER HAD ACHIEVED IN BRITAIN AND GONZALES IN SPAIN:

(V) UNION TREATY: ON 24 MAY GORBACHEV HAD CHAIRED THE FIRST MEETING OF THE NEW STANDING COMMITTEE ON THE UNION TREATY (ATTENDED BY THE 9 REPUBLICS INVOLVED IN THE 9 + 1 AGREEMENT, AND MOST AUTONOMOUS REPUBLICS). AGREEMENT WAS REACHED TO COMPLETE THE DRAFT UNION TREATY IN JUNE AND THEN TO PRESENT IT TO REPUBLICAN GOVERNMENTS FOR THE CONSIDERATION OF THEIR REPUBLICAN SUPREME SOVIETS BEFORE SUBSEQUENT SIGNATURE. THIS WOULD COMMIT THEM TO A SINGLE CURRENCY AND BANKING SYSTEM, A CUSTOMS UNION, A JOINT CREDIT SYSTEM, ALL WITHIN A SINGLE ECONOMIC SPACE. THE QUESTION OF TAXATION HAD STILL TO BE RESOLVED. THERE WOULD HAVE TO BE UNION, REPUBLIC AND MUNICIPAL BUDGETS FINANCED BY A COMMON TAXATION SYSTEM. THE UNION BUDGET WOULD HAVE TO PAY FOR DEFENCE, LAW ENFORCEMENT, RESEARCH, AND CULTURAL PROJECTS. THERE WOULD ALSO HAVE TO BE PROVISION TO SUPPLEMENT THE BUDGETS OF THE POORER REPUBLICS. THOSE REPUBLICS THAT HAD NOT SIGNED THE 9 + 1 AGREEMENT WERE NOW ANXIOUS ABOUT WHAT WOULD HAPPEN IF THEY WERE EXCLUDED FROM THIS ECONOMIC SPACE. MOLDOVA, ARMENIA AND GEORGIA WOULD PROBABLY ALL SIGN UP IN DUE COURSE:

(VI) THE BALTIC STATES: WHEN MRS THATCHER SAID THAT SHE HOPED THE BALTS WOULD PERSEVERE WITH THEIR DEMANDS FOR INDEPENDENCE, AND WOULD BE SUCCESSFUL, GORBACHEV SAID THAT THEIR WISH FOR SECESSION WAS MATCHED ON THE RUSSIAN SIDE BY AN EQUAL WISH FOR ACCESS TO THE SEA. THE BALTIC QUESTION WENT BACK MUCH FURTHER THAN 1939-40: THE INTERWAR PERIOD HAD BEEN AN ANOMALY PRODUCED BY THE SPECIAL CIRCUMSTANCES OF THE 1917-20 PERIOD. BEFORE THAT THE BALTIC STATES HAD BEEN PART OF RUSSIA FOR HUNDREDS OF YEARS:

(VII) THE G7: PERESTROIKA WAS A PROCESS THAT HAD IMPLICATIONS FOR THE WHOLE WORLD. SUCCESS WAS COSTLY: BUT FAILURE WOULD BE EVEN MORE SO, BOTH FOR THE SOVIET UNION AND FOR OTHER COUNTRIES. THE INTERNATIONAL COMMUNITY HAD BEEN WILLING TO SPEND 70 BILLION ON THE GULF WAR: NOW IT MUST HELP SAFEGUARD THE PROCESS IN THE SOVIET UNION WHICH HAD AS MUCH, IF NOT MORE, HISTORICAL SIGNIFICANCE THAN ANY OF THE OTHER TURNING POINTS IN THE 20TH CENTURY. IT WOULD BE A DESPERATE MISTAKE IF CONTEMPORARY POLITICIANS MISSED THIS OPPORTUNITY THROUGH LACK OF VISION AND IMAGINATION: THEY WOULD BE CONDEMNED BY HISTORY. GORBACHEV ADDED THAT HE WAS NOT AFRAID THAT AN INVITATION TO THE LONDON

SUMMIT WOULD AROUSE EXPECTATIONS THAT COULD NOT BE FULFILLED. HE COULD MANAGE THIS PROBLEM. THE SOVIET UNION WAS LIBERALISING ITSELF AND WOULD TRY TO INTRODUCE A CONVERTIBLE ROUBLE IN 1992. BUT MEANWHILE IT NEEDED CONSUMER GOODS TO SEE IT THROUGH A PERIOD OF SCARCITY, AND A DOLLAR STABILISATION FUND. IF ASSISTANCE WERE DELAYED UNTIL THE REFORMS WERE IN PLACE, IT WOULD BE TOO LATE. GORBACHEV REITERATED THAT THE AREAS THAT WERE CRITICAL WERE: RECONSTRUCTION AND MODERNISATION OF THE FOOD INDUSTRY: SUPPLIES OF CONSUMER GOODS TO TIDE THE COUNTRY OVER THE PERIOD OF DISLOCATION BEFORE REFORM TOOK EFFECT: AND A DOLLAR STABILISATION FUND TO SUPPORT THE MOVE TO A CONVERTIBLE ROUBLE. ENERGY AND TRANSPORT WERE ALSO AREAS THAT OFFERED GREAT SCOPE FOR ECONOMIC COOPERATION:

(VII) US/SOVIET RELATIONS: GORBACHEV EXPRESSED CONCERN ABOUT AMERICAN ATTITUDES. THERE WAS STILL EVIDENCE OF COLD WAR THINKING. (GORBACHEV WAS EVIDENTLY BITTER AT THE AMERICANS' RECENT REFUSAL TO EXTEND ADDITIONAL AGRICULTURAL CREDITS DESPITE THE SOVIET UNION'S SOLID REPAYMENT RECORD FOR GRAIN PURCHASES IN THE PAST.) BUSH WAS UNDER PRESSURE TO TAKE A HARDER LINE IN BILATERAL RELATIONS AND, THOUGH HE HAD SO FAR RESISTED THIS, IF HE SUCCEDED TO RIGHT WING PRESSURE, IT WOULD PREVENT THE INTERNATIONAL BREAKTHROUGH THAT GORBACHEV AND MRS THATCHER BOTH WANTED AND HAD WORKED FOR.

6. GORBACHEV CONCLUDED WITH A PLEA FOR FURTHER SUPPORT. MUCH THAT HAD BEEN ACHIEVED WAS NOW IN THE BALANCE. IT WAS ESSENTIAL TO FIND A 'SECOND WIND' TO ENSURE THAT THE REFORM PROCESS WAS CARRIED FORWARD AT WHAT WAS A CRITICAL, HISTORICAL MOMENT.

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