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To: cc Chancellor of the Duchy
Mr Atkins
SECRETARY OF STATE Mr Butcher
Chairman BOTB
From: Sir Brian Hayes
Mr Dell
ALAN CLARK Mr Stephens ECGD
Mr Hunter OT3
21 October 1987 Mr Benjamin PEP
Mr George OT3/5
Mr Burwood-Smith RTP
Ms Seymour OT3/5
HMA Moscow

I visited Moscow and Leningrad from 12 to 17 October to take part as co-Chairman in a session of the UK-Soviet Joint Economic Commission. My principal objectives during the week were:

- (a) to put pressure on the Russians to advance completion of specific British projects under negotiation;
- (b) to underline the range and quality of British industry, especially to Soviet Ministers who have acquired direct foreign trading rights under the reforms;
- (c) to see for myself, and bring to the attention of UK businessmen, the extent to which the reforms have widened opportunities for trade.

I achieved some success in all these objectives.

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2 I was accompanied to Moscow by senior representatives of John Brown, Babcock, Davy, Courtaulds, GEC and Amersham. Other firms, such as Simon Carves, IMEG and Lurgi UK, had representatives in Moscow at the time who joined in my meetings with the appropriate Ministers. All of these companies had contracts under negotiation, and several made progress during the week. Davy signed an agreement for collaboration in tin technology, and a letter of intent to sell automation equipment for a hot strip mill. Amersham signed a co-operation agreement in clinical diagnostics and medical research with one of the organisations which have acquired foreign trading rights, and expect useful business to flow from it. Courtaulds had their bid to modernise a further acrylic fibre plant publicly acknowledged by my Soviet co-Chairman. Lurgi UK arranged to start commercial and pricing discussions for an oil catalysts plant next month. Babcock received several significant indications of Soviet interest, eg in the extension of glass fibre plants.

3 The most important contract awaiting conclusion concerned the bid by Simon Carves and GEC to build a plant for programmable controllers in Soviet Armenia. A letter of intent was signed during the Prime Minister's visit in April, but negotiations had since run into difficulty over finance. I raised the question with Shkabardnya, the Minister for Instrumentation, and got him to admit that he was personally responsible for the project on the Soviet side and that further delay would be expensive to the Russians. The man causing most of the financial difficulties was at the meeting, and will I hope have taken note. Nevertheless, there remains a gap of £22m on price which will have to be closed, and the Russians are not bluffing. Simon Carves' chief card is that they have done extensive work to incorporate Soviet technology in the project, and the Russians need the 16 handbooks

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involved as much as anything. But the British side will nevertheless have to show themselves ready to make some compromise on price if only to save Soviet face.

4 Apart from Aristov, Minister of Foreign Trade (who was my co-Chairman), the other Ministers I called on included the Chairman of Gosagroprom (deputy Prime Minister Murakhovsky), the Chairman of the State Committee for Science and Technology (Tolstykh), the Minister for Oil Refining and Petrochemicals (Lemayev), the Minister for Metallurgy (Kolpakov), the Minister for the Medical Industry (Bykov) and the Deputy Minister of the Chemical Industry (Torbenko). Those of the old school who were finding it hard to come to terms with reform were easily distinguishable, and the most guarded was Lemayev. In the main the new appointees, several of whom had had foreign trading rights newly delegated to their Ministries, were the most forthcoming.

5 Predictably, the most stimulating talk was with Professor Ivanov, Deputy Chairman of the Foreign Economic Commission, who had co-Chaired the CBI conference at Broomfield Hall in February. He was the only person to meet the British delegation unaccompanied, and was characteristically frank and ruthless in his analysis of progress. Asked by Lord Jellicoe why the new Soviet legislation on joint ventures was not more detailed, he said the leadership had to reckon with the psychology of managers who had been brought up to uncritical obedience, and that too much legislation would risk stifling initiative.

6 I also had an agreeably candid discussion with Tolstykh (who is to lead the Soviet team at Ditchley Park next month). He

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too was very frank about the scale of the reforms, and the urgency. In general, it was enlightening to discover how far the spirit of perestroika has been absorbed by the younger cadre.

7 How far that spirit can be used to increase our trade with the Russians is, of course, another question. If properly implemented, the delegation of foreign trading rights to Ministries and organisations will make many end users more accessible. But there will be a number of difficulties too - not least the shortage of foreign exchange on the Soviet side - and it remains to be seen whether British business, just as much as Soviet organisations, will show the initiative needed. At least, however, the two Governments have set the climate: the momentum of the Prime Minister's visit is still very strong, and the target of 2.5bn Roubles by 1990 which she set with Ryzhkov figured prominently in my talks. I mentioned this target to every Minister I met, and stressed the part he could play in achieving it. Remarkably, there were no complaints all week about COCOM or about restrictions on imports into the UK - perhaps because the leadership were determined to create a positive atmosphere.

8 We are building up a valuable network of sectoral working groups with the Russians, and those already in being (eg in the fields of agriculture and energy) have proved highly effective in bringing British businessmen into touch with promising Soviet partners. But direct contact with those who have trading rights is now feasible and will enhance their self-esteem, as well as leading to faster completion of business. One of the newly independents is the city of Leningrad, where I met a dynamic and outward-looking Deputy Chairman of the City Executive, in charge of foreign trade. He and I discussed a few possible openings for British business, and I intend to try to stimulate a business mission to follow these up.

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9 But in cultivating the independents we should not overlook the conventional channel through the Ministry of Foreign Trade. They are understandably sensitive to the diminution of their powers. But they remain important - if only because they could be obstructive if they felt they were being bypassed. I feel we should ensure that the Soviet Trade Representative in London is kept informed of everything which is going on.

10 In short, the scene is one of considerable potential, and I hope British companies will exploit it energetically. I shall ensure that they are given encouragement and support.

11 I received most valuable support throughout the week from the British Ambassador, Sir Bryan Cartledge, and his staff. I was especially fortunate to have the services as interpreter (as did the Prime Minister in April) of Dr Richard Pollock of Bradford University. The quality of his interpretation was as high as that of the official Soviet interpreters was low, and there might have been far less meeting of minds without his presence.

12 I am copying this minute to Lynda Chalker (FCO), John Gummer (MAFF) and Peter Morrison (D/En).

A handwritten signature in black ink, consisting of a stylized 'A' shape with a horizontal bar across the middle and a long, sweeping tail that curves downwards and to the right.

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From the Minister for Trade

Handwritten signature

HON ALAN CLARK MP

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
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21 October 1987

Handwritten signature
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Dear Charles

Mr Clark visited Moscow and Leningrad last week as co-Chairman of the UK-Soviet Joint Economic Commission. I enclose a copy of his report to the Secretary of State.

Yours sincerely
Marjorie Davies

MISS M DAVIES
Private Secretary

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