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TO IMMEDIATE COPENHAGEN  
TEL 265  
OF 041520Z DECEMBER 87

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IMMEDIATE

FOR PS SOFS  
FOLLOWING TELEGRAM NOW REPEATED TO YOU AT REQUEST OF S.O.F.'S  
PRIVATE OFFICE WAS RECEIVED FROM MOSCOW TELNO 1723 OF 4/12  
INFO IMMEDIATE WASHINGTON  
INFO PRIORITY BONN, PARIS, UKDEL NATO, UKDEL OSCE VIENNA, MODUK  
INFO SAVING EASTERN EUROPEAN POSTS, PEKING

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MR GORBACHEV'S MEETING WITH THE PRIME MINISTER ON 7 DECEMBER:  
PREVIEW

SUMMARY

1. GORBACHEV IS ON THE DEFENSIVE INTERNALLY AND NEEDS A FOREIGN POLICY SUCCESS. HE OPENLY VALUES HIS RELATIONSHIP WITH THE PRIME MINISTER AND WILL HOPE TO PERSUADE HER TO USE HER INFLUENCE HELPFULLY. HE REMAINS CONCERNED ABOUT THE FUTURE SUPER-POWER STRATEGIC BALANCE. HE WILL ALSO BE WORRIED THAT THE INF AGREEMENT MAY NOT BE RATIFIED, WHICH WOULD BE A DEFEAT FOR HIM AS WELL AS FOR PRESIDENT REAGAN. RECENT INTERNAL POLITICAL DIFFICULTIES, HANDLED WITH A VERY UNCERTAIN TOUCH, HAVE DENTED GORBACHEV'S AUTHORITY BUT IT AND HIS POLICIES REMAIN INTACT. HE HAS BEEN OBLIGED TO WATER THE WINE OF HIS IMPATIENT RADICALISM AND MAY SEEM TO HAVE LOST SOME OF HIS BOUNCE. A SUCCESSFUL SUMMIT COULD HELP TO RESTORE IT.

DETAIL

2. THE TIMING OF MR GORBACHEV'S SUMMIT WITH PRESIDENT REAGAN AND VISIT TO BRITAIN IS BOTH DIFFICULT AND FELICITOUS FOR HIM. GORBACHEV HAS JUST BEEN THROUGH HIS TOUGHEST MONTH AS GENERAL SECRETARY. HE FACES A DAUNTING YEAR IN 1988. HIS AUTHORITY HAS TAKEN A KNOCK. ON THE OTHER HAND, THE TEMPORARY DIVERSION OF ATTENTION TO EXTERNAL ISSUES MUST BE A RELIEF. A FOREIGN POLICY SUCCESS WOULD HAVE PARTICULAR VALUE NOW. HIS NEED FOR A MAJOR AGREEMENT WITH THE OTHER SUPER-POWER HAS BEEN REFLECTED IN A STRING OF CONCESSIONS TO US POSITIONS DURING THE PAST YEAR. HIS DECISION TO ACCEPT THE PRIME MINISTER'S INVITATION TO A MEETING EN ROUTE TO WASHINGTON IN PART REFLECTS THE DOMESTIC POPULARITY OF THE UK STRAND IN THE EAST/WEST DIALOGUE.

3. THE RECENT NEAR-HYSTERICAL REACTION TO A PIECE OF SENSATIONALIST JOURNALISM IN THE OBSERVER VIVIDLY DEMONSTRATED THE TENSION UNDER WHICH THE SOVIET LEADER IS OPERATING, DESPITE HIS CONFIDENT Demeanour. THE REASONS GO DEEPER THAN THE PUTSCH AGAINST ELTSIN, THOUGH THAT EPISODE BROUGHT TO THE SURFACE DIVISIONS WHICH WERE PREVIOUSLY SENSED RATHER THAN SEEN.

4. THE HEART OF PERESTROIKA (UNDERLINED) IS ECONOMIC REFORM. FROM GORBACHEV'S BELIEF IN THE URGENT NEED FOR AN ECONOMIC AND TECHNOLOGICAL REVOLUTION IN THE SOVIET UNION STEM THE OTHER



CHANGES WHICH HE IS PROMOTING IN SOVIET SOCIETY AND ALSO THE MORE PRAGMATIC, LESS CONFRONTATIONAL CAST WHICH HE HAS GIVEN TO SOVIET FOREIGN POLICY. THE PRIME MINISTER WILL KNOW FROM HER RECENT MEETINGS WITH SOME OF GORBACHEV'S MOST INFLUENTIAL ADVISERS JUST HOW FAR HE HAS TO GO ON THE ECONOMIC FRONT. BUT THERE ARE MOUNTING INDICATIONS THAT THE REFORM PROGRAMME IS OVER-AMBITIOUS. ECONOMIC RESULTS FOR 1986 AND 1987 ARE SO FAR POOR. PROBLEMS INCLUDE:

- THE ATTEMPT TO ADVANCE SIMULTANEOUSLY ON ALL FRONTS (WELL DESCRIBED BY AN AMERICAN ECONOMIST AS TRYING TO CHANGE A CAR ENGINE WHILE TRAVELLING AT FULL SPEED): HIGH GROWTH TARGETS, INCREASED QUALITY, GREATER PRODUCTIVITY, DEVOLUTION OF RESPONSIBILITY AND INITIATIVE TO INDUSTRIAL MANAGERS, NEW TRADING MECHANISMS.

- THE NEW REGIME AIMED AT MAKING ENTERPRISES FINANCIALLY INDEPENDENT AND SELF-SUPPORTING IS DUE TO OPERATE FROM 1 JANUARY 1988 BUT NEITHER INSTITUTIONS NOR PERSONNEL ARE ADEQUATELY PREPARED SEMICOLON

- THE DIFFICULTY OF MOTIVATING A PEOPLE ACCUSTOMED TO LOW REWARD AND ENFORCED EQUALITY SEMICOLON

- THE SCOPE FOR IMPROVING INCENTIVES AND REWARDS IS IN ANY CASE LIMITED BY THE VERY POOR PERFORMANCE OF THE AGRICULTURE/FOOD AND CONSUMER INDUSTRIES SEMICOLON

- ESSENTIAL PRICE REFORMS HAVE BEEN POSTPONED BECAUSE OF JUSTIFIED FEARS OF HOSTILE PUBLIC REACTION.

5. WHEN GORBACHEV SPEAKS, AS I AM SURE HE WILL TO THE PRIME MINISTER, OF THE TRANSITION TO THE SECOND STAGE OF PERESTROIKA (UNDERLINED), HE IS TALKING ABOUT MOVING FROM FORMULATION TO IMPLEMENTATION. IN SO DOING, HE HAS LED MANY RUSSIANS TO ASK WHAT THE ENERGY GENERATED OVER THE LAST TWO YEARS HAS SO FAR ACHIEVED. WHERE'S THE BEEF (BOTH LITERALLY AND METAPHORICALLY)? WHAT WERE THE RESULTS OF THE SO-CALLED FIRST STAGE?

6. THE MAJOR LESSON OF THE FIRST STAGE IN FACT SEEMS TO BE THAT GORBACHEV IS NOW OBLIGED TO MOVE MORE SLOWLY AND CAUTIOUSLY THAN HE HAD PREVIOUSLY INTENDED:

- GORBACHEV HAS JUST LOST HIS SNOWPLOW, ELTSIN. TO MOVE QUICKLY, HE IN FACT NEEDED MORE ELTSINS OUT AHEAD OF HIM IN THE RADICAL VANGUARD, ALLOWING GORBACHEV HIMSELF TO LEAD FROM THE CENTRE.

- THE ELTSIN AFFAIR REVEALED THE STRENGTH OF CONSERVATIVE ELEMENTS WITHIN THE PARTY, THE "INERT SWAMPY LAYER" WHICH ELTSIN HAD HIMSELF DENOUNCED.



- GORBACHEV HAS ALWAYS BEEN CAREFUL TO AVOID KRUSHCHEV'S MISTAKES  
AND TO COVER HIMSELF THROUGH THE COLLEGIALITY OF THE LEADERSHIP.  
SINCE ELTSIN'S FALL, HE IS HAVING TO MAKE A TACTICAL RETREAT INSIDE  
THAT COLLEGIALITY USING GRADUALIST LANGUAGE AND DENOUNCING  
'ADVENTURISM' (THE CONTRAST BETWEEN THE FIRE AND BRIMSTONE  
OF HIS SPEECH IN LENINGRAD ON 13 OCTOBER AND HIS MUCH BLANDER  
FORMULATIONS ON THE SAME THEME OF CADRE POLICY IN MOSCOW ON  
20 NOVEMBER WAS STRIKING). IN NOT ONLY FAILING TO SAVE ELTSIN  
BUT BY LEADING THE HOUNDS AT THE KILL, GORBACHEV HAS DISAPPOINTED  
MUCH OF THE INTELLIGENTSIA, THE ONLY DEDICATED REFORM CONSTITUENCY  
IN THE COUNTRY, WHOSE ACTIVE SUPPORT IS CRUCIAL TO HIM. ALREADY  
FEELING LET DOWN BY THE LACK OF RADICALISM IN GORBACHEV'S 70TH  
ANNIVERSARY SPEECH, SOME OF THEM ARE NOW TAKING A MORE  
SCEPTICAL VIEW OF THE PROSPECTS FOR PERESTROIKA, AND WILL  
BE MUCH LESS WILLING TO RAISE THEIR OWN HEADS ABOVE THE PARAPET.

ENDS PART 1 OF 2

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PART TWO OF TWO

7. WHEN THE PRIME MINISTER AND YOU MET GORBACHEV IN MARCH, HE WAS RIDING HIGH: AFTER SOME ROUGH IN-FIGHTING, THE JANUARY PLENUM OF THE CENTRAL COMMITTEE HAD ENDORSED MOST OF THE KEY ELEMENTS OF PERESTROIKA AND THE WAY WAS CLEAR FOR HIS MUCH MORE COMPLETE SUCCESS AT THE JUNE PLENUM. GORBACHEV RETURNED FROM HIS LATE SUMMER HOLIDAY EXUDING A CONFIDENCE WHICH WAS REFLECTED IN HIS MAJOR SPEECHES IN MURMANSK (SEPTEMBER) AND LENINGRAD (OCTOBER). BUT THE EARLY AUTUMN MAY COME TO BE SEEN AS THE APOGEE OF GORBACHEV'S PERSONAL DOMINANCE. HIS OBJECTIVE OF TURNING THE SOVIET UNION INTO A MORE EFFICIENT, COMPETITIVE, ECONOMICALLY DYNAMIC AND CONTENTED COUNTRY, NOT LIVING IN A STATE OF TENSION WITH ITS NEIGHBOURS OR WITH THE MAJOR POWER BLOCS, REMAINS INTACT: BUT I THINK THAT HIS CHANCES OF ACHIEVING IT DURING HIS CHOSEN TIMESCALE OF FIFTEEN YEARS, IF AT ALL, NOW LOOK MUCH MORE PROBLEMATIC. THERE ARE SIGNS THAT GORBACHEV, RATHER THAN SEE PERESTROIKA SMOTHERED IS HAVING TO COMPROMISE WITH 'THE OLD THINKING' MUCH MORE THAN HE WOULD LIKE.

EXTERNAL AFFAIRS

8. ALTHOUGH GORBACHEV HAS NOT RECENTLY SUFFERED ANY MAJOR SETBACKS IN FOREIGN POLICY, HE HAS NOT CHALKED UP ANY SIGNIFICANT SUCCESSES EITHER. HE HAS HAD TO CONCENTRATE HEAVILY ON INTERNAL MATTERS AND HAS NOT BEEN ABROAD SINCE MAY (VISITS TO ROMANIA AND THE GDR: HE VISITED CZECHOSLOVAKIA IN APRIL: HIS LAST TRIP OUTSIDE THE WARSAW PACT WAS IN NOVEMBER 1986, TO INDIA). HE DID WELL TO ATTRACT SUCH A WIDE SPREAD OF LEFT-OF-CENTRE FOREIGN DELEGATIONS TO THE 70TH ANNIVERSARY CELEBRATIONS BUT THE OCCASION WAS MARRED BY



THE REVELATION OF DISUNITY IN THE SOVIET LEADERSHIP. AS GORBACHEV'S NBC INTERVIEW SHOWED, HE IS ON THE DEFENSIVE OVER AFGHANISTAN AND CSCE. HE IS THE DEMANDEUR IN MOVES TO IMPROVE RELATIONS WITH CHINA. HE DOES NOT HAVE UNITED BACKING EVEN WITHIN EASTERN EUROPE, WHERE THE ELTSIN AFFAIR HAS INDUCED NERVOUSNESS. RELATIONS WITH JAPAN ARE BAD, AND WITH FRANCE AND WEST GERMANY STILL STICKY (IN AN INTERVIEW WITH IZVESTIYA PUBLISHED HERE ON 2 DECEMBER, PRESIDENT MITTERRAND MADE A SERIES OF POINTS TRECHANTLY CRITICAL OF THE SOVIET UNION).

9. DESPITE A DELIBERATE DISPLAY OF INSOUCIANCE OVER THE SDI AS SUCH, THE SOVIET LEADERSHIP CONTINUES TO HAVE A LONG-TERM PREOCCUPATION WITH THE SUPER-POWER STRATEGIC BALANCE AND WITH RIGHT WING OPPOSITION IN THE UNITED STATES TO ARMS LIMITATION. CONCERN OVER THE POSSIBILITY THAT THE SOVIET UNION MIGHT BE IMPELLED INTO A NEW SPIRAL OF HIGH TECHNOLOGY DEFENCE EXPENDITURE REMAINS, ALTHOUGH THE TACTICAL APPROACH IS NOW CONCENTRATED ON ABMT OBSERVANCE. IT WILL BE DIFFICULT FOR GORBACHEV TO ACCOMPLISH THE SHIFT IN TECHNOLOGICAL RESOURCES WHICH PERESTROIKA REQUIRES IF AT THE SAME TIME THE SOVIET UNION HAS TO COMPETE WITH THE UNITED STATES IN DEVELOPING NEW GENERATIONS OF ARMAMENTS. GORBACHEV MUST SHARE THE CONCERN OF THE US ADMINISTRATION THAT A BLOCKING THIRD IN THE SENATE MAY PREVENT RATIFICATION OF THE INF AGREEMENT. THIS WOULD BE A DEFEAT FOR HIM AS WELL AS FOR REAGAN. THERE HAS ALREADY BEEN A SUBSTANTIAL AMOUNT OF COMMENT AND SPECULATION IN THE SOVIET PRESS ON THE PROSPECTS FOR RATIFICATION, CLEARLY REVEALING NERVOUSNESS. GORBACHEV WOULD BE VULNERABLE TO CRITICISM THAT HE HAD REPEATED THE MISTAKE OF SALT II IN PLACING TOO MUCH FAITH IN NEGOTIATING AGREEMENTS WITH AN ADMINISTRATION WHICH COULD NOT DELIVER. THERE MAY WELL BE ELEMENTS HERE, PARTICULARLY IN THE MILITARY, WHO WOULD NOT BE SORRY TO SEE RATIFICATION BLOCKED.

10. I WOULD THEREFORE EXPECT INF RATIFICATION TO BE IN THE FRONT OF GORBACHEV'S MIND WHEN HE MEETS THE PRIME MINISTER, AND CONCERN ABOUT LIMITING SDI, THROUGH STRICT INTERPRETATION OF THE ABM TREATY AND NON-WITHDRAWAL FROM IT, NOT FAR BEHIND. HE MAY ALSO PROFESS CONCERN OVER OPPOSITION (OF WHICH WE ARE A SIGNIFICANT ELEMENT) TO HIS PROPOSAL TO HOLD A CSCE CONFERENCE ON HUMANITARIAN QUESTIONS IN MOSCOW. HE IS UNLIKELY TO TAKE A MORE COOPERATIVE LINE THAN OF LATE OVER THE GULF: AND HE MAY BE RESTRAINED OVER AFGHANISTAN IF HE HAS POSITIVE NEWS UP HIS SLEEVE FOR PRESIDENT REAGAN.

GORBACHEV'S OBJECTIVES



11. BY STOPPING FOR BUSINESS IN BRITAIN, GORBACHEV IS MAKING A LONG DAY (32 HOURS FOR HIM THROUGH THE TIME ZONES) EVEN LONGER. HE HAS PUT SOME NOSES OUT OF JOINT (THE ITALIANS, FOR EXAMPLE, HAD BEEN TOLD THEY WERE NEXT ON HIS LIST), BUT HIS DECISION IS UNDERSTANDABLE.

12. FIRST, GORBACHEV GENUINELY VALUES HIS WORKING RELATIONSHIP WITH THE PRIME MINISTER. FOR LOCAL CONSUMPTION, SOVIET OFFICIALS HABITUALLY TRY TO PLAY DOWN THE PERSONAL ELEMENT IN EXTERNAL RELATIONS: IT WAS THEREFORE STRIKING THAT, IN THE FIRST PUBLIC REFERENCE HERE TO THE UK VISIT, PRAVDA (QUOTING THE MFA SPOKESMAN) REPORTED YOUR COMMENT TO THE BBC THAT THE PERSONAL RELATIONSHIP BETWEEN GORBACHEV AND MRS THATCHER HAD MADE A DISTINCT CONTRIBUTION TO THE IMPROVEMENT OF SOVIET/BRITISH RELATIONS. THE IMPACT OF THE PRIME MINISTER'S VISIT TO THE SOVIET UNION IS STILL FELT: FOR EXAMPLE, IT WAS REPEATEDLY REFERRED TO BY OFFICIALS AND OTHERS WHOM I MET EARLIER THIS WEEK ON TOUR IN DISTANT VOLGOGRAD AND KHARKOV. MEMORIES OF THE PRIME MINISTER'S TV INTERVIEW ARE STILL FRESH AFTER EIGHT MONTHS. GORBACHEV IS INTERESTED IN THE WAY BRITAIN HAS DEALT WITH ITS ECONOMIC PROBLEMS OVER THE PAST FEW YEARS AND IN THE RECONSTRUCTION OF THE BRITISH ECONOMY: HE IS RESPONDING TO SYMPATHETIC CONCERN ON THE PRIME MINISTER'S PART ABOUT SOVIET REFORMS. ABOVE ALL, HE RECOGNISES THE PRIME MINISTER'S INFLUENCE BOTH IN WESTERN EUROPE AND IN WASHINGTON: THIS IS NOT NEWS, BUT IT IS THE PRINCIPAL REASON FOR HIS VISIT NEXT WEEK TO THE UK.

13. SECOND, THE BRITISH VISIT ENHANCES, FOR BOTH THE DOMESTIC AND THE INTERNATIONAL AUDIENCE, THE OVERALL SUBSTANCE AND IMPACT OF THE JOURNEY. GORBACHEV, AND ESPECIALLY HIS KEY ADVISER YAKOVLEV, HAVE CONSISTENTLY SOUGHT TO DEVELOP RELATIONS WITH WESTERN EUROPE AND WITH OTHER REGIONS IN PARALLEL WITH, AND TO SOME EXTENT INDEPENDENTLY FROM, THE SOVIET/US RELATIONSHIP. THEY ARE MAKING A DELIBERATE DISTINCTION FROM THE BREZHNEV/GROMYKO DETENTE OF THE EARLY 1970S, WHICH THEY REGARD AS HAVING BEEN TOO EXCLUSIVELY FOCUSED ON THE AXIAL SUPER-POWER RELATIONSHIP AND AS HAVING FAILED IN PART AS A RESULT.

14. THIRD, GORBACHEV IS WELL AWARE THAT THE EUROPEAN PERSPECTIVE ON ARMS CONTROL IS NOT THE SAME AS THE AMERICAN. LIKE THE AMERICANS, HE WILL BE KEEN TO MAXIMISE EUROPEAN SUPPORT FOR THE INF AGREEMENT AND PRESSURE FOR RATIFICATION: BUT HE WILL ALSO HOPE TO EXPLOIT ANY TRANSATLANTIC DISAGREEMENTS WHICH MAY ARISE OVER WHAT HAPPENS THEREAFTER, AND IN PARTICULAR THEREBY TO COUNTER MOVES FOR COMPENSATORY DEFENCE MEASURES WITHIN NATO. HE WILL KNOW THAT THE INF AGREEMENT AND THE POSSIBILITY OF A FURTHER AGREEMENT TO REDUCE



STRATEGIC WEAPONS MAKES THE QUESTIONS OF THE DEFENCE OF EUROPE, OF CONVENTIONAL FORCE REDUCTIONS AND OF A CHEMICAL WEAPONS BAN, MORE ACUTE. HE WILL HAVE IN MIND THE STRONG EUROPEAN REACTIONS TO REYKJAVIK, AND THE PRIME MINISTER'S SUBSEQUENT VISIT TO CAMP DAVID (THIS PRECEDENT MAY DETER HIM FROM TRYING TO PULL ANOTHER FAST ONE IN WASHINGTON ALTHOUGH THAT CAN NEVER BE ENTIRELY EXCLUDED GIVEN HIS PROPENSITY FOR SURPRISES).

#### BILATERAL

15. ALTHOUGH TIME IS VERY LIMITED, THE PRIME MINISTER'S MEETING WITH GORBACHEV AND YOURS WITH SHEVARDNADZE ARE A NATURAL OPPORTUNITY TO AIR IMPORTANT BILATERAL QUESTIONS. I SHALL BE SURPRISED IF GORBACHEV GOES FIRM ON THE TIMING OF HIS SUBSTANTIVE RETURN VISIT TO THE UK, BUT I HOPE THAT SHEVARDNADZE WILL AGREE ON DATES FOR YOUR VISIT TO THE SOVIET UNION. GORBACHEV WILL HAVE BEEN BRIEFED ON BRITISH/SOVIET TRADE AND PROGRESS TOWARDS THE TARGET AGREED DURING THE PRIME MINISTER'S VISIT OF A 40% INCREASE IN TURN-OVER. I HOPE HE WILL THEREFORE BE RECEPTIVE TO A FURTHER STRONG PITCH FROM THE PRIME MINISTER ON BEHALF OF THE #250M SIMON CARVES BID FOR THE EREVAN PROJECT (FOR WHICH THE LETTER OF INTENT WAS SIGNED DURING HER VISIT) WITHOUT WHICH THE 40% TARGET CANNOT BE ATTAINED.

16. GORBACHEV WAS CLEARLY ANNOYED TO BE ASKED ABOUT RAISA BY TOM BROKAW IN THE NBC INTERVIEW: BUT I THINK THAT THE ACTION TAKEN BY YOU WILL HAVE BURIED THE HATCHET SO FAR AS THE BRITISH DIMENSION IS CONCERNED. I DOUBT THAT GORBACHEV WILL SPOIL THE ATMOSPHERE BY REFERRING TO THE OBSERVER ARTICLE AT ALL, THOUGH IT IS CONCEIVABLE THAT SHEVARDNADZE MAY EXPRESS SOME APPRECIATION OF YOUR COMMENTS IN IT. (THE MFA HAVE SO FAR DONE NO MORE THAN TAKE NOTE OF YOUR BBC INTERVIEW, PRESUMABLY ON THE GROUNDS THAT WE WERE MERELY RIGHTING A WRONG THAT WE THE BRITISH HAD INFLICTED).

#### CONCLUSION

17. I WOULD EXPECT THE PRIME MINISTER AND YOU TO FIND GORBACHEV A LITTLE LESS EBULLIENT THAN BEFORE, A LITTLE MORE GUARDED AND DEFENSIVE. BUT IT IS MUCH TOO EARLY TO CRY 'NEVER GLAD CONFIDENT MORNING AGAIN'. GORBACHEV'S AUTHORITY HAS BEEN DENTED BY THE EVENTS OF RECENT WEEKS BUT IS NOT UNDER SERIOUS THREAT. A SUCCESSFUL SUMMIT COULD BOOST HIS CONFIDENCE AND STRENGTHEN HIS POSITION FOR THE CRUCIAL MONTHS OF PREPARATION FOR THE PARTY CONFERENCE IN JUNE NEXT YEAR.