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the department for Enterprise

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Backlog with col.?

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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Richard
It really seems
more appropriate
for Lord Young
to raise with
Kamukov than
you with
Gorbachev.

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See Charles -

CPD 2/4.

MR GORBACHEV'S VISIT: TRADE MATTERS

I appreciate that the Foreign Office had to consolidate the various contributions from departments for Mr Gorbachev's visit. Unfortunately in doing so they omitted one significant part of the Trade Brief which deals with the non-creditworthiness of the Ministries and enterprises now entitled to borrow overseas.

I appreciate that this is a rather technical issue, but it is something which ECGD believe could very usefully be raised at the highest level if we are going to be able to expand our trade.

... I would therefore be grateful if you could add the attached paragraphs to the Trade Brief (I would suggest after the second paragraph).

I am copying this to Richard Gozney (FCO).

Yours -

Ben Stoeck.

By NEIL THORNTON
Private Secretary

She could mention the difficulty under the new economic system of assessing the credit-worthiness of individual Soviet Ministries and enterprises newly entitled to borrow, or in the case of Ministries to guarantee the borrowings of other Soviet institutions. In the past all major Soviet imports were financed by borrowings by Vnesheconombank (the Soviet Bank of Foreign Economic Affairs), which is effectively the Soviet state. The borrowings/guarantees of Soviet Ministries specifically do not commit the state. Yet neither the British bankers nor the British Government are given any financial information regarding the various Ministries nor details as to how their finances are controlled. What is needed at a time of significant change within the USSR (which can involve various Soviet Ministries being disbanded or merged) is a clear assurance that the Soviet state will stand behind a Soviet

Ministry's obligations. If a Ministry were to default on its obligations it would have a serious impact upon the Soviet Union's credit rating.

The first case where this problem arose was John Brown's "ASETCO" joint venture with the Ministry for the Chemical Industry for refurbishment of two polyethylene plants at Budyennovsk and Kazan. We are grateful for the assurances which Deputy Prime Minister Gusev gave to ECGD during negotiations in December. However, what will be required if the Soviet Union is to continue to attract the finest rates when borrowing from British (or other western) banks is an unequivocal undertaking that all financial commitments of Soviet Ministries have been approved by central authorities and have the backing of the Soviet state.