

Prime Minister

VISIT TO THE USSR

As you know, I visited the Soviet Union earlier this month to open the British Soviet Chamber of Commerce Month and to promote trade in the energy sector.

I was struck most forcibly by the change in the attitudes of the Soviet Government and people since I last made an official visit in 1979. Almost everybody I met, from Deputy Prime Minister Kamentsev to a power station manager, was eager to discuss openly the problems facing them. President Gorbachev has quite remarkably removed the people's fear of its Government within only three years. It was also clear that he has been successful in promoting younger and more far-sighted men into positions of power across a broad spectrum of Ministries. Of the four Ministers I met with responsibilities for different parts of the energy sector, only Schadov, the coal minister, was of the old school.

The rapid opening of public debate had, however, given expression to public discontent on a scale which the Government is finding hard to deal with. This was demonstrated during my discussions on nuclear power. They are determined to expand their nuclear programme by over 50% (it presently accounts for 12% of electricity generation and is planned to reach 20% by 2000) but each Soviet has a power of veto over new stations being built in their areas, which they now appear keen to exercise. The Government has also had to close the nuclear power station in Armenia even though it was completely untouched by the earthquake. Mr Lukonin, the Minister for Atomic Energy, emphasised that this decision was due to the extent of public concern about the possible effect of another earthquake and not because the Government believed there was any threat to safety. Mr Lukonin and other Ministers repeatedly questioned me about the

cc/cd (2)

Jim Hunter

CDD
26/4.

mt

way in which we dealt with public opposition to nuclear power and how we were able to pursue a new nuclear programme despite the public disquiet after Chernobyl. The deputy nuclear Minister had in fact spent some time at Hinkley Point learning about our inquiry process. I suspect that some Soviet Ministers below Gorbachev and the Politburo lack the experience needed to take on an open political debate effectively and are perhaps uncertain about exercising strong leadership in the new climate.

A number of Ministers also stressed the commitment of the Soviet Government to environmental protection and in particular the need to reduce CO₂ and SO₂ emissions from power stations. There was concern about the greenhouse effect and about more local problems caused by the poor emission controls on their power plants and major factories. They emphasised the unique contribution which nuclear power can make to solving these problems, and it was partly for this reason, that the public concern about nuclear power disturbed them. They fully endorsed the need for a concerted international effort to find solutions. They also agreed with me that the most intractable problems lay with the Third World and the conflict between economic growth and industrialisation on the one hand and the restraint of carbon emissions on the other. I believe this is an area where we will find much common ground with the Soviets. I believe that you would find it a constructive subject for discussion when you next meet President Gorbachev.

On the trade front, the BSCC month and exhibition was well organised, had a strong UK presence, and appeared to be attracting a good audience of senior managers from Russian industry. Good progress has already been made in the energy sector. Since 1986 my Department has been trying to promote trade in a series of Anglo/Soviet working groups. The USSR

RESTRICTED

is rapidly expanding and modernising its power plant industry, and oil and gas are key foreign exchange earners which are being exploited as quickly as possible. However, the working groups have met with varying degrees of success and one of my objectives was to stimulate greater discussion within them of practical ways of increasing trade in this sector. I was pleased to be able to agree that plant manufacturers should in future be included in the discussions of the key electricity group, and that there should be some restructuring on the Soviet side of the oil group to promote discussion of practical opportunities. These groups are a particularly good forum for the discussion of joint venture arrangements, which can, of course, be a useful means of overcoming the USSR's chronic shortage of hard currency.

I also took with me a group of businessmen from major companies, including John Brown, Taylor Woodrow, Rolls Royce and GEC, who have been collaborating with Russian industry for some time and J. P. Kenney who signed contracts for offshore supply equipment whilst we were there. My objective was to introduce them to senior Soviet Ministers and give them an opportunity to raise any problems they had encountered in trading with the USSR. I believe they felt the visit was very constructive. Mr Kamentsev was most helpful in dealing with their problems and ensuring that the appropriate officials were asked to resolve any problems. Most were also able to arrange to give detailed presentations on their companies to the various Ministries.

The Soviets continue to show great interest in barter trade. It is, of course, a key way of overcoming their currency shortage. Here again I was able to help the businessmen overcome some of the obstacles mounted by Soviet officialdom. The potential for counter trade in the energy sector is high. The Soviets are

RESTRICTED

particularly keen to export gas to the UK and David Young and you may find this pressed on you. Our policy has historically been to favour the development of the North Sea over foreign imports but I have not ruled out their proposal. I have explained to them that as a result of our past policy the UK gas market is fully supplied for the foreseeable future. However, I have also pointed out that the restructuring of the electricity industry is already bringing forward new proposals for power stations burning gas and I should have no objection to the Soviet Union negotiating to supply this new market.

Overall, the visit convinced me that there are great benefits to be earned by UK Ministers with responsibility for sponsoring a particular industrial sector bringing British businessmen and the Soviet Government together. It gives the businessmen an otherwise impossible opportunity to meet the decision takers and cut through the bureaucracy, which, despite Perestroika, is still immense and ponderous. I also believe that the Russian Ministers are often surprised by the competitiveness of our companies and by their drive and willingness to co-operate; direct contact does much to break down the sorry picture which British industry earned for itself in earlier decades.

On the political front Gorbachev has made immense strides forward but the task is still enormous. The party and the Government have built a structure which protects itself against change. Gorbachev has, for example, told local Communist party chiefs to cut the size of their organisations; they have responded by moving party workers into local government and so control their area as before. The coal ministry has 2.5 million employees, not only mining coal and manufacturing equipment but growing the food these people need and running a complex retail organisation; the Ministry is effectively self-sufficient and impervious to the outside world.

These institutions will take time to reorganise: the question is whether the people, burdened by a dead economy but excited by political reform, will be prepared to wait.

I am copying this to Geoffrey Howe, David Young and Sir Rodric Braithwaite. I should particularly like to thank Sir Rodric for his invaluable advice and for the tremendous assistance which he and the embassy as a whole gave me during my visit.

C.P.

Secretary of State for Energy

21 April 1989



*see memo
etc*

10 DOWNING STREET

LONDON SW1A 2AA

27 April 1989

From the Private Secretary

see Stephen,

The Prime Minister has read with great interest your Secretary of State's minute of 25 April about his visit to the Soviet Union and is most grateful to him for reporting so fully.

I am copying this letter to the Private Secretaries to the Foreign Secretary and Trade Secretary.

*Yours sincerely,
Charles Powell*

CHARLES D. POWELL

Stephen Haddrill, Esq.,
Department of Energy

RESTRICTED

pm