

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Nicholas Ridley MP  
Secretary of State for Trade and Industry

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Enquiries  
071-215 5000

Telex 8811074/5 DTHQ G  
Fax 071-222 2629

Direct line 071 215 5622  
Our ref JW2ASM  
Your ref  
Date 6 June 1990

*See Charles*

**PRIME MINISTER'S VISIT TO SOVIET UNION: COMMERCIAL  
ENGAGEMENTS**

When Richard Gozney wrote to you on 1 June about the Prime Minister's visit to the Soviet Union he mentioned that I would be writing with more details about commercial engagements in the programme.

**Soviet credits**

First, however, the Prime Minister should be made aware of the possibility that the Soviets may raise the subject of assistance from the West, possibly in the form of new credit facilities and the encouragement of investment, to enable the Soviet government to store consumer goods for release early next year to ease the pain of the planned market reforms.

ECGD could certainly agree to a small increase in credits for consumer goods, provided that they are guaranteed by Vneshekonombank (the Soviet Bank of Foreign Economic Affairs). But they would attract only short terms of payment under OECD Consensus rules and would adversely affect the Soviet balance of payments.

As to investment, ECGD are willing to provide support to encourage British companies to invest in the Soviet Union, but any such investments would be unlikely to have a significant impact on the consumer goods market by early 1991.

On export credits generally, the Prime Minister should avoid giving any firm commitments on cover for new projects, pending the current review of markets in which ECGD already have a significant exposure (of which the Soviet market is one).



Recycled Paper

## Security Export Controls

COCOM partners are expected to announce on 7 June agreement to major relaxation in strategic export controls. These relaxations will in general apply to all prescribed destinations. However in certain areas, ie computers and telecommunications, the countries of Eastern Europe may receive more favourable treatment than the Soviet Union.

In Moscow, the Prime Minister will first visit the Ministry of Telecommunications to see equipment being supplied by GEC-Plessey Telecommunications (GPT) as part of their long-term commitment to the USSR. The Soviet Minister of Telecommunications, Mr Pervyshin, is expected to be present. *R. Pervyshin* The Prime Minister may be invited to make a telephone call to the UK (possibly to Lord Prior, Chairman of GEC) through the recently installed System X exchange which is being tested by the Soviets and which GPT hope will form the basis for extensive business opportunities in the future. GPT have already established a successful joint venture (Comstar) to develop both domestic and international telecommunications networks in the Soviet Union. The first fruit of this co-operative venture was the provision of direct dial international payphone booths in Moscow.

## Moscow City Council

Following the visit to the Ministry of Telecommunications, the Prime Minister will look in on a presentation at the Moscow City Council, complete with scale models and architects' plans, on the £200m British-Soviet Trade Centre project being pursued by the Carroll Group in a joint venture with Mossoviet (effectively the formal launch of the project). The new Mayor of Moscow, Mr Gavriil Popov, will also be present. The project involves the construction of a twin-tower hotel and business complex near the centre of Moscow (above the 1905 Street Metro station to the west-north-west) and a residential block, which, after protracted negotiations and a letter from the Prime Minister to Mr Ryzhkov, will be located in the south-west suburbs on Mosfilmovskaya Street. The related problem of the location of offices for the Carroll/Mossoviet joint venture, which the Prime Minister raised in her letter, has still to be resolved but is not yet crucial to progress.

Carroll claim to have made good progress in discussions with possible contractors and hotel management companies. No decisions have been taken. However, there is some danger that, for commercial reasons, British companies will not be selected. This would dilute the case for continued high-level political support, although the centre would still be a very valuable asset for UK companies doing business in the USSR and would bring in some £10m of invisible earnings a

year.

Probably the major obstacle to the project remains that of financing and specifically the question of commercial and political risk guarantees. ECGD support (assuming a UK contractor) is likely to be conditional on a guarantee from the Soviet State (in practice Vneshekonombank) or an accepted Western party. This is far from certain. Since the project is of no immediate benefit to Soviet citizens a Soviet guarantee has not been offered and no Western party (including Carroll) has so far been inclined to give the project any financial backing.

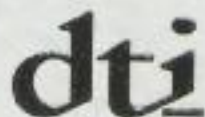
#### Long-term Programme

When the Prime Minister meets Mr Ryzhkov, they will sign, amongst other documents, a 10-year Economic and Industrial Co-operation Programme for 1991-2000. She should not refer to this as a trade agreement but as a co-operation programme. This is because of EC competence on trade matters and the signature of the EC/USSR trade agreement on 18 December 1989 (the equivalent of the US/USSR trade agreement signed during President Gorbachev's visit to Washington last week).

The programme replaces a similar one for the period 1986-1990. Its purpose is to serve as a guide to companies and organisations on each side as to commercial areas where both sides could do business with each other, such as through straight sales or joint manufacture. As Richard Gozney said in his letter of 1 June, such Agreements are a standard feature of economic relations between the Soviet Union and Western countries; the Soviet side regards them as much more important than we do.

The main features of the new agreement are:

- a) it demonstrates the willingness of both countries, and confidence in each other, to co-operate closely over the next 10 years;
- b) it reflects the changes in the Soviet economy by placing greater emphasis on co-operation with organisations newly entitled to engage in foreign trade and recognising new forms of co-operation, such as joint ventures and consortia;
- c) it acknowledges the importance of co-operation in the provision of a wide range of services, where the UK is particularly strong;
- d) it provides for co-operation in joint exploration, extraction and distribution of minerals and energy products,



the department for Enterprise

CONFIDENTIAL

which could provide the means for a general expansion of co-operation in other fields;

e) it recognises the importance of protecting investments and intellectual property rights;

f) it confirms the importance of greater diversity in the provision of financing for major projects.

The programme will be circulated widely throughout British and Soviet industry and should lead to a closer co-operation between the two countries through better awareness of the opportunities.

#### "British Industry Today", Kiev

In Kiev, the main commercial element in the Prime Minister's programme is the visit to the "British Industry Today" exhibition.

We understand that the Prime Minister hopes to visit all the stands, but if time does not permit this we recommend that she visit at least those of Allied-Lyons, in view of the Lord Mayor of London's visit the following week (Sir Hugh Bidwell is a Director of Allied-Lyons); Amersham, because the company had invited the Prime Minister to visit the Cardiology Centre in Moscow, where they have just signed a joint venture to manufacture radio-diagnostics; ICI, because it did not prove possible for the Prime Minister to visit their farm management consultancy project outside Kiev; and ICL, because the company may be about to sign a large contract to supply personal computers.

#### John Brown

After touring the Exhibition, the Prime Minister will witness the signature of two agreements between British companies and Soviet organisations. The first will be a Shareholders Agreement to establish a joint venture company between John Brown Plc and Gasprom (a new organisation representing the interests of over 90 gas enterprises in the USSR) to pursue a project at Novi Urengoi, 30 miles south of the Arctic Circle. This comprises the turnkey design, supply and installation of a natural gas liquids plant, ethylene, butene and polyethylene plants, plus associated utilities and infrastructure on a greenfield site. John Brown would be main contractor, undertaking engineering, project management and support and would hope to supply most of the equipment from the UK. British content could be as high as £180m but stiff competition is expected from Japanese and US companies.



Recycled Paper



the department for Enterprise

CONFIDENTIAL

The project would be the second under John Brown's pioneering ASETCO arrangement - facilitating hard currency financing through the purchase by Union Carbide of polyethylene products from the Novi Urengoi complex. ECGD cover would also be crucial (but see earlier paragraph on availability of ECGD cover for new projects).

The agreement will be signed by Mr Allan Gormly, Managing Director of John Brown, and Mr V S Chernomyrdin, Chairman of Gasprom.

Overseas Pharmacies Ltd (OPL)

*AngloMed  
Red*

The second agreement will be signed by Mr Charles Rommer, Chairman of OPL, a specialist UK healthcare supply company, and Mr A L Boyko, Director General of the industrial amalgamation "Pharamacia" of the Ukrainian Ministry of Health. This will establish a joint venture called AngloMed to offer a complete supply and distribution service in the Ukraine for pharmaceutical, healthcare and related consumer products through the creation of offices, warehouses and, ultimately, retail pharmacies. OPL is also offering assistance in the staged development of improved pharmaceutical production techniques.

Last year OPL opened a British-style pharmacy in Tbilisi, in co-operation with the Georgian Ministry of Health.

OPL has also concluded an agreement with Soyuzsnabimport, the import and distribution arm of the Soviet State Supplies Commission, towards a full joint venture (hoped for in late 1990) for the supply and distribution of healthcare products through their 220 warehouses nationwide.

Mr David Gilroy-Bevan MP, advisor to OPL, will be in Kiev for the signing ceremony.

Mr Thatcher

I am writing separately about engagements in Mr Thatcher's programme.

I am copying this letter to Richard Gozney (FCO).

*Yours ever*

*B. Slocock*

BEN SLOCOCK  
Private Secretary

