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SEE MIPT: VISIT BY MR DELORS

1. DELORS BRIEFED THE COMMUNITY AMBASSADORS ON 20 JULY OVER LUNCH, TO WHICH HE HAD ARRIVED LATE BECAUSE OF AN EXTENDED MEETING WITH DEPUTY PRIME MINISTER SITARYAN AND A NUMBER OF OTHER SOVIET OFFICIALS.

2. DELORS SAID THAT HE HAD EMPHASISED TO ALL HIS RUSSIAN INTERLOCUTORS THAT HIS PRESENT EXERCISE WAS RUNNING TO A VERY TIGHT TIMETABLE. THE COMMISSION HAD TO REPORT TO THE EUROPEAN COUNCIL IN OCTOBER. BETWEEN THEN AND THE END OF THE YEAR THERE WOULD BE A NUMBER OF OTHER HIGHLY RELEVANT POLITICAL EVENTS: THE CSCE SUMMIT, GERMAN REUNIFICATION, AND THE COMMUNITY'S INTERGOVERNMENTAL CONFERENCE ON EUROPEAN UNION. FOR THESE REASONS, HE HAD TOLD HIS INTERLOCUTORS, IT WAS VITAL THAT THE SOVIET PROPOSALS FOR ECONOMIC REFORM SHOULD BE SEEN TO MAKE SENSE, AND TO HAVE SOME PROSPECT OF RAPID ADOPTION, WHEN THEY WERE INTRODUCED TO THE SUPREME SOVIET AT THE BEGINNING OF SEPTEMBER. BOTH THE COMMISSION'S JUDGEMENT, AND THE DECISIONS OF THE EUROPEAN COUNCIL, WOULD BE MUCH AFFECTED THEREBY.

3. GORBACHEV HAD TOLD HIM THAT, FOLLOWING THE SUCCESSFUL PARTY CONGRESS AND THE UNBLOCKING OF THE GERMAN ISSUE, THE SOVIET GOVERNMENT NOW HAD A CLEAR WAY FORWARD FOR ECONOMIC AND INSTITUTIONAL REFORM. THE TWO WERE CLEARLY INTIMATELY LINKED. DELORS HAD THOUGHT THAT GORBACHEV HAD A FAR BETTER UNDERSTANDING OF THE TRUE NATURE OF MARKET ECONOMY THAN RYZHKOV OR EVEN ABALKIN. THOUGH HE FELT THAT THE LITHUANIAN PROBLEM WAS ON A WAY TO A SOLUTION, HE WAS PREOCCUPIED BY DEVELOPMENTS IN THE RSFSR. HE HAD BEEN VERY CRITICAL OF THE REFERENCES TO "CONDITIONALITY" AT HOUSTON. HE HAD WELL UNDERSTOOD THAT THE AMERICANS HAD BEEN PLAYING ELECTORAL POLITICS. BUT HE HAD RESENTED THE ARGUMENT THAT SHORT TERM HELP WOULD WEAKEN HIS WILL TO REFORM THE SOVIET ECONOMY. THE SOVIET UNION WAS NOT A THIRD WORLD COUNTRY. THEY DID NOT INTEND TO SUBJECT THEMSELVES TO THE KIND OF DISCIPLINES IMPOSED BY THE IMF. NEVERTHELESS, HE INDICATED THAT HE WOULD WELCOME SHORT TERM ASSISTANCE TO HELP WITH THE TRANSITIONAL PERIOD. IN GENERAL, GORBACHEV HAD SHOWN CONSIDERABLE UNDERSTANDING THE SYMPATHY FOR THE EUROPEAN COMMUNITY AND THE MOVE THERE TOWARDS

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CLOSER POLITICLA AND ECONOMIC UNITY. HE SAID THAT HE WOULD USE THE COMMUNITY AS AN EXAMPLE IN HIS FORTHCOMIG DISCUSSIONS WITH THE SOVIET REPOUBLICS ABOUT THE PROPOSED NEW UNION TREATY.

4. DELORS HAD DISCUSSED WITH GORBACHEV AND OTHERS THE DEVELOPMENT OF ECONOMIC RELATIONS WITHIN EASTERN EUROPE AS A WHOLE. DELORS HAD EXPRESSED THE VIEW THAT CMEA REMAINED IMPORTANT. THE RUSSIANS HAD CLEARLY BEEN MUCH PREOCCUPIED WITH THE ECONOMIC CONSEQUENCES OF GERMAN REUNIFICAITON, FOLLOWING THE ABSORPTION OF THE GDR ECONOMY INTO THE WEST. THEY WERE CLEARLY VERY ANXIOUS AT THE PROSPECT THAT THEY MIGHT FIND THEMSELVES ISOLATED ON THE MARGIN OF EUROPE.

5. CONCLUDING, DELORS REMARKED THAT THE TEST FOR THE SOVIET ECONOMIC REFORM WOULD BE WHETHER IT MANAGED TO INITIATE AN IRREVERSIBLE VIRTUOUS CIRCLE. THE COMMISSION'S OWN STUDY OF HTE COMPLEX ISSUES INVOLVED WOULD BE VERY DIFFICULT TO CONDUCT. THE COMMISSION HAD NOT HAD MUCH TIME TO COMPLETE IT, AND RISKED DAMAGING ITS RPEUTATION FOR PROFESSIONALISM BY A HALF-BAKED REPORT. ANDRIESSEN TOLD ME SEPARATELY THAT HE AND DELORS WERE CONSIDERING BRINGING IN OUTSIDE EXPERTS. I SAID THAT A NUMBER OF WESTERN, INCLUDING BRITISH ECONOMISTS, HAD HAD INTERMITTENT DISCUSSIONS WITH THE RUSSIANSABOUT RATHER FAR REACHING PROPOSALS FOR REFORM OVER THE LAST FEW YEARSW: THE OUTSIDE EXPERTISE WAS CERTIANLY AVAILABLE (I HAD IN MIND THE SOROS STUDY, WHICH WAS PATRONISED BY RYZHKOV, AND IN WHICH PHILIP HANSON AND THE AMERICAN, ED HEWITT, HAD PARTICIPATED).

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