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1990 ②
Prime Minister
Re Enquiries
increasingly identifying
us as back-matters
on the question of
assistance.
7 August 1990
COP
SP

Treasury Chambers, Parliament Street, SW1P 3AG

C D Powell Esq
PS/Prime Minister
10 Downing Street
LONDON SW1A 2AA

Dear Charles,

SOVIET REQUEST FOR BILATERAL AID

Mr Pavlov, the Soviet Finance Minister, came to see the Financial Secretary this afternoon. He brought with him a letter from Mr Ryzhkov to the Prime Minister. This is attached along with an unofficial translation provided by the Soviet Embassy. Mr Mountfield of our Aid and Export Finance group was present, as was Mr Karasin of the Soviet Embassy.

Mr Pavlov stressed that the problem of foreign-currency payments was urgent. He said that the Soviet Union was co-operating with the teams drawing up reports for the IMF and the European Commission. There were bilateral contacts with Mr Kohl and the French government, although he could not report specific results yet. He felt he had to note a slowness in the British approach to Soviet requests for specific help. Despite press reports, Soviet external debt was actually decreasing. But the withdrawal of credits by British banks was creating severe problems. The Soviets were paying German companies with money from German banks guaranteed by the German government (this was a condition of the credit the Germans provided), and paying Italian companies with money from Italian sources. There would be difficulties paying British companies.

The Financial Secretary said that the UK was very closely associated with the position reached by the EC at Dublin and the G7 at Houston. We were not hostile to the idea of providing assistance, but wanted a thorough analysis done. So far as payments to UK companies went, an economy which wants foreign investment and foreign trade must be able to show that it will meet its debts.

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Mr Pavlov said that if British and other banks continued to withdraw deposits and credits, the Soviet government would have no choice but to introduce a moratorium on payments, even before the Commission and IMF teams had reported. It was not clear whether or not this implied a selective moratorium aimed at British creditors alone. He did not underestimate the political consequences, but the loss of around \$5 billion would be a serious blow even in better times (this seems to refer to the deterioration in the USSR current account between last year and this). He expected the Soviet leadership to discuss very soon a possible moratorium.

Mr Mountfield said that we had not realized that Soviet current account position was as bad as Mr Pavlov suggested. If we were to evaluate his request we would need to know:

- the latest Soviet forecast of the current account for this year and next;
- the effects of the oil price increase;
- what other finance was available;
- the position of individual Soviet banks;
- the state of the USSR's reserves, including gold.

Mr Pavlov said that, if the UK government was prepared to agree to the principle of assistance, he could provide a team of experts, or receive British officials in Moscow. As a preliminary step, he agreed that the Treasury could discuss these matters with the IMF team, who will be in London this week.

We will be able to provide advice for the Prime Minister after that meeting.

I am copying this letter to John Gieve in the Chancellor's office, Stephen Wall at the FCO, and to Clive Briaut at the Bank of England.

Yours sincerely,

S J FLANAGAN
Private Secretary

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Moscow

3 August 1990

Dear Mrs. Thatcher,

It is with a feeling of satisfaction that I recall our recent conversation and an interesting exchange of views on the ways of further development of reforms in the Soviet Union.

We in the Soviet Union followed with considerable interest the meetings in Dublin and Houston, and were pleased to note the support given to the USSR President proposal on establishing continuous dialogue between the Soviet Union and the leaders of the seven leading countries of the West, in the same fashion as it exists with the European Community.

We highly value the readiness, expressed in Houston, to assist the Soviet Union in transition to a market-oriented economy. On a more specific plane, we have already had contacts with Mr. J. Delors and Mrs. M. Camdessus, IMF Managing Director. These contacts resulted in setting up the joint work of the experts of the two bodies and representatives of the Soviet government bodies on the reports to be presented to the "seven". The reports will provide the basis for the specific recommendations on the multilateral assistance to the Soviet Union in carrying out the reforms.

At the same time, being interested in further development of the bilateral Soviet-British economic relations, we would be grateful to you, Mrs. Thatcher, if you could consider the possibility of granting to the Soviet government long-term financial assistance of the form and size, acceptable for your government.

We mean to use this assistance both to resolve the short-term requirements, primarily to finance the payments to the British companies supplying goods for the Soviet market, and to facilitate the long-term cooperation between the Soviet Union and Great Britain.

In case of your positive reaction to this request, appropriate officials authorized by the Soviet government could begin specific discussions at any time, convenient for the British side.

Yours respectfully,

N.RYZHKOV

Chairman of the USSR
Council of Ministers

Москва, 3 августа 1990 г.

Уважаемая госпожа Тэтчер,

С удовлетворением вспоминаю состоявшуюся недавно беседу с Вами и интересный обмен мнениями о дальнейших путях развития реформы в Советском Союзе. В прошедшие два месяца произошли важные события.

Мы в Советском Союзе с большой заинтересованностью следили за встречами в Дублине и Хьюстоне, с удовлетворением отметили, что предложение Президента СССР об установлении постоянного диалога с главами государств и правительств семи ведущих стран Запада, так же, как и с Экономическим Сообществом, получило поддержку.

Мы высоко ценим выраженную в Хьюстоне готовность оказать помощь Советскому Союзу в переходе к экономике, ориентированной на рынок. В плане конкретизации этих решений уже имели место контакты с Председателем Комиссии Европейских Сообществ Ж.Делором и директором-распорядителем Международного Валютного фонда М.Камдессю. В результате этих контактов организована совместная работа экспертов указанных организаций и советских министерств и ведомств над составлением докладов, которые будут представлены "семерке",

Ее превосходительству
госпоже М.Тэтчер
Премьер-Министру Великобритании
г.Лондон

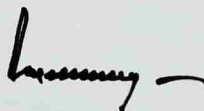
и на основе которых могут быть выработаны конкретные рекомендации по оказанию Советскому Союзу содействия на многосторонней основе в осуществлении реформ.

В то же время, заинтересованные в дальнейшем развитии двусторонних советско-британских экономических отношений, мы были бы признательны Вам, госпожа Тэтчер, если бы Вы рассмотрели возможность оказания Советскому правительству долгосрочной финансовой помощи в приемлемых для Вашего Правительства форме и объемах.

Имеется в виду использовать эту помощь как для решения краткосрочных потребностей нашей страны, прежде всего для осуществления расчетов с британскими фирмами, поставляющими товары на советский рынок, так и для обеспечения долгосрочного сотрудничества между Советским Союзом и Великобританией.

В случае Вашего положительного отношения к этой просьбе уполномоченные Советским правительством лица могли бы приступить к конкретным переговорам в любое удобное для Британской Стороны время.

С уважением



Н. Рыжков

Председатель
Совета Министров СССР