

RESTRICTED
FM WASHINGTON
TO IMMEDIATE FCO
TELNO 2824
OF 220016Z NOVEMBER 90
AND TO IMMEDIATE TREASURY, ACTOR
AND TO PRIORITY OTHER EC POSTS
INFO PRIORITY MOSCOW, OTTAWA, TOKYO
INFO PRIORITY EAST EUROPEAN POSTS, UKDEL OECD

TREASURY FOR WICKS

MY TELNO 2823 (NOT TO ALL) AND YOUR TELNO. 692 TO
ROME: US POLICY TOWARDS THE SOVIET UNION

SUMMARY

1. AMERICANS SEE EYE TO EYE WITH US. PRELIMINARY WORK ON HUMANITARIAN AID. TO TAKE SOUNDINGS OF G-7 PARTNERS ON 26/27 NOVEMBER ON DEALING WITH IMF REPORT. NO WISH TO SPEND MONEY TO NO GOOD PURPOSE. WE MAY HAVE LESS TIME IN HAND THAN WE MAY THINK.

DETAIL

2. THE ADMINISTRATION SEE THEIR INTEREST IN HELPING GORBACHEV IN VERY MUCH THE SAME LIGHT AS DO WE AND OUR EC PARTNERS. THE AMERICANS WILL WISH TO KEEP IN STEP WITH THE G-7 COUNTRIES. THEY SEE GORBACHEV AS A VALUABLE DIPLOMATIC PARTNER. THEY BELIEVE THAT THEY CAN SUPPORT HIM TO SOME EXTENT BY CONTINUING TO TREAT HIM AS THE LEADER OF A SUPER POWER. BUT THERE ARE LIMITS TO WHAT THEY CAN DO TO HELP HIM COPE WITH HIS DOMESTIC PROBLEMS, THEIR FREEDOM OF ACTION BEING RESTRAINED BY:

- (A) THEIR LACK OF SUSTAINABLE OFFICIAL SOURCES OF FINANCE,
- (B) LEGAL CONSTRAINTS (OF WHICH THE KEY IS THE JACKSON/VANIK AMENDMENT PROHIBITING ASSISTANCE IN THE ABSENCE OF STATUTORY EMIGRATION LAWS) AND THE CLIMATE OF OPINION IN CONGRESS WHICH IS NOT YET FAVOURABLE FOR SUCH ARRANGEMENTS TO BE MADE FOR THE SOVIET UNION, AND
- (C) THE QUESTIONS OF TO WHOM THEY MIGHT GIVE ANY AID, IN WHAT FORM, AND FOR WHAT PURPOSES.

3. THE ADMINISTRATION, WITHIN THAT FRAMEWORK, ARE CONCENTRATING ON THREE MAIN AREAS. FIRST, OFFICIALS ARE LOOKING FOR A WAY TO SYSTEMATISE US CONTACTS WITH THE VARIOUS ELEMENTS OF THE SOVIET UNION IN ORDER TO GET A BETTER HANDLE ON THE BALANCE BETWEEN THE

UNION AND THE REPUBLICS. THEY HAVE NOT, HOWEVER, SO FAR AS I CAN TELL GOT MUCH FURTHER IN THIS PROCESS THAN IDENTIFYING THE PROBLEM.

4. THE SECOND, AND MORE IMMEDIATE AREA THEY ARE LOOKING AT, COVERS HUMANITARIAN AID, HENCE THE PRESIDENT'S STATEMENT IN PARIS ON 19 NOVEMBER OF WILLINGNESS TO CONSIDER FOOD AID. RICE (NSC) TOLD ME ON 20 NOVEMBER THAT BUSH'S STATEMENT DID NOT MEAN THE AMERICANS WERE EAGER TO TAKE AN INITIATIVE IN THIS REGARD. THEIR ASSESSMENT WAS STILL THAT THE SOVIET PROBLEM IS ONE OF DISTRIBUTION, NOT SUPPLY, PARTICULARLY GIVEN THE GOOD HARVEST THIS YEAR. THEY RECOGNISE HOWEVER THAT HARDSHIP THIS WINTER IN CERTAIN AREAS IS NOT TO BE RULED OUT AND THAT THERE IS A POLITICAL DIMENSION TO THE QUESTION WHICH MIGHT MAKE IT NECESSARY TO RESPOND TO ANY SOVIET APPEALS AS MUCH FOR THE SAKE OF HELPING WITH POPULAR MORALE AND SUPPORTING GORBACHEV AS FOR RELIEVING ACTUAL NEED. THEY HAVE THEREFORE UNDERTAKEN A CERTAIN AMOUNT OF ADMINISTRATIVE PLANNING IN ANTICIPATION OF AN EVENTUAL REQUEST. THE HARDEST NUT TO CRACK WILL BE THE OBVIOUS ONE OF TO WHOM FOOD SHOULD BE DELIVERED AND HOW IT SHOULD BE DISTRIBUTED. ZOELICK (STATE) REMARKED TO ME ON 7 NOVEMBER THAT ONE DIFFICULTY WITH AID TO THE SOVIET UNION WAS THAT HELP IN ONE AREA PROVOKED DIFFICULTIES IN OTHERS - WE WERE DEALING WITH A SITUATION OF INTER-DEPENDENT CHAOS.

5. THE AMERICANS ARE APPARENTLY FURTHER AHEAD IN CONSIDERING HOW TO GIVE HELP OVER MEDICAL SUPPLIES THAN OVER FOOD AID, ALTHOUGH HERE TOO NO POLICY DECISIONS HAVE BEEN TAKEN. MEDICAL HELP WOULD BE PROVIDED THROUGH THE PRIVATE SECTOR UNDER A GOVERNMENT INSPIRED EFFORT.

6. THE AMERICANS HAVE A LIMITED PROGRAMME OF TECHNICAL ASSISTANCE ALREADY IN BEING. IT INVOLVES CONSULTANCY VISITS BY US OFFICIALS. TWO PROMINENT EXAMPLES HAVE BEEN SUNUNU'S SEPTEMBER VISIT TO TALK ABOUT ORGANISING A PRESIDENTIAL STAFF AND GREENSPAN'S EXCHANGES ON PRIVATISATION. THE ADMINISTRATION WOULD LIKE TO SEE THIS EXPANDED, PARTICULARLY TO DEAL WITH REPUBLICS AND LOCAL GOVERNMENTS. BUT THIS WOULD NEED MONEY AND CONGRESSIONAL SUPPORT HAS NOT SO FAR BEEN FORTHCOMING. THEY ALSO RECOGNISE A NEED TO DO WHAT THEY CAN TO HELP GORBACHEV MAINTAIN SUFFICIENT MORALE IN THE SOVIET ARMED FORCES. THEY ARE NOT PREPARED TO COMMIT LARGE SCALE RESOURCES TO HELP, FOR EXAMPLE, WITH HOUSING. BUT THEY WILL BE CONCERNED TO AVOID HUMILIATING THE SOVIET ARMED FORCES AND TO PROMOTE CONTACTS BETWEEN THEM AND THE US MILITARY IN AN EFFORT TO BOOST SOVIET MILITARY SELF-CONFIDENCE. CHENEY HAS ALSO OFFERED ADVICE AND ASSLSTANCE IN HELPING THE MILITARY TO CONVERT THEIR RESOURCES TO

CIVILIAN USE.

7. THE THIRD MAJOR SUBJECT THE ADMINISTRATION ARE NOW CONSIDERING IS HOW TO DEAL WITH THE OUTCOME OF THE IMF-LED EXAMINATION OF THE SOVIET ECONOMY. AT LEAST PRELIMINARY DECISIONS WILL HAVE TO BE MADE IN THE VERY NEAR FUTURE. MULFORD WILL BE SOUNDING OUT G-7 PARTNERS AT THE FINANCE MEETING ON 26/27 NOVEMBER. THE NSC HAVE SAID THAT THEY HOPE WE WILL BE ABLE TO SUPPORT THE GENERAL THRUST OF WHAT MULFORD HAS TO SAY ON THAT OCCASION. THEY BELIEVE WE WOULD BE WELL ADVISED TO CONCERT A LINE BEFORE THE INITIAL PRESENTATION OF THE IMF REPORT TO GORBACHEV IN EARLY DECEMBER. I HAVE POINTED OUT THAT THE EUROPEAN COUNCIL DISCUSSION OF 14 DECEMBER ALSO IMPOSES SOMETHING OF A DEADLINE.

8. THE INSTRUCTIONS IN YOUR TELNO. 692 TO ROME ARRIVED AFTER MY DISCUSSIONS AT THE NSC ON 20 NOVEMBER, BUT I AM CONFIDENT THAT THE AMERICANS VERY MUCH AGREE WITH THEIR ESSENTIAL THRUST. THEY CONTINUE TO BE VERY SCEPTICAL INDEED AS TO THE VIRTUES OF SIGNIFICANT FINANCIAL AID. IT IS BY NO MEANS ONLY A MATTER OF THEIR OWN BUDGETARY PROBLEMS. THEY BELIEVE THE ABSENCE OF CREDIBLE SOVIET INSTITUTIONS FOR HANDLING MAJOR CAPITAL INFUSIONS AND THE LACK OF ANY COHERENT PROGRAMME OF REFORM TO WORK WITH, BOTH MEAN NOT ONLY THAT ANY MONEY SPENT WOULD BE WASTED BUT ALSO THAT THE PROSPECTS FOR STRUCTURAL REFORM COULD WELL THEREBY BE FURTHER DELAYED. THEY WOULD THEREFORE LIKE TO CONCERT THEIR POLICIES WITH US AND THE MORE CAUTIOUS MEMBERS OF THE G-7, ESPECIALLY THE JAPANESE AND CANADIANS, SO AS TO AVOID BEING PUT IN A POSITION WHERE MOMENTUM IN THE DIRECTION OF FINANCIAL AID MIGHT BEGIN TO PICK UP AND THEREBY PUT PRESSURE ON THEM TO DEVOTE RESOURCES TO A POLICY IN WHICH THEY HAD LITTLE BELIEF. THEY SEE NO CASE AT PRESENT FOR BALANCE OF PAYMENTS SUPPORT AND AGREE THAT, IF WE EVENTUALLY HAVE TO GO DOWN THIS ROAD, THE BEST APPROACH MIGHT WELL BE SOMETHING CLOSE TO A TRADITIONAL FUND PROGRAMME WITH APPROPRIATE CONDITIONALITY. IT FOLLOWS THAT THE AMERICANS WILL HOPE THAT THE EUROPEAN COUNCIL WILL REFRAIN FROM DECISIONS ON FINANCIAL ASSISTANCE PENDING FULL CONSIDERATION OF THE IMF STUDY.

9. I WAS TOLD AT THE NSC ON 20 NOVEMBER THAT WE COULD EXPECT INCREASING SOVIET PRESSURE TO JOIN THE INTERNATIONAL FINANCIAL INSTITUTIONS. THE ADMINISTRATION VERY MUCH HOPED WE WOULD NOT AGREE TO THIS (THOUGH IT WAS NOT CLEAR FOR HOW LONG THE ADMINISTRATION EXPECTED SUCH EXCLUSION TO BE DESIRABLE). ONE IDEA WORTH EXAMINATION WAS TO SEE WHETHER OR NOT THERE MIGHT BE SOME HALF WAY HOUSE BETWEEN MEMBERSHIP AND EXCLUSION, AMOUNTING TO SOME FORM OF ASSOCIATION. I SUGGESTED ONE WAY FORWARD MIGHT

BE TO INVITE THE IMF TO CONVENE AND CHAIR MEETINGS TO DISCUSS THE COORDINATION OF MULTILATERAL AND BILATERAL EFFORTS TO FOLLOW UP THE SOVIET STUDY'S RECOMMENDATIONS. DR RICE AGREED THAT THE ARGUMENTS AGAINST POSSIBLE EBRD CLAIMS TO DIRECTION WERE VERY STRONG. THE AMERICANS SHARED OUR DOUBTS ABOUT THE COMMISSION TAKING THE LEAD IN A G-24 PROCESS. THE OBJECT OF MULFORD'S SOUNDINGS ON 26/27 NOVEMBER WOULD BE TO SEE WHETHER OR NOT THE GROUND COULD BE PREPARED IN ADVANCE WITH OTHER G-7 MEMBERS SO AS TO PUT ACTION FIRMLY IN THE IMF CONTEXT. IF WE DID NOT GET A GRIP ON THINGS AND ESPECIALLY AN AGREED AGENDA AS SOON AS POSSIBLE, THE PRESSURES MIGHT WELL BUILD UP FOR SPENDING A LOT OF MONEY TO NO GOOD PURPOSE. ONCE MULFORD HAD REPORTED BACK TO WASHINGTON, SHE EXPECTED THE ADMINISTRATION TO COME UP WITH SOME BASIC PRINCIPLES FOR ENDORSEMENT BY THE PRESIDENT. SHE UNDERTOOK TO GET BACK TO ME AS SOON AS POSSIBLE ONCE THIS HAD HAPPENED. WE HAD LESS TIME IN HAND THAN WE MIGHT THINK.

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