



10 DOWNING STREET

From the Private Secretary

7 January 1985

Dear Peter

Prime Minister's meeting with Mr Gorbachev

I enclose an approved record of the Prime Minister's discussion with Mr Gorbachev over lunch at Chequers on 16 December, which Mr Bishop kindly prepared from his notes.

I know that the Prime Minister regards this discussion as particularly sensitive and would wish knowledge of it restricted very closely indeed. Mr Bishop has already given his draft a distribution. It should certainly go no wider than that: indeed I suggest that copies should be numbered and accounted for, and no further copies distributed.

Yours sincerely,
C.D. Powell
(C.D. Powell)

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RECORD OF PRIVATE LUNCHTIME CONVERSATION BETWEEN THE PRIME
MINISTER AND MR GORBACHEV AT CHEQUERS ON SUNDAY 16 DECEMBER
1984

Mr Gorbachev said that he had spent a good morning at the Headquarters of John Brown. The First Deputy Minister of Foreign Trade had been with him. Some of the proposals made by John Brown had been very interesting. This was an important time for considering possible lines of cooperation. He would be having further discussions during the week with British businessmen. The Prime Minister said that John Brown were doing well now. After a strike-prone period some years ago, they had been free of strikes for some 12 years now. Their orders were being produced on time and they had a very good record. Like other British companies, they honoured their contracts. Mr Gorbachev said that John Brown had good knowledge of Soviet conditions and problems. Certain points raised in their presentation that morning deserved further and immediate study, notably those for chemical plants, food processing and packaging systems etc. The Prime Minister said she understood that it was important for the Soviet Union to increase the shelf life of products. Mr Gorbachev said that the Soviet Union was losing or wasting a great deal because such infrastructure was lacking.

Mr Gorbachev said he would later be conveying to the Prime Minister a special message from Mr Chernenko. This would deal with arms control and space and with opportunities for extending the bilateral dialogue started in Moscow at the time of Mr Andropov's funeral.

In response to the Prime Minister's question about his previous visits, including his visit to Canada, Mr Gorbachev said that he had liked Canada a great deal. It was a very wealthy country in terms of both finances and resources. Canada and the Soviet Union had much in common as countries. It had therefore been rather difficult to find areas of cooperation for boosting bilateral trade. Several companies

in Canada which had expressed an interest in doing business with the Soviet Union were found to have their bosses in the United States. Some were 90% American.

The Prime Minister said that all countries had their own national feelings and pride. This applied very much to both parts of Europe. Mr Gorbachev said that to regard the interests of other countries as inferior to those of one's own was not a moral basis for policy. The national income of the CMEA countries was rising faster than that of the Soviet Union. This demonstrated the Soviet Union's selflessness. The Prime Minister asked whether the Soviet Union was well placed for hard currency. Mr Gorbachev said it was, though this was not true for all of the socialist countries. Hungary for example, was not in a particularly easy situation. Modernisation was now under way and if credits and finance were available on suitable terms, there should be no great problem. But intergovernmental organisations in the West, and the COCOM list, which was 90% governed by the United States, as well as EEC restrictions, caused some difficulty. The Prime Minister said that the IMF was a most useful organisation. What people wanted was to be able to raise their own standard of living by their own efforts. This was true for all countries. Politicians could help in this by the line that they took. But governments themselves had no money and needed to help people to earn more. How could this be achieved in a centralised and rigid economy? Mr Gorbachev said that the Soviet Union would be in an extremely difficult situation if it were unable to settle in a satisfactory way the key questions of social and economic levelling. When asked by the Prime Minister whether the Soviet Union would ever successfully achieve such a levelling out, Mr Gorbachev said that on the whole this had already been achieved. The problem of availability of jobs was already solved. The Soviet approach of course was very different from that of the West and of Britain in particular. In the Soviet Union, the numbers of workers were reduced before the workers themselves were retrained. The opposite simply would not work. They had already achieved a standard educational system. Things were

on the move. There was of course much to be taken into account, and running the country was no easy matter. The planners had to cater for all 15 Republics, and the Republics themselves had to consent. The birth rate in some of the Republics, particularly those in Central Asia, was much higher than elsewhere. The danger here was excessive working capacity. The problem however was now being overcome. Decisions had been taken over the last 10 years with the Southern Republics particularly in mind. There were complex programmes for the development of Azerbaijan, etc, where there was still a strong attachment to agriculture. Earlier ideas of providing large industrial plants there in order to attract the young had not been correct. They were now going for smaller enterprises, light industry and so forth in rural areas in order to absorb the numbers of young people. Hundreds of billions of roubles were being earmarked for irrigation schemes.

The Prime Minister wondered whether this might not all be easier if it were attempted on a free enterprise basis, with the provision of incentives and a free hand for local enterprises to run their own show, rather than being directed from the centre. Mr Gorbachev said he did not think she could really believe that everything in the USSR was run from the centre. Was it even feasible to try to do so? The Prime Minister said that Soviet 5-year plans were produced by a central agency and handed down to other governmental agencies. But unless people received incentives and could profit from their own efforts and raise their own standard of living, wealth would not be created and new products would not be generated. Under the Western system, everyone ultimately received more than they would from a system which depended simply on redistribution. In Britain we were attempting, through reduction in taxation, to increase incentives and stimulate new designs, new ventures, in order to raise wealth and to compete in world markets. She herself did not wish to have the power to direct everyone where he or she should work and what he or she should receive. That seemed a totally rigid system. It was better that people should be responsible

for their own actions.

They referred

Mr Gorbachev said that his own responsibilities increasingly centred in the economic field, which was also a hobby of his. He understood the British system, but the Soviet system was superior. He would not list all the arguments in favour of this view but believed that the history of the Soviet Union spoke volumes. Before the Revolution the country had been semi-colonial. Then a new approach had been tried and had revived the country. If there had been no World War II and if the Soviet Union had had a correspondingly developed industrial base, who knows what they would not have achieved by now. Churchill had said that it would take the Soviet Union a quarter of a century or more after the war to get back on its feet. In fact this had been achieved very much faster. Nor had the Soviet Union had the benefit of American help such as the Marshall Plan for Western Europe. They had had to do it by themselves, in a situation of virtual blockade. The Soviet Union's choice of system had not been accidental. It produced higher growth rates. Svetlana Alliluyeva had recently returned to Moscow after an absence of 17 years. She had been amazed at the changes in that time. Western Communists, including the Head of CPGB, often had reservations about the Soviet system. They were simply told to send their Communists to the USSR and see for themselves. British, West German and other Western Communists had come by the train load to the Soviet Union in the autumn. They had travelled about by train and had seen for themselves. He hoped that the Prime Minister too would "some day obtain a fuller first-hand view for herself". She would see how Soviet people lived - joyfully. Of course there were great problems, but they were being solved.

The Prime Minister asked why the Soviet authorities did not allow people to leave the Soviet Union as easily as they could leave Britain. She did not retain anyone who wished to leave. Svetlana had wished to leave and had been free to do so. So had the two Soviet soldiers who had come to Britain after fighting in Afghanistan. Their right to leave had been

entirely unrestricted, like everyone else's'. Britain's difficulty was perhaps that too many people wished to come and live here! But the Soviet authorities were placing great restrictions on people like Sakharov, Shcharansky, and numbers of Jews who wished to leave the Soviet Union. Their names were well known. Any Ukrainians, Georgians and so forth living in the UK were entirely free to leave. Why were they restricted in the Soviet Union?

Mr Gorbachev said that they had not completed their discussion of the two economic systems. The Soviet Union was undertaking a reform and giving incentives. It was envisaging more rights but also more responsibilities and independence for local enterprises and regional authorities. The matter was complex because there were 15 Republics as well as a number of autonomous areas. But the process was well under way. Centralisation would certainly continue and even be strengthened but only as regards certain key decision-making areas. The Prime Minister asked who decided what should be produced in the economy. Mr Gorbachev said that the central planning authorities gave instructions to the various outlying areas. The Prime Minister said that this differed markedly from the British system. She did not tell companies what to produce. They competed and did their own R and D.

The Prime Minister then spoke of the current miners' strike in Britain. More than one-third of miners were working hard. They had good wages, good conditions and good hours. The remainder were on strike. There was much intimidation of those who were working or wished to work - by force, violence, beatings-up, and even recently a murder. Communism was synonymous with getting one's way by violence. Its slogan was: "Brothers - when you are free, you will do as you are told". This was the ultimate socialist idea and explained the reputation which Communists, including those behind the miners' strike, enjoyed in the United Kingdom. People like Scargill and McGahey gave Soviet Communism a bad name.

Mr Gorbachev asked whether the Prime Minister really

believed that Soviet Communists were so strong as to be able to keep the British miners out on strike for over 10 months. The Prime Minister said that the miners' leaders had refused to conduct a ballot within their trade union. Where a ballot had been held, the vote had been to return to work. Some Communists and Communist sympathizers within the trade union leadership had not liked this and had thus approved intimidation to put workers willing to work back on strike. Mr Gorbachev said that the Prime Minister could speak to him in this way only because she placed such confidence in him. The problem was purely a British one. The Prime Minister said that in Britain, Communists could stand for election to Parliament but knew that they would never be elected. They had thus decided to try to take over trade unions, under Labour colours, and to infiltrate the Labour Party in the hope of getting elected. Mr Gorbachev said this was the first he had heard of this. Did the Prime Minister really think that the Soviet Union have such influence in other countries as to be able to manipulate local Communist Parties and public opinion? He could assure her that the Soviet leaders were not trying to do so and were not involved. The causes were entirely local. The Soviet Union had a firm policy: no export of Revolution and no export of Counter-Revolution. This was clear and a firm matter of principle for the Soviet Union. They should simply observe and see which system proved better. The Soviet Union did not refuse the right of the capitalist system to exist.

The Prime Minister said that such was the total freedom in Britain that Britain was open to propaganda for other alien systems. She did not seek to prevent this. She could prove that the British system was better. But the Soviet Union's fellow-Communists who could not get their own way through the ballot box were opting for violence. They were also being helped with finance from outside. Mr Gorbachev said it was not the Soviet Union who was helping in this way. The Soviet Union had transferred no funds to the NUM. (After a sideways glance from Mr Zamyatin, he amended this to: "as far as I am aware..."). The Prime Minister should blame Britain and not

foreign Communists for the situation. Das Kapital had been written in London. The Prime Minister interjected that in a free society it was entirely possible to do so and to get it published. Mr Gorbachev said that he was aware that the Prime Minister was capable of defending herself. But the Second Congress of the RSDRP had also been held in London. The Prime Minister asked when she might contemplate the holding of British Party Congresses in Moscow. Lenin had set a tragic example of resorting to violence when unable to win through the ballot box, when he had overthrown the people's representative Kerensky.

Mr Gorbachev appealed to the Prime Minister to deal with realities. He recalled that Mr Churchill, a "dyed in the wool anti-communist", had nevertheless been sufficiently wise to join forces with the Soviet Union in certain historical circumstances. The Soviet Union's ideology was its own and was not being thrust on others. Perhaps the matter should be left there. He was not out to persuade the Prime Minister to his ideological views.

The Prime Minister said that she would doubtless be asked by several people what Mr Gorbachev's response had been about emigration possibilities for Jews, for Sakharov, Shcharansky and so forth. How should she reply? She would never restrain anyone in the United Kingdom by force. Mr Gorbachev expressed incredulity at this, adding that in other circumstances Britain certainly did use force. The Soviet Union simply abided by its own laws. It did not interfere with others and had no wish to do so, Britain should reciprocate. The Prime Minister said that she would answer press enquiries by saying that she had raised the question of people who wished to leave the Soviet Union and that Mr Gorbachev had referred to the differences between the two systems. Mr Gorbachev asked that she should reply that this was a matter within the competence of the Soviet authorities acting on the basis of Soviet laws. These matters were all governed by Soviet legislation. In fact, 89% of all who had expressed the wish to leave the Soviet Union over the last 10 years had done so. The number

of requests to leave was constantly falling, and this was natural. Sometimes, people who were initially not permitted to leave were later allowed to do so. The reason for initial refusal was generally that they had been working in areas affecting national security. Pressed further by the Prime Minister on the matter, Mr Gorbachev said it was up to her how she spoke to the press. He had explained the situation. Mr Gorbachev said that the present discussion was a private one. The Soviet position remained unchanged. She would be best to say that Mr Gorbachev "had added nothing new to the known Soviet position and had referred to existing Soviet laws".

The Prime Minister asked what she should say if asked about Mr Gorbachev's views concerning the miners' strike. Mr Gorbachev said this was entirely an internal UK matter and not relevant to inter-state relations. The Prime Minister said that some might point out that it was impossible to get money out of the Soviet Union without the agreement of the Soviet authorities. Mr Gorbachev said that he could state firmly that as far as he was aware no money had been transferred to the British miners from the Soviet Union.

The Prime Minister said that the difficult part of their discussion was now over. Mr Gorbachev welcomed this and recalled good examples of cooperation between the two countries, including the honouring of contracts in the energy field.

In a brief toast at the end of the meal, Mr Gorbachev expressed "great satisfaction" at this opportunity for a discussion with the Prime Minister and her colleagues. He welcomed the "domestic ambience" and the good atmosphere prevailing around the table. He was indebted to the Prime Minister for this. The Soviet aim in accepting the invitation to Britain was to develop the dialogue between the two countries, extend mutual understanding and find points of contact and convergence on important international issues. Neither side should be obliged to renounce its own principles

or act to the detriment of third countries. He referred briefly to the message he was carrying for the Prime Minister from Mr Chernenko, expressing as it did readiness to continue to act in the spirit of the meeting in Moscow at the time of Mr Andropov's funeral.

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