

RESTRICTED

RECORD OF A MEETING HELD IN ST. KATHERINE'S HALL AT THE KREMLIN ON TUESDAY 31 MARCH 1987 AT 0930 BETWEEN THE PRIME MINISTER AND THE CHAIRMAN OF THE COUNCIL OF MINISTERS, MR RYZHKOV

Those present were:-

The Prime Minister	Mr N I Ryzhkov (Prime Minister)
Secretary of State for Foreign and Commonwealth Affairs	Mr B L Tolstykh (Deputy Chairman Council of Ministers and Chairman of State Committee for Science and Technology)
H M Ambassador, Moscow (Sir Bryan Cartledge)	Mr V M Kamentsev (Deputy Prime Minister)
	Mr B I Aristov (Minister for Foreign Trade)
	Mr A G Kovalev (First Deputy Foreign Minister)
	Mr L M Zamyatin (Soviet Ambassador to the United Kingdom)
	Mr E P Goussarov (Second European Department, MFA)

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Mr Ryzhov, after welcoming the Prime Minister, expressed satisfaction about the two days of talks in which the Prime Minister had exchanged views with General Secretary Gorbachev on the world's pressing problems. He hoped to have some detailed discussion with the Prime Minister at this meeting on other issues. But first he would like to refer to some of the issues which had been discussed yesterday with the General Secretary.

It was clear that on some subjects there was a proximity of views between the two Governments. It might be possible to build upon understandings on, for example, medium range missiles, chemical\* weapons and arms reduction. But it was clear that the two Governments differed over nuclear weapons. The British Government appeared to believe that nuclear arms were a guarantor of peace. In his view that was a totally wrong concept. If the world followed that route, we would find ourselves at an impasse. Nuclear arms did not provide deterrence. The world should be cleared of nuclear weapons. Though he might be thought an idealist, he believed that the world would compel us to follow that route.

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\*Mr Ryzhkov's interpreter referred to 'biological weapons'. Later in response to the Prime Minister's question, the translation was corrected to make clear that Mr Ryzhkov had in fact referred to chemical weapons.

Continuing his presentation, Mr. Ryzhkov said that an improvement in the internal situation of a country and in its military security would help promote its economic relations with the world. Many countries in the world faced major economic problems, such as poverty set alongside riches, high unemployment and low living standards. If international tensions could be dealt with, it would be possible to make a better use of 'the international division of labour'. He was convinced that difficult political relations between countries would make for difficult economic relationships, as was evidenced by the Soviet Union's relationships with the United States. The Soviet Union now had virtually no economic relations with the United States except for the import of grain. It used to have a much stronger relationship with Great Britain, but this relationship had fluctuated according to the strength of its political relationship with Britain. Increased trust with the West, and specifically with Britain, would improve economic relations. So he believed that it was necessary to build political trust as a basis for furthering economic relationships. This was the position from which his country approached the Prime Minister's visit.

The Prime Minister, after thanking Mr. Ryzhkov for his welcome and hospitality, said that following his example, she too would begin with some of the subjects which she had discussed yesterday with the General Secretary.

Referring to Mr. Ryzhkov's comments on medium range missiles, the Prime Minister said that the first the West knew of Soviet intentions was when the Soviet Union deployed a new weapon, namely the SS20. Inevitably, such a mobile weapon, with no obvious response at the time it was introduced, had produced fears in the West. The West had quickly realised that it was necessary either to produce a response or to seek the Soviet's agreement to remove and destroy such weapons. It was only after four years of asking the Soviets to destroy those weapons that the West had decided to station Cruise in the United Kingdom and other Western countries and Pershing II in Germany. That had been an inevitable result of the Soviet's decision to station the SS20s. We were now talking with the Soviet Union about removing medium range missiles only because we had decided to station our medium range systems.

Her preference would be to destroy all SS20s as well as all Cruise and Pershing missiles. Reduction to a 100 units in the United States and in the Soviet Far East would only make verification harder.

After confirming that Mr. Ryzhkov had referred to chemical weapons, not biological weapons\*, the Prime Minister remarked that in fact there was an international treaty against both the use and making of biological weapons. On chemical weapons, the relevant international treaty referred only to their use, not to their manufacture or stocking. In the late 1950s the United Kingdom had decided to destroy its stocks of chemical weapons. We had hoped that others would follow our example, but there had been no response. Unlike some countries the US had not updated their old fashioned chemical weapon systems. The Soviet Union had by far the largest stockpile of modern ~~nuclear~~ <sup>chemical</sup> weapons. We had put forward proposals to verify stocks of chemical weapons. Such verification was difficult because chemical weapons were easily made. She fervently hoped that all stocks of such terrible weapons would be destroyed.

After the Prime Minister had summed up her views on medium range missiles and chemical weapons by saying that she hoped that they could be destroyed, Mr. Ryzhkov interrupted to say that on these two subjects there was some coincidence in the two Governments' position.

Referring to Mr. Ryzhkov's comments on unemployment, the Prime Minister said that unemployment often appeared at times of technological change when it was possible to produce more goods with less people. It was a fact that many of the goods that Britain had once produced could now be produced cheaper in the Far East. Unemployment in Britain had fallen for the last seven months. Some people in the Soviet Union did not realise that the weekly income for the unemployed exceeded some wages; for example, a man with a wife and two children would need to have a weekly wage of some £160 before he could earn more than he would receive in unemployment and other benefits. Indeed, some workers on lower

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\* See footnote on page 1

wages complained that they did not receive as much as some unemployed people. Nor was it sufficiently recognised in the Soviet Union that some 64% of families in Britain owned their own home; her ambition was to raise this proportion to 75% so that even more people could have their own capital and security.

She could not accept that living standards were low in Britain, though they were in many parts of the world. That was why Britain had commodity agreements with the developing countries, often to the disadvantage of our own farmers. In addition our aid programme of £2,000 million a year helped the developing countries.

The Prime Minister then asked Mr. Ryzhkov what he meant by his reference to the international division of labour. Was he referring to Adam Smith's concept? Mr. Ryzhkov replied that he was not quoting from Yevgeny Onegin!\*

The Prime Minister then turned to Mr. Ryzhkov's statement on nuclear deterrence. It was not possible, in her view, to behave as though knowledge of nuclear weapons did not exist or as though civil nuclear power, which provided a means for making nuclear material, was not extensive. Both the Soviet Union and the West had non-nuclear missiles which could easily be changed to deliver nuclear bombs.

The Soviet Union had as much reason as any country to know that conventional weapons were not sufficient to deter an aggressor. Nuclear weapons were so horrific that any country which started a

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\* This was a reference to the quotation in the Prime Minister's speech at the dinner offered by the Soviet Government the previous evening concerning Alexander Pushkin's Yevgeny Onegin. The quote was:

"He spurned Green poetry and myth,  
But how he knew his Adam Smith!  
As an economist profound  
He understood and could expound  
The means by which a state gets wealthy  
And how its livelihood's controlled.  
Smith said it has no need of gold -  
Producing goods will keep it healthy."

nuclear war could know no victory. Nor could any country be certain that radioactive clouds from its own weapons would not drift back to its own country. It should not be forgotten that a new conventional war would be much more terrible than the last World War because conventional weapons were now more dreadful. Even if nuclear weapons could be abolished, there would be a race in a war to see which country could manufacture them again. The country which did so first would win the war. That had been the case in the last war when the crucial issue had been whether Hitler or the West would manufacture the atom bomb first.

She had told Mr. Gorbachev that the Soviet Union might be seeking the destruction of nuclear weapons. She was seeking something deeper and more important - a guarantee of the preservation of peace. Nuclear weapons gave a better guarantee of peace between the major powers than any other weapon known to man. In those parts of the world where nuclear weapons did not exist, there had been conflicts, for example Vietnam's attack on Cambodia.

Concluding her views on nuclear weapons, the Prime Minister said that it was clear that she had a different view of nuclear weapons to Mr. Ryzhkov. Perhaps one day when differences between nations had narrowed it might be possible to get rid of nuclear weapons. But it was an unfortunate fact that throughout history tyrants had been born. She did not expect that process to stop.

The Prime Minister then said that there were as many misunderstandings in the Soviet Union about Britain's position on nuclear weapons as there were on social conditions in Britain. Some of the ideas embedded in people's minds were pure fantasy, though she was sure that Mr. Ryzhkov would say the same about the presentation in the West of certain aspects of Soviet society. The way to remove such misunderstandings was to allow people to travel freely in the two countries. They could then see the facts with their own eyes.

For similar reasons it was important for there to be more contacts between Ministers of the two Governments. The Foreign Secretary met his European colleagues once a month. She met European Heads of Government twice a year and had bilateral talks once a year. European leaders telephoned each other when points of difficulty arose. We inevitably had less contact with our United States' friends but they were encouraged to call in at London whenever they could. She hoped that Soviet Ministers could visit their British counterparts whenever they were en route through London. She hoped that particularly that Mr. Ryzhkov would pay an extended visit to Britain, preferably in the summer when the weather was better! Mr. Ryzhkov thanked the Prime Minister for her invitation which he recalled had been extended publicly at the previous evening's dinner.

The Prime Minister commented that the agreement on cultural relations would help reduce misunderstanding since it would make it easier for the two peoples to find out facts about each other's country.

Turning to bilateral trade issues, the Prime Minister said that the British Government was making efforts towards the 40-50 per cent target for increasing trade which had been referred to when Mr. Gorbachev had visited Britain in 1984. We were already big importers of Russian timber, industrial diamonds and of certain finished products in which the Russians excelled.

The Prime Minister then enquired about the GEC/Simon Carves Memorandum of Understanding. Mr. Aristov interjected that it had been signed 20 minutes ago. The Prime Minister then said that we had done as much as we could to assist the John Brown polypropylene plant. She hoped too that Davy's polyester plant would be successful as well as Courtaulds bid for the modernisation of three acrylic plants.

The Prime Minister enquired about the Soviet Government's new programme of restructuring. Mr. Ryzhkov said that before dealing with this issue, he felt it necessary to add a few further points

on international political problems in view of what the Prime Minister had said about deterrence. The Soviet Government had no intention of trying to change the Prime Minister's world outlook. But her visit to the Soviet Union would have been helpful if it had persuaded her to think again about her philosophy. He repeated his emphasis on the link between countries' political and economic relationships. The essential first step was to build political trust. While he agreed with the Prime Minister's comments on the need for greater understanding between the people of their countries, he could not understand why the Soviet Union was so often painted in the West as a barbaric people and an evil empire. The Western media seemed intent upon humiliating his country's national pride. The Russian people had a great respect for the British people based on a long history of trade relationships and knowledge of British literary tradition. Political leaders should not make sweeping generalisations about other countries on the basis of a few cases. That only lead to error. He instanced the case of Mr. Baronov, who had been treated in Soviet hospitals and was now undergoing treatment in Britain.

Turning to bilateral and economic relations, Mr. Ryzhkov said that he too had a good recollection of Mr. Gorbachev's visit to Britain and the target of a 40-50 per cent increase in trade. However, the drop in the price of raw materials had prevented the Soviet Union from fully meeting the accords made, despite trade amounting to about 1.8 billion Roubles. He wanted to reaffirm today his Government's belief that good prospects existed for a two-way trade, despite the fact that the UK was in no higher than sixth place among the Soviet Union's trading partners.

Mr. Ryzhkov then proposed that the Government agencies of the two countries should be instructed to achieve <sup>by 1990</sup> the targets agreed, in 1984 and to increase the volume of trade to 2.5 billion Roubles. This would require an increase in the sale of goods on each side by up to 350-400 million Roubles a year. His Government had already told the British Governments of the goods which they were ready to export to Britain. They had already prepared a list of the goods that they were ready to import from Britain. The Prime Minister

immediately responded by saying that we would certainly have a go to reach the target indicated by Mr. Ryzhkov. Mr. Ryzhkov then handed the Prime Minister a list of import and export opportunities.\*

After acknowledging the Soviet Government's satisfaction with the British Government's decision to extend credits Mr. Ryzhkov said that there were three important problems in bilateral trade:

- i) COCOM policy was prohibiting trade in goods which had no military application. The United States was trying to use Britain as an intermediary to slow down the pace of Russian economic development.
- ii) Many British firms were uncompetitive; indeed, some official data had placed Britain 15th in terms of competitiveness. According to Soviet figures, Britain had lost \$1.5 billion worth of contracts because of lack of competitiveness.
- iii) The UK's licencing regime inhibited trade. There were 170 items whose access to the British market was either completely banned or severely limited. Recently Mr. Channon had refused a licence for the import of 50 million Roubles-worth of "light industrial goods" because he said their import would damage British light industry, even though the Soviet Government had offered to offset those imports with an exactly comparable amount of goods, such as jeans and shoes. The Prime Minister undertook to look into this matter immediately.

Mr. Ryzhkov then raised two further points about bilateral economic relations.

- i) His Government attached much importance to joint venture projects, such as that by the firm Quest Automation. Here again the Soviet Government's motives were distorted. It was wrong to say that his Government saw joint ventures as a means of earning foreign currency. They would only sell to third countries products from joint ventures to the extent needed to meet the profit requirements of their partners.

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\* This will be sent by bag to London.



ii) It was necessary to examine once again the agreements on science and technology in order to make them more and practical.

Responding to Mr. Ryzhkov's points, the Prime Minister said:

i) We did not apply the COCOM rules more strictly than other Western nations. She recalled that Britain had insisted on fulfilling the John Brown contracts for the gas pipeline despite United States objections.

ii) She reminded Mr. Ryzhkov that the Soviet Government had rules hindering exports of certain products.

Mr. Ryzhkov then handed across to the Prime Minister a note from his brief on export limitations on advanced technology from the UK to the USSR (a copy of which is attached to this note, together with an informal translation prepared by the British Embassy, Moscow). The Prime Minister undertook to look into the points raised in the note, emphasising that it was not our objective to put unnecessary obstacles in the way of trade.

iii) She could not accept that British industry was now uncompetitive, following the extensive restructuring of recent years. The volume of manufacturing trade was the highest ever. It was sometimes the case that while a British firm matched its competitors' prices, they were unable to match their credit terms. This was particularly the case with Japanese competition.

iv) She would ensure that any inhibitions on joint ventures between British and Soviet firms were examined.

v) She agreed that there should be more technological and scientific co-operation. Our scientists were excellent, though we sometimes failed to recognise the commercial application of our scientific discoveries. Cloning was an example.

Concluding the discussion, the Prime Minister wished the Soviet Government every success in their programme of restructuring. Mr. Ryzhkov would no doubt find that problems of restructuring would manifest themselves before its advantages appeared. That had been the British experience. He should tell his people that their success would depend on their own efforts. Prime Ministers cannot deliver the goods; the people could.

Mr. Ryzhkov replied that he and the Prime Minister had similar duties. Some methods of restructuring were common to both countries, even though the principles of their societies differed. He hoped that the Prime Minister would feel that the Soviet leadership was trying to develop their relationship with Britain.

The Prime Minister said that she knew that the Soviet leadership was trying to secure a more open society, and that was one way of achieving the confidence of its neighbours.

The meeting concluded at 1125 am.

N. h. W.

1 April 1987

INFORMAL TRANSLATION

EXPORT LIMITATIONS ON ADVANCED TECHNOLOGY FROM UK TO USSR

In 1985 a new regulation was introduced in England regarding the control of exports. It consisted of three sections: industry, military equipment and atomic power.

The broadest section is industry. It includes:

- (i) computerised equipment and systems, their components and the technology for their production;
- (ii) specific types of technology for the processing of metals, vacuum induction furnaces and vacuum equipment;
- (iii) equipment and technology for the production of highly purified metals and special alloys;
- (iv) industrial robots and their controls;
- (v) navigational instruments, experimental equipment and a range of measuring devices;
- (vi) marine and gas turbines;
- (vii) specialised gyroscopes and a range of technological processes used in aircraft building;
- (viii) electronic telecommunications equipment;
- (ix) new computerised systems of communication;
- (x) specific types of materials, vanadium, certain types of steel, including specialised super-conductive materials, articles made from heat resistant ceramics and polycarbon plates;
- (xi) specific types of licence for the petrochemical industry.

The new regulation brought under control the newest types of technological processes and equipment which have appeared in recent years, ie practically all new technology and scientific achievement in various fields.

At the same time older articles, production of which is slackening off or has finished altogether in Western countries have been freed from the controls.

The lists refer to the possible application of penal sanctions to British exporters who use American equipment and technology or components in the manufacture of their equipment or who re-export equipment of American origin.

/British

British companies, having referred to the British authorities' list of restrictions have refused to fulfil proposals and in certain cases have refused to complete contracts which had already been concluded. These include:

- (i) The company 'Kansark Engineering', which broke a contract for the supply of vacuum furnaces;
- (ii) The company 'General Electric' refused to bid to supply equipment for the production of fibre optic cables;
- (iii) The company 'Davy McKee' held up for several years a contract for the supply of complete installations for the production of alpha definis by a process developed by the American firm Ethyl Corporation;
- (iv) English companies refused to bid for the production of computers and personal computers;
- (v) The company 'ICI' refused to take up proposals for the supply or installations to manufacture of especially thin tapes (2-3 microns) from polyether resins and polypropylene;
- (vi) The company 'Rolls Royce' cancelled an agreement for the sale of engines for RB211 civil aircraft and the sale of technology and equipment for the production of turbine blades.

## С П Р А В К А

об ограничениях экспорта передовой технологии  
в СССР из Великобритании

В 1985 г. в Англии опубликовано новое Положение о контроле над экспортом товаров, состоящее из трех разделов: промышленного, военного снаряжения и атомной энергетики.

Самый обширный раздел - промышленный. В него входят:

- оборудование и системы, включающие в себя ЭВМ различных типов, технология их производства, компоненты;
- отдельные виды технологии обработки металлов, вакуумные индукционные печи и вакуумное оборудование;
- оборудование и технология для производства высокочистых металлов и особых сплавов;
- промышленные роботы и командоаппараты;
- навигационные приборы, испытательное оборудование и ряд измерительных приборов;
- судовые и газовые турбины;
- специальные гироскопы и ряд технологических процессов, используемых в авиастроении;
- электронное телекоммуникационное оборудование;
- новые системы связи на базе ЭВМ;
- отдельные виды материалов, ванадий, некоторые марки стали, в том числе специальные, сверхпроводимые материалы, изделия из жаропрочной керамики, поликарбонатные пластины;
- отдельные виды лицензий для нефтехимической промышленности.

Новое положение поставило под контроль новейшие виды технологических процессов и оборудования, появившихся в самые последние годы, то есть практически всю новую технику и научно-технические достижения в различных областях.

В то же время освобождаются из под контроля уже устаревшие изделия, производство которых в западных странах снижается или вообще прекращается.

В указанных списках имеются ссылки на возможное применение штрафных санкций к британским экспортерам, использующим при производстве своих товаров американское оборудование и технологию или компоненты, а также реэкспортное оборудование американского производства.

Британские фирмы со ссылкой на указанные ограничения английских властей отказались от разработки предложений и в отдельных случаях от выполнения уже заключенных контрактов, в том числе:

- фирма "Консарк инжиниринг" прекратила выполнение контракта на поставку вакуумных печей;
- фирма "Дженерал Электрик" отказалась от представления предложения на оборудование для производства волоконно-оптических кабелей;
- фирма "Деви Макки" на несколько лет задержала выполнение контракта на поставку комплектной установки по производству альфа-олефинов по процессу американской фирмы "Этил корпорейшн";
- английские фирмы отказались от разработки предложений на заводы по производству числовых программных устройств и персональных компьютеров;
- фирма "Ай-Си-Ай" отказалась разработать предложение на поставку установки для производства особо тонкой пленки (2-3 микрона) из полиэфирной смолы и полипропилена;
- фирма "Роллс Ройс" аннулировала соглашение на продажу двигателей для гражданских самолетов RB-211 и продажу технологии и оборудования по производству турбинных лопаток.

SUBJECT  
cc master

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10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

31 March 1987

*See Tony,*

PRIME MINISTER'S MEETING WITH THE CHAIRMAN OF THE  
COUNCIL OF MINISTERS

I attach a note for the record on today's meeting between the Prime Minister and the Chairman of the Council of Ministers, Mr. Ryzhkov.

I am sending a copy of this letter and note to Tim Walker (Department of Trade and Industry). He will see that the Prime Minister undertook to follow up certain matters concerning the United Kingdom's trade relations with the Soviet Union. I should be grateful if his department could put in hand urgently the necessary work and let the Prime Minister have a report on the points raised, together with a recommendation for any action required.

I am sending a copy of this letter and note to Alex Allan (H M Treasury), Trevor Woolley (Cabinet Office) and H. M. Ambassador (Moscow).

Although the note is not highly classified, I know that the Prime Minister likes to restrict circulation of her discussions with Heads of Government to as limited a circulation as possible. Please could you bear this in mind when circulating the note.

*Yours sincerely  
Nigel Wicks*

N. L. WICKS

A. C. Galsworthy, Esq., C..M.G.,  
Foreign and Commonwealth Office

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