

PRIME MINISTER

MEETING WITH MR. KAMENTSEV

The Soviet Deputy Prime Minister, Mr. Kamentsev, is coming to see you tomorrow afternoon. You will remember that he accompanied you at the opening of the British-Soviet Chamber of Commerce Offices in Moscow and on your visit to Tbilisi.

He is responsible for trade questions and his main talks will be with Lord Young. He will also be seeing Cecil Parkinson and visiting a Sainsbury's distribution centre and supermarket.

The main purpose of the visit is to discuss trade issues. Here the outlook is a bit better than expected, with Kamentsev apparently expecting to sign some substantial contracts and a credit agreement (if you have time, you should read the attached note of a discussion with Mr. Kossov). But he will also be here to prepare for Gorbachev's visit.

Points which you might make are:

- recall with pleasure your visit to Moscow and Kamentsev's role in escorting you;
- enquire after Gorbachev and say how much we look forward to his visit. We understand that Mr. Gorbachev envisages basically the same programme as planned for December. Your aim is to have plenty of time for talks. The Queen will of course give a lunch. If Mr. Gorbachev wants to give a speech or do a TV interview, we would be happy to arrange this;
- express condolences for the Armenian earthquake. Refer to our gift of a school for 400 children; and to expertise of British construction companies, which could be used in reconstruction work;

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- ask about progress of perestroika in the economic sphere, recalling your conversation with Mr. Katushev. The most important need is to increase the supply of food products and consumer goods. British companies have a lot to contribute in this sphere;
- we are ready to help with management training. A course for 20 senior Soviet businessmen will be held at the London Business School in April;
- ask about his discussions with Lord Young on the credit offered by British banks. We would be happy to see an agreement signed during his visit.
- refer to the goal of 2.5 billion roubles two way trade which you agreed with Ryzhkov and say you understand that Kamentsev expects to sign specific contracts during his visit. That will be a very welcome development;
- British companies which have major bids outstanding are:

APV - breakfast cereal lines

Babcocks - glass fibre plant at Polovsk

Courtauld's - modernisation of acrylic fibre plants

Davy's - polyester fibre plant

We hope for progress on all these.

- mention the proposal to build a British-Soviet Trade Centre in Moscow with larger premises. We hope this can be agreed. We would have no objection to the establishment of Soviet-British Trade Centre in the UK.

Fuller notes are in the folder.

CDP
C. D. POWELL

6 February 1989

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me in 3A12
call

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

6 February 1989

Dear Jeremy,

VISIT OF MR. KAMENTSEV

Mr. Kossov of the Soviet Embassy came down to see me at short notice this evening in connection with Mr. Kamentsev's visit. He said that he had come direct from a briefing meeting with Mr. Kamentsev at the Embassy. What Mr. Kamentsev had said was rather different from the steer which the Soviet Embassy had given us about his visit, in particular in relation to the Soviet attitude to the offer of credit by British banks.

Mr. Kossov continued that the reaction of Soviet bureaucrats to our proposed credit had been negative, on the grounds that the Soviet Union was already too indebted. But the mood seemed to have changed in Moscow after Mr. Kamentsev had been to see Gorbachev to discuss his visit. The Soviets now wanted to sign a paper during Mr. Kamentsev's visit of a sort similar in nature to one recently signed with France. He described it as a Protocol of Intent on Credit Arrangements. He handed over a text in Russian, which I have already sent you for translation. The document would specify the broad areas of agreement already reached between the Soviet Bank of External Trade and British banks on credit arrangements and confirm the basic principles of these arrangements, without mentioning a specific amount. If we were agreeable, it might be signed in the presence of Lord Young and Mr. Kamentsev by representatives of the British banks and of the Soviet Bank of External Trade. The basic reasons for signing such a document were political, to help create a good climate for Gorbachev's visit and to show that Britain was not lagging behind the Soviet Union's other main trade partners in Western Europe. However, if we were not in favour of such a document, no offence would be taken.

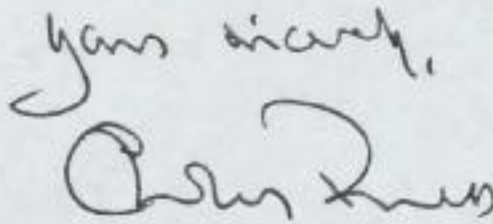
Mr. Kossov went on to say that Mr. Kamentsev had commented that the credit arrangements were important because he expected to sign almost £0.5 billion of contracts with British companies in the next two days. There was, in addition, some £700-800 million of business in the pipeline, where the bids of British companies seemed to be competitive.

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I said that I would inform the DTI and FCO immediately and get the document translated. I added that the news about contracts would be very welcome, if confirmed. But these were all matters to be discussed by Mr. Kamentsev and Lord Young tomorrow.

You will no doubt let me know, following Lord Young's meeting with Mr. Kamentsev tomorrow morning, if there are additional points which you wish the Prime Minister to make in her own meeting with Mr. Kamentsev.

I am copying this letter to Richard Gozney (Foreign and Commonwealth Office) and Carys Evans (Chief Secretary's Office).

Yours sincerely,


C.D. POWELL

Jeremy Godfrey, Esq.,
Department of Trade and Industry.



10 DOWNING STREET

Charles

Re Kamenboer Call

There is now agreement in
principle to sign a
banking protocol document
& that signing should take
place on Thursday morning

DMS

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Foreign and Commonwealth Office

London SW1A 2AH

6 February 1989

Dear Charles,

Call on the Prime Minister by Soviet Deputy
Prime Minister: Tuesday 7 February

Kamentsev, the Soviet Deputy Prime Minister responsible for foreign economic relations, will be calling on the Prime Minister at 5.30pm on 7 February.

The DTI are providing briefing on specific issues which the Prime Minister may wish to raise, particularly in the field of Anglo-Soviet trade. The Russians will, however, be looking at Kamentsev's visit in the broader context of the build-up to Mr Gorbachev's visit in April. It would be useful if Kamentsev went back to Moscow not only with a positive report on the significance we attach to the Gorbachev visit, but also of the Prime Minister's continuing close interest in the process of reform in the Soviet Union and in Mr Gorbachev's personal contribution. The visit comes at an important moment in East-West and Anglo-Soviet relations, when new opportunities are opening up in arms control, the search for peaceful settlements to regional conflicts, human rights and bilateral relations.

If the conversation turns to the West's response to perestroika, the Prime Minister might highlight our willingness to do what we can in the important field of management training for Soviet businessmen. A course for 20 senior Soviet managers will take place at the London Business School in April, (funded largely by the FCO) and we hope it will be followed by further courses in the future.

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The Foreign Secretary has not seen this letter in draft; should he have points to add we shall let you know first thing on 7 February.

I am copying this letter to Jeremy Godfrey in the Department of Trade and Industry.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

dti

the department for Enterprise

CCP
CC/BWP

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PBLAPK
Your ref
Date 6 February 1989

Dear Charles

MEETING WITH MR KAMENTSEV, DEPUTY CHAIRMAN OF USSR COUNCIL OF
MINISTERS

The Prime Minister will be meeting Mr Vladimir Kamentsev, Deputy Chairman of the Council of Ministers of the USSR and Chairman of the State Foreign Economic Commission, at 17.30 tomorrow, 7 February. Mr Kamentsev will be accompanied by the Soviet Ambassador, Mr Zamyatin, and by an interpreter. Sir Rodric Braithwaite, British Ambassador to Moscow, will also attend.

The State Foreign Economic Commission, created in 1987, is the supervisory body responsible for the planning and management of foreign trade and the organisation of new forms of co-operation. It reports to the Council of Ministers, chaired by Prime Minister Ryzhkov.

Mr Kamentsev is visiting the UK at the invitation of my Secretary of State. The two will be meeting for two hours tomorrow morning to discuss a wide range of trade issues, after which Mr Kamentsev will lunch with the East European Trade Council hosted by Lord Jellicoe. During his visit he will meet the Foreign Secretary and the Secretary of State for Energy. He will have discussions with British industrialists at the CBI under Sir Trevor Holdsworth's chairmanship and will meet British bankers tomorrow night at a dinner hosted by Lord Limerick. Although he will not be meeting individually British companies pursuing contracts during his visit he will be visiting Sainsbury's modern distribution centre in Buntingford, Herts, and their new retail store at Camden, because of his interest in the problems of distribution of food products within the Soviet Union.

the
Enterprise
Initiative

The Prime Minister may first wish to express sympathy for those affected by the Armenian earthquake and to reiterate the UK's willingness to help with reconstruction. She could refer to the UK gift of a school for 400 children in Leninakan to replace one of the specialist English schools which were lost. The school would be built with an earthquake-resistant frame in a type of construction which has been found to be suitable in other parts of the world prone to earthquakes. She could also mention the relevant expertise which British construction companies could offer, such as in the construction of schools, hospitals and homes, provided ways could be found to finance their efforts.

The Prime Minister could ask Mr Kamentsev to comment on perestroika and the foreign trade reforms he has been introducing. She could stress that the most important goal, if the economic reforms are to succeed, must be to increase the supply of food products and consumer goods in Soviet shops. British companies could contribute in many ways, by supplying modern food processing machinery (APV, JCB) and agro-chemicals to increase crop yield (ICI, Shell), or machinery for the production of consumer goods (eg Courtaulds and Taylor Woodrow, who are negotiating contracts for the modernisation of textile factories).

The Prime Minister could acknowledge that the shortage of hard currency remains a major obstacle to the development of trade and support the efforts of British companies to find other forms of co-operation. She could comment that the relaxation of Soviet joint venture rules, which will now permit foreign equity participation to be settled by negotiation rather than be set by decree at 49%, and on the appointment of a foreign general manager (previously Soviet), is a step in the right direction. She could refer to the fact that 12 joint ventures have now been signed between UK and Soviet organisations (compared with 8 when she met Mr Katushev in October). She could also say that she understands that Mr Kamentsev and my Secretary of State will have had useful discussions on the development of consortia as a means of bringing buyers and sellers to co-operate in self-financing contracts involving two-way trade in such sectors as timber and paper and the medical sector.

Turning to UK/USSR trade, the Prime Minister could refer to the target of 2.5 billion roubles of two-way trade by 1990 to which she and Mr Ryzhkov agreed to aim during her visit to Moscow in 1987. She could comment that, while there existed a

regular flow of on-going trade, progress towards the target is slowing up and that the most likely means of achieving it would be by awarding further major contracts to UK companies.

She could refer in particular to APV's bid for 15 breakfast cereal lines and express disappointment at news last Friday that the contract seemed unlikely to be awarded to the company. This was one project which we had particularly expected to win. Representatives of the company flew to Moscow at the weekend. Others, such as Babcock's bid to expand a glass fibre plant at Polotsk, Courtaulds' for modernisation of two acrylic fibre plants at Navoi and Novopolotsk and Davy's for a polyester fibre plant at Mogilev, continue to make some progress.

She could also refer to an interesting proposal by GEC and Cable & Wireless for the installation of a fibre-optic communications cable from Japan to Western Europe across the Soviet Union. The companies are discussing this with the Soviet Ministry of Railways and the Ministry of Posts and Telecommunications. It would involve installation alongside the trans-Soviet railway, and GEC would pay the Ministry of Railways rent in hard currency. The cable would not be available for Soviet communications traffic and has yet to be put to COCOM. But if it were to go ahead it would be a major hard currency earner for the Soviet Union.

She could recall opening the British-Soviet Chamber of Commerce offices in Moscow and comment on the steady growth in demand for the Chamber's services, to the point where the Chamber needs larger premises. She could mention the proposal to build a British-Soviet Trade Centre in Moscow, which could rehouse the BSCC and relieve the severe shortage of hotel accommodation in Moscow by providing a facility for visiting British businessmen. She could refer to the proposals which the Carroll Group are negotiating with Mossoviet (Moscow City Council). She could confirm that HMG would have no objection in principle to the establishment of Soviet-British Trade Centre in the UK. The Soviets have told us that the last point is important to further progress on the trade centre in Moscow.

Finally, she could mention the British-Soviet Trade Month in Moscow in April. To be opened by the Secretary of State for

dti

the department for Enterprise

Energy. This will be a major exhibition of more than 250 British companies exhibiting over three weeks and a major demonstration of British willingness to trade with the Soviet Union.

I am sending a copy of this letter to Lyn Parker (FCO).

Yours

Jeremy Godfrey

JEREMY GODFREY
Private Secretary


the
Enterprise
Initiative



FILE
DA.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 February 1989

Thank you for sending me the note about management training. I will ensure that the Prime Minister sees this as part of the briefing for her meeting with Mr. Kamentsev next week.

(C.D. POWELL)

The Rt. Hon. Earl Jellicoe, K.B.E., D.S.O., M.C.

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EETC

R3/1.

East European Trade Council

Suite 10, Westminster Palace Gardens, Artillery Row, London SW1P 1RL

Telephone: 01-222 7622

Telex: 291018 EETC G

Chairman: The Rt. Hon. Earl Jellicoe, K.B.E., D.S.O., M.C.

Director: J.A. McNeish

3rd February 1989

Charles D Powell Esq
10 Downing Street,
London SW1A 2AA

Dear Charles.

When I saw David Young at the Reception which he gave at Lancaster House recently to celebrate the anniversary of the Enterprise Initiative, I said that I was worried that the UK might be missing the boat in satisfying the appetite of the East Europeans, the Soviet Union and the Chinese for management training. He said that he would be glad if I were to send him a letter about this. I am enclosing a copy of a deliberately broad brush letter which I have sent to the Secretary of State.

I had lunch with Vladimir Pletnev, the Head of the Soviet Trade Delegation, on Wednesday, and it was quite clear from what was said that Kamentsev will be raising this matter with British Ministers during his visit here next week. I thought you might like to see a copy of my letter to David Young in view of the fact that Kamentsev is being received by the Prime Minister.

All good wishes.

Yours ever

JELlicoe

George

East European Trade Council

Suite 10, Westminster Palace Gardens, Artillery Row, London SW1P 1RL

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Director: J.A. McNeish

3rd February 1989

The Rt Hon Lord Young of Graffham
Secretary of State
for Trade and Industry
1 Victoria Street,
London SW1H 0ET

Jean David.

As I mentioned to you at the Reception which you gave at Lancaster House on 17th January, I am concerned at our rather slow, fragmented and inadequate national response to the increasing appetite for management training of the Soviet Union, the other East European countries and, indeed, the People's Republic of China.

In this short letter I wish, as Chairman of the East European Trade Council, to confine myself to the Soviet Union and Eastern Europe.

To put my disquiet in capsule form, I believe that a very special opportunity exists to fill the gap which has been identified by the Soviet Union and indeed most other East European countries - namely the need for their management cadres to acquire all types of management skills from the West. I also believe that the United Kingdom is in danger of losing by default a most valuable opportunity which could reap substantial rewards for British industry and commerce.

As you are aware a modest sum of money (some £50,000 for all of Eastern Europe including the USSR and an additional amount of £15,000 for Poland) has been made available by the BOTB as a pump primer. My own Council is working hard, albeit with limited success, to get British firms involved. At the same time a number of other initiatives are being sponsored by the Foreign & Commonwealth Office, the British Council, and organisations offering management training in the UK, in particular the London Business School. In addition an inter-departmental working party of officials, under Foreign Office leadership, on which my Council is represented, has been established to supervise and seek to co-ordinate the British response.

However, although there is a lot of goodwill, our effort compares very unfavourably with, in particular, that of the the West Germans. In my view the whole operation needs a strong lead by a major political figure to ensure the necessary high level co-ordination and to put real drive behind the British effort.

I have no doubt that Mr Kamentsev will wish to discuss this matter with you and with your Ministerial colleagues during his visit to the UK next week. Indeed, I suspect that it could also figure on the Agenda for Mr Gorbachev's visit in April.

My Council is producing a position paper on this matter which I will send to you as soon as it is ready. Meanwhile I wish to convey to you in this brief letter my serious concern that we may be losing out in particular to our West German competitors in a field where we really have a lot to offer if we could only get our act properly

together. I feel that you are better placed than anyone else to help to get our effort on track. I need hardly add that I am naturally at your disposal if at any time you would like to discuss this matter.

I am sending a copy of this letter to William Waldegrave.

Yours Sincerely

George

JELlicoe

P.S. Many congratulations on your robust & hard-
hitting speech at Dros.