

**dti**

the department for Enterprise

*copy*

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

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Our ref MM2ABZ  
Your ref  
Date 7 February 1989

*copy  
7/2*

*Dear Charles,*

VISIT OF MR KAMENTSEV

*Attached*

Thank you for your letter of 6 February about Mr Kamentsev's visit.

The visit has got off to a good start with the British-Soviet Chamber of Commerce dinner last night setting just the right tone. My Secretary of State's meeting this morning was constructive and positive. Mr Kamentsev spoke at some length on perestroika and the foreign trade reforms, emphasising that their main purpose was to instill in Soviet management and workers a change in attitude towards the economic importance of what they were producing. It was this, rather than decentralisation of decision-making, which was the real objective. He also spoke of the changes in legislation on joint ventures which answered many of the criticisms which had been made by Western countries and which should make the climate for inward investment more favourable.

On bilateral trade, Mr Kamentsev said that progress was being made towards the target of 2.5 billion roubles of two-way trade. It had risen 18% from 1986 to 1987 and had reached a level of 2.39 billion roubles in 1988. My Secretary of State referred to the UK's consistent trade deficit which existed even on Soviet figures and encouraged Mr Kamentsev to place more contracts with the UK, citing as examples those mentioned in Jeremy Godfrey's letter yesterday. He asked about the

The logo features the word "Enterprise" in a bold, sans-serif font, with "the" in a smaller font above it and "Initiative" below it. A stylized arrow curves around the text from the bottom left to the top right.

the  
**Enterprise**  
Initiative

status of APV's negotiations for breakfast cereal lines, which he understood to be floundering. Mr Kamentsev said that APV had quoted a price 27% higher than their competitors from Switzerland and Germany. (APV have confirmed that their price is £2.5 million higher per line on a contract worth £120 million, but say that their competition is quoting for equipment much below the Soviet specification.)

On other projects, Mr Kamentsev repeated the point which Mr Kossov had made to you, namely that he would be signing £0.5 billion worth of contracts during his visit. He spelled these out as:

- i) a 250 million rouble paper processing project involving the supply of paper to the UK (we understand that this is a joint venture project being negotiated with Maxwell Satellite Communications (Mr Robert Maxwell's company) involving the supply of Finnish and Canadian machinery to the Soviet Union and the import into the UK of newspaper; there is no UK export content as far as we are aware).
- ii) a 60 million rouble contract for a major packing plant (we are trying to find out more about this project, but think it is one being negotiated with John Brown).
- iii) a 200 million rouble contract with John Brown's "ASETCO" consortium, which is involved in the refurbishment of two polyethylene plants at Budyennovsk and Kazan (this contract involves various signatures at various times, the first stages of which were signed during the Prime Minister's visit in March 1987).

Mr Kamentsev said that he would like to see the proposals of the British banking community carried forward. This would register the mutual interest in financing increased levels of trade. The Soviet side would be prepared to proceed with such a credit protocol during the visit. My Secretary of State said that he was very interested in the idea and the ECGD would give the initiative its full support. However, the agreement would be with British banks and he hoped that their response would be positive. ECGD would follow the negotiations and report back to him personally.

Mr Kamentsev commented briefly on obstacles to trade, namely



Mr Kamentsev commented briefly on obstacles to trade, namely quota restrictions, export controls and lack of competitiveness of UK companies on price grounds. He said that nonetheless there were favourable conditions in which trade levels could improve, and suggested areas such as imports of Soviet natural gas, co-operation in the enrichment of uranium and in Soviet space technology including the use of Soviet launchers. He spoke positively on co-operation in the use of agro-chemicals for increasing agricultural crop yield, and welcomed steps to stimulate better management practices through training.

My Secretary of State referred to joint ventures and confirmed that there were 12 between UK and Soviet organisations, and another 40 under negotiation including one involving GEC-Plessey Telecommunications wish to install credit card pay phones in Moscow hotels. The Minister for Trade spoke about the importance of consortia in areas such as timber and paper, where British companies could help the Soviet Union to produce more kraft liner paper, for which they had a demand, by supplying the necessary machinery in a self-financing contract, thereby avoiding the problems of hard currency shortages which exist.

Mr Kamentsev referred to the interest which Britain had in opening a British business house. He understood that a commercial protocol had been signed in December on setting it up. He said that the Soviet Union would also be interested in setting up a similar centre in the UK.

The meeting ended with a short discussion about special economic zones which the Soviet Union is considering introducing and about Armenia, where Mr Kamentsev was fulsome in his tribute to UK support on the ground. He also spoke warmly of the Prime Minister's immediate personal telegram to President Gorbachev (Mr Kamentsev had been with the Soviet leader in the United States when the news broke).

I am copying this letter to Stephen Wall (PCO).

Yours ever,

Neil Thornton

NEIL THORNTON  
PRINCIPAL PRIVATE SECRETARY

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Prime Minister  
A report on this  
morning's discussions.

Dear Charles,

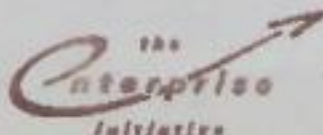
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## REPORT OF MR KAMENTSEV

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