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DEDIP

FM BONN

TO IMMEDIATE FCO

TELNO 723

OF 111755Z JUNE 90

INFO IMMEDIATE MOSCOW, WASHINGTON, PARIS

PERSONAL FOR AMBASSADORS

POSSIBLE ECONOMIC HELP FOR HE SOVIET UNION

SUMMARY

1. TELTSCHIK REVEALS IN STRICT CONFIDENCE THAT SOVIET UNION HAS ASKED FRG FOR NEW GUARANTEED CREDITS TO HELP WITH CURRENT DIFFICULTY IN MEETING DEBT SERVICE PAYMENTS. SOVIET UNION HAS ALSO APPROACHED FRG ABOUT A MAJOR WESTERN AID PACKAGE TO COVER THREE YEARS WHILE ECONOMIC REFORM GETS GOING.

DETAIL

2. I ASKED TELTSCHIK TODAY ABOUT THE FEDERAL GERMAN CONTACTS WITH THE SOVIET UNION CONCERNING ECONOMIC HELP FOR THE LATTER, IN WHICH HE HAD REPORTEDLY PLAYED A PART.

3. TELTSCHIK SAID THAT THE SOVIET UNION WAS HAVING DIFFICULTY IN MEETING CURRENT PAYMENTS ON DEBT SERVICING. WESTERN BANKS WERE THEREFORE AGREED INTERNATIONALLY THAT THEY COULD NOT AT PRESENT OFFER THE SOVIET UNION NEW CREDITS. THE GERMAN BANKS WERE CONSIDERING WHETHER TO WRITE OFF SOME DEBTS OR RESCHEDULE SOME PAYMENTS. SUCH A MOVE WOULD PUT THE SOVIET UNION IN THE GROUP OF COUNTRIES WHICH HAD REQUIRED DEBT RESCHEDULING. THAT WOULD BE A CATASTROPHE FOR A WORLD POWER, AND ESPECIALLY HUMILIATING FOR THE SOVIET UNION WHICH HITHERTO HAD BEEN PUNCTILIOUS ABOUT MEETING DEBT PAYMENTS. THE SOVIET UNION HAD ASKED THE FEDERAL GOVERNMENT FOR FRESH CREDITS WITH OFFICIAL GUARANTEES. NO FIGURE HAD BEEN NAMED. THE FRG HAD TAKEN NOTE AND WAS OPEN MINDED. ONE CONDITION WOULD BE ESSENTIAL: THAT THE PROVISION OF FRESH MONEY SHOULD BE HELPFUL IN REACHING AGREEMENT ON THE MATTERS BEING DISCUSSED IN 2 PLUS 4. THE GERMANS WERE SOUNDING OUT THE RUSSIANS IN THIS REGARD. THEY WERE BASICALLY WILLING TO ENTERTAIN THE IDEA OF FRESH MONEY WITHIN A REASONABLE AMOUNT.

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4. TELTSCHIK SAID THAT THE RUSSIANS HAD ALSO ASKED THE GERMANS ABOUT THE POSSIBILITY OF A SEPARATE, MUCH BIGGER CREDIT FROM THE WEST. THIS HAD FIRST BEEN RAISED BY SHEVARDNADZE WITH KOHL ON 5 MAY AND HAD BEEN ELABORATED ON BY GORBACHEV WHEN HE SAW TELTSCHIK TWO WEEKS AGO IN MOSCOW. GORBACHEV HAD SAID THAT TALK OF ECONOMIC REFORM HAD GONE ON FOR 5 YEARS IN THE SOVIET UNION AND ACTION MUST NOW BE TAKEN. THE SOVIET LEADERSHIP THOUGHT THAT THEY COULD ESTABLISH THE BASIC FEATURES OF A 'GUIDED MARKET ECONOMY' WITHIN 3 YEARS. THEY NOW REALISED THAT, DURING THOSE 3 YEARS, THEY NEEDED WESTERN HELP. THEY WERE WONDERING WHETHER THEY COULD SECURE WESTERN HELP WITH CONSUMER GOODS, GRAIN AND FOOD. THE RUSSIANS HAD MENTIONED NO CLEAR FIGURES BUT THE RANGE APPEARED TO BE DOLLARS 10-20 BILLION. THAT WAS TOO MUCH FOR ANY ONE WESTERN COUNTRY TO CONSIDER. KOHL'S VIEW WAS THAT THE WEST NEEDED TO DISCUSS WHETHER TO MEET THE SOVIET REQUEST AND, IF SO, HOW IT SHOULD BE DONE AND WHICH COUNTRIES SHOULD JOIN IN THE AID. KOHL WAS NOW CONSIDERING NEXT STEPS. HE HAD SPOKEN TO BUSH. HE WOULD PROBABLY WISH TO SPEAK BILATERALLY TO THE PRIME MINISTER AND MITTERRAND. HE MIGHT PROPOSE DISCUSSION DURING THE DUBLIN AND HOUSTON SUMMITS.

5. I SAID THAT MAJOR CREDITS FOR THE SOVIET UNION WOULD BE USEFUL ONLY IF THE SOVIET SYSTEM WAS ABLE TO APPLY THEM SENSIBLY. TELTSCHIK SAID THAT THE MONEY WOULD HAVE TO BE PROVIDED ON THE CONDITION THAT ECONOMIC REFORM TOOK PLACE AND THAT THERE WAS WESTERN INVOLVEMENT. THE LATTER MIGHT TAKE THE FORM OF A STAFF OF CONSULTANTS OR SOME OTHER ARRANGEMENT TO ENSURE THAT THE RUSSIANS HAD CLEAR WESTERN ADVICE AND THE WEST HAD FULL INFORMATION. IT WAS ESSENTIAL, BEFORE ANY MONEY WAS PROVIDED, THAT THE WEST SHOULD HAVE FULL CONFIDENCE THAT ECONOMIC REFORM WOULD REALLY BE CARRIED THROUGH. IN REPLY TO A FURTHER QUESTION, TELTSCHIK SAID THAT KOHL MIGHT NOT WISH TO MAKE AN EXPRESS CONDITION ABOUT LITHUNIA BUT THE UNITED STATES MIGHT WANT TO DO SO. ONE IDEA MIGHT BE TO TRY SOMEHOW TO LINK ECONOMIC REFORM IN THE SOVIET UNION TO DECENTRALISATION OF THE SOVIET STATE WITHOUT PARTICULAR REFERENCE TO LITHUANIA.

6. TELTSCHIK SAID THAT GENSCHER WAS NOT FULLY IN THE PICTURE ABOUT THE SOVIET APPROACHES TELTSCHIK REQUESTED THAT WE SHOULD NOT DISCUSS THE SUBJECT WITH THE AUSWAERTIGES AMT OR GENSCHER. IT SHOULD BE HANDLED EITHER BETWEEN THE PRIME MINISTER AND KOHL OR BETWEEN TELTSCHIK AND MYSELF.

7. TELTSCHIK ASKED WHETHER GORBACHEV HAD RAISED THIS SUBJECT WITH THE PRIME MINISTER IN MOSCOW. I SHOULD BE GRATEFUL FOR ANYTHING I MAY SAY IN REPLY. IF YOU HAVE COMMENTS OR QUESTIONS ABOUT THE GERMAN POSITION, I SHOULD BE GLAD TO PURSUE THE MATTER WITH TELTSCHIK.

MALLABY

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