

Prime Minister

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Mr. Lidley's account of
his visits to Poland
& the Soviet Union - and

PRIME MINISTER

I visited the USSR and Poland between 10 and 17 March. It was the week in which Gorbachev assumed his new powers and issued an ultimatum to Lithuania. I witnessed extreme contrasts - not least between the optimism of the Poles and the pessimism of the Russians.

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The Contrast Between the Governments

The Soviet Government gave every appearance of being paralysed. Of course they were dominated by the events that were taking place in the Kremlin. But this could not excuse their ignorance of their briefs, nor the chaos of the programme. The lowpoint was the cancellation of a lunch due to the supposed illness of my host. But he appeared at a meeting that morning only to hear the Chairman (who had not noticed him) apologise for his indisposition!

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More worryingly, only one of my host Ministers displayed anything other than distrust of the enterprise and market economy. They scarcely welcomed our comments or questions and seemed to have no feel for the scale or urgency of the changes that are required.

The Poles could hardly be more different. The Government is new, young and very professional. Stalin once joked that Communising Poland was as difficult as saddling a cow. It is therefore perhaps not surprising that the saddle has so quickly been thrown to the ground. Prices have already been radically reformed and the zloty is now well on the way to full convertibility.

The Contrast Between the Economies

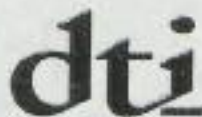
Despite the ignorance and incompetence of their Government, the Russians are at least beginning to talk about change. Moscow now stresses the autonomy of local councils and local enterprises, so that British investors and exporters now need to deal with local people as well as their old contacts in Moscow. But few steps have been taken to provide a framework within which local people can work. Prices bear no relation to cost or value and the currency is almost valueless, even within the country. Individual enterprises have no track record, no reliable accounts, and cannot be sued for debt. All in all the economy seemed less rational than many in the third world, and at first sight there seemed little point in British companies getting entangled in it.

Minister Sitaryan pointed to the advantages of consortia, by which the Russians mean voluntary groups of buyers and sellers whose hard currency transactions balance without troubling the Soviet treasury. Despite the claims made for one American consortium run by Chevron Oil, I am not surprised to hear that the concept remains elusive in practice.

Pressed on the delayed payments of which many British businessmen have complained, Mr Sitaryan had no coherent answer. It seemed from the Chairman of the Foreign Trade Bank that the problem was a mix of injudicious overspending on consumer goods last year, and the imposition of 'disciplines' on enterprises which had yet to come to terms with their new responsibilities.

Payment delays seem certain to go on for some months yet, and the Russians appear resigned to the adverse effect this will probably have on the availability and cost of new credit from banks and export credit agencies. Default, as opposed to delays, does not seem likely to occur on any scale. A recent report of official Soviet intervention to detain payments due





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to British joint venture partners (in one instance a hundred wagon loads of processed cotton) reinforce the impression I had of a society in which the arbitrary intervention of the State still plays a large part: a society, moreover, in such a confused state of transition that senior Ministers like Mrs Biryukova either do not know or will not admit to what is happening in their own areas of command.

And yet, against all the odds, the businessmen who accompanied me made contacts, and professed themselves pleased with their visit. I have just heard that UK exports to the Soviet Union reached £150 million in the period 1 January to 28 February 1990, 50 per cent up on the comparable period last year. So there is clearly business to be done - if one can cope with the anarchy - but only if the State is satisfied as to its importance, and is prepared to support it with guarantees.

I conclude that we should maintain our present policies towards the Soviet Union, subject only to the following points. I think we must keep a close eye on their creditworthiness. Their economy is in bad shape and we are exposed to the tune of £1 billion or more. We must also carefully track economic and legal developments, so that we can respond appropriately. I hope that DTI, ECGD and the Embassy will work together on this.

As indicated above, the pace of change in Poland is immeasurably faster. Unlike the Soviet Union (where the locals are more enterprising than their central government), many local Polish businesses are still trailing in the wake of their reformist Government. And they are still facing big problems. It has taken us ten years to privatise perhaps 10 per cent of our economy. The Poles are faced with the task of privatising maybe 90 per cent of theirs.

They are giving high priority to reforming agricultural production, currently dominated by a peasant class with tiny



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smallholdings. The land is fertile, so they will find it relatively easy to increase production. It is not clear where they will find markets, once they can feed themselves. They have a mistaken view that the EC will take their surpluses. They would be better advised to invest in non-agricultural sectors so as to create jobs for surplus agricultural labour.

I conclude that we should do more to help them with this process. We need to review the operation of the Know How Fund, to ensure that we and they get the maximum benefit from it. And we need to find a way to recommence the provision of medium term credits. In return, we must see if we can get some concessions concerning the repatriation of dividends and capital from investments in Poland.

The Contrast Between the Peoples

I visited Leningrad, Moscow, Warsaw and Crakow, flying over Vilnius on the way. In theory, all those cities were in only two countries. But they might easily have been five separate capitals.

Leningrad and Crakow have many similarities. They are each former Capitals - and never forget it. They are both elegant, westward looking cities, and their inhabitants each talk with disdain of the present capitals. They each remember - in different ways - the agony of the Second World War. Leningrad was under seige for two and a half years, and I visited a cemetery where 500,000 are buried. There are another 500,000 seige victims elsewhere. And my wife visited Auschwitz and Birkenhau, both only a short drive from Crakow.

But the differences between Leningrad and Moscow are much more serious than those between Crakow and Warsaw. The Leningrad region is fairly self-contained and looks towards the Baltic states. I was not surprised to hear that the Communists lost control of the city council a few days after I had visited the



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city. If that can happen in the cradle of the Revolution, it is hardly surprising that Gorbachev is facing the secession of the Baltic states and tensions in the western Ukraine, which were only annexed during the Second World War.

The Poles, too, look over their shoulders at developments to their north and east. Many of them see parts of Lithuania and the Ukraine as Polish and cannot wait to build links with their neighbours.

A Polish Minister remarked that the Russians had kept "an iron lid" on nationalism for forty, or in some cases seventy, years. The implication was that the pot (or pots) will now boil. The question is, can we reduce the activity to a simmer both with the USSR and in Eastern Europe? Some Poles think that Gorbachev will try to replace the lid. "His mask is beginning to slip" said one, on hearing of his demand for a response, within three days, from the Lithuanian Parliament. I think that may turn out to be a wrong verdict, but I can see the difficulties if he permits Lithuania simultaneously to deny him access to Kaliningrad, and set an example to the Western Ukraine.

It will also be difficult for the Lithuanians to settle the practical detail of independence from the Soviet Union. The economies have been developed as a single entity and there is no sensible pricing structure in either country.

My overwhelming impression, however, was of Leningrad, the Baltic states, Poland and the western Ukraine all looking west. They want to be part of Europe and they talk of the Community of twelve as if it is an anachronism. There are sensitivities of course - exacerbated by German insensitivity over the Oder-Neisse line. But they have turned their backs on Moscow, which is more than ever a city that looks to Asia for comfort.

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I am copying this to the Foreign Secretary, the Chancellor of the Exchequer, the Minister of Agriculture and the Ambassadors to the Soviet Union and Poland.

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