

Prime Minister (para 2)

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+ f.g. Hunt Poland

NOTE OF A MEETING HELD AT NO.11 DOWNING STREET AT 12.00 NOON
ON MONDAY, 14TH APRIL, 1980

Present:

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Chancellor of the Exchequer
Mr. Bull - Bank of England
Mr. Hawtin

Mr. Kisiel
Mr. Biszhyga - Polish
Ambassador
Mr. Jedynak - Interpreter

VISIT OF POLISH FINANCE MINISTER

The meeting had been arranged at Mr. Kisiel's request.

ms 2. Mr. Kisiel thanked the Chancellor for agreeing to see him. He said that shortly before departing for London he had had a full meeting with the new Polish Prime Minister who had asked him to pass on his best wishes to Mrs. Thatcher. He said that the Polish Government attached considerable importance to the traditionally good relations between their two countries. The Chancellor said that he was delighted to meet Mr. Kisiel and would certainly pass on the Polish Prime Minister's greetings to Mrs. Thatcher. He added that he welcomed the open dealings which existed between the Polish and British Governments, which he had experienced before as Minister for Trade.

3. Mr. Kisiel said that the good commercial relations between the two countries complemented their political relations. He noted that relations with UK banks, particularly the clearing banks, were good. He commented that they were sensitive to the needs of the Polish economy. The opening of the Polish foreign trade bank in London the following day symbolised these relationships.



4. Mr. Kisiel explained that, following five quite successful years, the Polish economy had slowed down since 1975. Real GDP and wages had moved ahead only very slowly. The Chancellor noted that this was part of a common experience: the UK had joined the European Community just as growth in Europe started to slow, following the oil price rises of 1973-74.

5. Mr. Kisiel said that developments in the west were an important factor in the development of the Polish economy. Exports had not expanded as quickly as expected, thus preventing the planned reduction in external debt. Internal factors were also important. Agricultural output, which represented a large share of GDP, had fallen short of what had been planned. In 1979 Poland had imported 30 million tonnes of grain (compared with planned imports of 2-3 million), at a cost, including interest payments, of about \$4 billion. These imports had been necessitated by a failure to reduce demand for meat, which in turn reflected the failure to bring price into a better balance with cost. Since June 1976, in the period up to which the Polish Government had tried, unsuccessfully, of course, to achieve such a balance, price increases had been limited, so that, currently, all but 10 per cent of meat sales were heavily subsidised. So far as milk was concerned, the Government had increased the price to farmers, who owned some 80 per cent of the farm land, in order to stimulate higher production. However, these price increases had been passed on to the consumer only to a limited extent.

6. The Chancellor noted that the UK had subsidised food a little after the war and in 1973 but, having learned that rien endure comme le provisoire, had managed to eliminate food subsidies. However housing subsidies were extensive. These had the effect of leaving more disposable income to be spent on imports, which the country could not afford. The Government was seeking to reduce the level of these subsidies.



7. Mr. Kisiel noted that after having reached a record level of \$3 billion in 1977, the Polish trade deficit fell to \$1½ billion in 1978, but remained at that level last year (compared with the planned deficit of \$½ billion), as a result of the increased grain imports. Mr. Kisiel said that the new Polish Prime Minister had made the elimination of the deficit on the current account of the balance of payments as the principal objective of economic policy. The Polish Government were aiming for a trade balance, or even a small surplus, in 1980. They were planning for equilibrium on the basic balance on the balance of payments by 1983. This timing reflected the high cost of servicing Poland's existing external debt. He said that at the forthcoming meeting between Polish officials and representatives from Canadian, British and American banks Poland would be showing these trading partners her detailed balance of payments figures up to 1985. To achieve these targets Poland was planning to increase exports by £½ billion in 1980. Achieving the turnaround would require the growth of exports to the west to exceed the growth of imports from the west. They hoped trade would continue at a high level. Their policies to achieve this turnaround were:-

(i) To shift from imports of raw materials from the west to imports from COMECON trading partners. Thus Poland would be importing more gas, oil and asbestos from the USSR in future. Imports of raw materials from the west, particularly from the LDCs (for example iron from Brazil), would continue at a high level.

(ii) To increase exports of raw materials and semi-manufactures. Exports of capital goods, particularly complete plants, would continue to be important. In achieving this, the emphasis would be placed on economy in the use of energy inputs and other raw materials, rather than further substantial and expensive investments, in order to move resources into exports. He said the room for such economies was substantial: compared with the west, Polish industry used



85 per cent more cement, 65 per cent more steel and 51 per cent more primary energy to produce a given amount of output.

8. Total exports were planned to increase by 21 per cent overall. Particular emphasis would be placed on raw materials (investment in nuclear power stations should free coal for export), small cars, road building machinery, ships (particularly fishing vessels), ready made clothing, chemical products and fertilizers, and complete plants (e.g. sugar mills, cement factories and sulphuric acid plants).

9. Mr. Kisiel said the priority being given to the balance of payments would mean that there could be little real increase in personal incomes in 1980 and investment would have to be restrained. He noted that heavy investment in the past had resulted in over 50 per cent of industry being modernised during the last 10 years. He said that the working classes understood the problem; he believed the Government's targets could be achieved.

10. Turning to bilateral trade relations, Mr. Kisiel said that his Government favoured the development of balanced trade. Against this, he noted that whilst exports to Britain had increased 8 per cent in 1979, imports from Britain had fallen by 2 per cent. His Government's aim was for a trade balance at a high level of turnover. He suggested that UK/Polish trade could be developed through:

(i) Improved market access; he suggested a higher level of representation in the UK/Polish Trade Commission. The Polish Government was prepared to assign an individual to be responsible for UK/Polish trade affairs.



(ii) Improved liaison between small and medium-sized firms: again the Trade Commission could be developed to provide an appropriate framework to achieve this. He said that his Government were assisting small firms by giving them financial help.

(iii) Joint action by Poland and the UK in third markets on for example turnkey projects (e.g. sugar mills).

11. The Chancellor thanked Mr. Kisiel for his comprehensive and detailed review of Polish trade, but said that trade policy was the responsibility of the Secretary of State for Trade, Mr. Nott. Trade policy had, of course, to be handled in the context of the European Community. He did however undertake to pass on the suggestions Mr. Kisiel had made about bilateral trade relations to Mr. Nott and to the Secretary of State for Industry, Sir Keith Joseph.

12. Mr. Kisiel thanked the Chancellor for the meeting.

R.I.T.

(R.I. TOLKIEN)

16th April, 1980

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