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PRIME MINISTER

POSSIBLE ECONOMIC ASSISTANCE FOR POLAND

Ian Gilmour minuted you on 20 October about the response which Peter Carrington should give when he visits Poland at the end of this month to the proposals for economic assistance which the Poles have put forward.

2. I agree with him that the questions raised are difficult. The political situation in Poland is unstable, and the concessions made to the strikers have made the country's foreign currency situation worse. There is no certainty at all that Poland will have the ability to meet its foreign currency indebtedness in the foreseeable future.

3. Our present level of exposure is very high - over £1 billion, and exceeded only by the French. The Polish proposal could increase our exposure to the extent that we agree to further credits for commodities. (Also, public expenditure would be increased, if these credits attracted interest rate support). Given the prospects for the Polish economy, I think we should be very cautious about doing this, in a situation where prudently we should be looking for a reduction. We must also bear in mind that Poland might set a precedent for our treatment of other countries.

/4. Politically the



4. Politically the United States and West Germany are more immediately concerned in the Polish situation. Neither, we understand, has yet had a formal request from the Poles. The Americans have been told informally what the Poles have in mind, and a telegram from our Embassy in Washington *attached* (No 4312 of 17 October) set out some of the US preliminary thinking. Apparently, in the State Department's view any restructuring must be multi-lateral (the normal procedure in these circumstances). It is not at all clear that the Americans are in a position to take very quick decisions.

5. I agree, of course, that we should do nothing to precipitate a further crisis in Poland, which might lead to Russian intervention. I accept that we may well have to give help to the Poles. But I do not think that we should get ahead of the other major countries involved. As Ian says, we should co-ordinate closely with the others, and this apparently is what the Americans want. Therefore I hope that while Peter Carrington can express sympathy and understanding with the Poles during his visit, he should not commit us in principle to any particular form of assistance. It seems entirely defensible that we are still considering their proposals. Meanwhile we should co-ordinate, in the most appropriate way, our thinking with that of the other major creditor countries.

I am copying this minute to Ian Gilmour, Keith Joseph, John Nott, Peter Walker and Sir Robert Armstrong.

G.H.

PS. cc also to other
members of OD

(G.H.)

22 October 1980

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