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CABINET  
DEFENCE AND OVERSEA POLICY COMMITTEE

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POLAND

Memorandum by the Secretary of State for Foreign and  
Commonwealth Affairs

The Western Strategic Interest

1. The United Kingdom and the West in general have a long-term interest in the ending of the artificial alliance between Moscow and the states of Eastern Europe. The achievement of this aim would transform the political and strategic balance in Europe and have far-reaching effects outside it.

The Polish Renewal

2. The Polish Renewal represents the most serious challenge the Russians have yet had to face in their East European empire. Developments in Poland stem from widely based and deeply held dissatisfaction with the material conditions of life created by the political and economic system which has been imposed on Poland. The aspirations of the majority are for political accountability of the leadership to the people and a more flexible decentralized economic system. The first of these goals, and probably the second too, is incompatible with Soviet control as it has existed since 1945.

Public Opinion

3. Western governments must also take account of popular pressure to assist the Poles on moral and humanitarian grounds. Western public opinion expects their governments to show

support for Polish efforts and aspirations.

Effects of the Renewal

4. The positive effects of the Polish Renewal have so far been:-
  - a) to weaken Soviet control over its largest and most important East European ally;
  - b) to challenge the socialist system which has been shown to be economically unsuccessful and politically bankrupt.
5. If the Renewal is consolidated and successful, its effects could be:-
  - a) to weaken the political, economic and military cohesion of the Eastern European states and to provide an alternative model of 'reformed' Communism; and eventually
  - b) to influence political developments in the Soviet Union itself.
6. If the Renewal collapses the result will be a major ideological and propaganda victory for the Russians, particularly if there has been a demonstrable lack of Western will to support it.
7. If the Renewal is crushed by a Soviet invasion, with or without preceding internal collapse in Poland, there will be economic consequences for the West:-
  - a) Polish commitment to repay outstanding debts in the long term will be in doubt;
  - b) The Western allies will consider and may implement economic sanctions against the Soviet Union (contingency planning has been agreed); and

- c) The Western Europeans (those members of NATO) will come under heavy US pressure to increase defence spending.

The Ideal Solution to the Polish Crisis

8. The ideal solution to the Polish crisis for us and our allies:-

- a) should avoid both Soviet intervention and a major clampdown by the Polish authorities;
- b) should preserve the gains extracted by Solidarity from the Polish régime over the past 15 months;
- c) should set the Polish economy on the road towards recovery and repayment of Poland's debts to the West;
- d) should allow for further development of Poland on lines which reflect the wishes of its people and may, in due course, have an effect elsewhere in Eastern Europe.

But the prospects for such a solution are placed at risk by the increasingly desperate state of the Polish economy. (See Annex A)

Conclusion

9. The stakes are high. Economic arguments might suggest doing no more than is needed to recover the existing investment of public and private funds in Poland. But Poland offers a unique opportunity to influence the direction in which events in Europe evolve. If the Renewal degenerates into chaos leading to intervention, the effects on East/West relations will be profound and costly; probable economic sanctions and increased military expenditure. If the Renewal survives and ultimately

succeeds in establishing a new, pluralistic model in the biggest Eastern European state in the Soviet glacis, the effects could be of historic significance. By helping Poland at this juncture we shall be doing what lies in our power to secure a political shift in Europe of lasting benefit to ourselves and to the West.

The British Contribution

10. We have been doing all we can politically, both bilaterally and multilaterally to help Poland. But it is essential to provide practical assistance as well.

11. I therefore invite my colleagues to agree that we should:

- i) reschedule official debts in 1982 and consider how the terms could be eased;
- ii) provide a minimum of £90 million new credits to Poland in 1982 under the four headings outlined in the Chairman's Note:-

a) URSUS

We should honour our commitment undertaken in 1974 and renewed in 1980 to proceed with the URSUS project. ECGD should continue to guarantee loans under the existing line of credit (estimated draw down approximately £30 million in 1982).

b) Food Aid

We should allocate £20 million extra of public expenditure in 1982 for loans to finance food purchase.

c) Industrial Credit

We should provide a minimum of £40 million

extra of public expenditure as loans to finance purchase of industrial products.

d) The necessary funds cannot be found from existing FCO programmes, and must therefore be treated as a net addition to the overall budgetary provision for 1982/3 and provided from the Central Contingency Reserve.

C.

Foreign and Commonwealth Office

9 November 1981

## THE POLISH ECONOMY

1. The paper prepared by officials to provide an agreed consensus on the prospects for the Polish economy (and attached to OD(81)51), makes gloomy reading. The Poles believe that in 1982 they will need external loans totalling \$4.3 billion in addition to a debt rescheduling requirement on the same scale as this year's.

The Domestic Consequences

2. The domestic consequences of the economic situation are worsening shortages of essential foodstuffs, rationing, price rises, unemployment and, with the onset of cold weather, serious power shortages. These factors have constantly aggravated the political situation in Poland, sharpened political attitudes and reduced the chances of obtaining the vitally needed agreement between Government and Solidarity on measures to bring the economy under control. A further rapid deterioration in the economy could make the political dialogue inside Poland untenable and civil unrest could ensue.

3. There is a persistent risk of confrontation between the authorities and the population which could well lead to the re-emergence of a hardline Polish régime or to the breakdown of law and order and Soviet intervention. In either case the gains of the Renewal would be lost.

Further Assistance

4. The solution to Poland's economic problems must lie primarily with the Poles themselves. In any event, they face a long period of austerity and painful adjustment to the

structure of their economy. Their financial position will remain very precarious. Western assistance cannot be on a scale which protects the Poles from these painful changes, nor should it be. We and other Western allies have made this clear to them. Nevertheless, it is the West's fundamental interest to help the Poles find time to achieve this adjustment and to stave off the economic collapse which could be fatal to the Renewal. We also need to demonstrate both to our own public opinion and to the Poles themselves that we are ready to help and are not withdrawing our support at the time of their greatest difficulty.

Other Measures

5. Poland should not depend on its Western creditors alone for outside help. We shall continue to make it clear to the Russians that we expect them to go on helping the Poles, particularly with supplies of energy and raw materials. The Poles have also indicated that they intend to join the IMF. Although unlikely to provide significant early relief it could establish a framework for further assistance and international monitoring of the economy. Our current information on assistance likely to be provided by our major allies is in Annex B.

## ASSISTANCE TO POLAND BY WESTERN ALLIES

1. At present we believe that our allies' position on new credits is as follows:-

a) France

The French have said that if by mid-December no final decision on new credit has been taken by all Western creditors, France will provide a total of \$200 million for cereal purchases to include a new credit of Francs 300 million for industrial purposes.

b) US

The Poles have asked the Americans for credit to purchase \$740 million worth of agricultural commodities. They would prefer another zloty sale or they have asked for a more generous repayment period (5-7 years after a grace period of 2-3 years).

c) FRG

The Germans have said no figure for new credits to Poland in 1982 can be given until the budget as a whole is approved. The provisional allocation in the budget is \$200 million.

d) Italy

The Italians agreed in October to a bilateral grant of food aid worth \$25 million separate from the EC programme. The Italians have also agreed to an additional credit (\$52 million) to enable the Poles to take up \$345 million of existing



credit which the Poles have not been able to do because of a 15% down payment requirement. The Italian Government has also agreed that Italy's share of a BIS loan should be \$20-25 million, if others agree to participate in this loan.

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