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Ref. A03317

PRIME MINISTER

Possible Economic Assistance for Poland

(OD(80) 60)

BACKGROUND

As the Lord Privy Seal reported to Cabinet last week (CC(80) 35th Conclusions, Minute 2), the Poles have put forward a number of specific requests for economic assistance from the United Kingdom. These are summarised at Annex A of the Lord Privy Seal's minute to you of 20th October; Annex B to the same minute contains his proposals for our initial response to these requests. We need to decide on our line quickly, since the Foreign and Commonwealth Secretary is due to visit Poland on 29th October (and leaves London on 27th October) and the Minister of State for Trade will be in Warsaw shortly afterwards (10th-14th November) for the annual Anglo-Polish Joint Commission.

2. The Polish economy is in a parlous state. The economic arguments for providing further credit are not overwhelming, though clearly we want to avoid precipitating an economic collapse which might destroy any likelihood of our recovering what the Poles already owe us. Moreover, some of the products for which the Poles are seeking credit are those which would help our own industries to sell, e.g. the commodities listed at b. in Annex A. Politically there is also a difficult balance to be struck between providing assistance to help maintain a largely unreformed regime and missing an opportunity to help loosen the Soviet grip on that country. It could be argued that Western aid to Poland helps the Russians to clear up an economic mess of their own making; but equally that Western interests would suffer if in the absence of Western aid political strains within an economically desperate Poland were to pave the way for Russian intervention.

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3. The Lord Privy Seal's minute points out that the Americans, French and Germans have recently provided some extra finance for Poland and recommends that we should help too. His proposals are likely to provoke comments from a number of colleagues. Hence the decision to take the matter at OD on 23rd October.

4. The Chancellor of the Exchequer is expected to say that we should be extremely cautious about assisting Poland other than on a multilateral basis, given ECGD's very large existing exposure and the increase in public expenditure which would occur if we provided additional credit and Poland were later to default.

5. The Secretaries of State for Trade and Industry (the latter has been invited to attend) are broadly content with the proposals at Annex B. Mr. Nott will, however, draw attention to the dangers of increasing ECGD's exposure. He will also suggest that we could afford to be a bit more forthcoming about the import of small television sets (item e. in Sir Ian Gilmour's Annex A); this will be resisted by the Secretary of State for Industry. The Minister of Agriculture (who has also been invited to attend) sees considerable advantage in extending credit to Poland to enable her to purchase increased quantities of our bumper crop of barley, for much of which intervention (at a net cost of £4 per tonne to the Exchequer) is the most likely alternative outlet.

HANDLING

6. You will wish the Lord Privy Seal to speak to his minute and then, before going into the detailed departmental preoccupations of Ministers, to establish whether a refusal to offer any practical assistance would be politically defensible either in the United Kingdom or to our principal Western partners. Assuming that there is general agreement that the United Kingdom should be as forthcoming as our position allows us, you will wish to invite comments on the specific suggestions in Sir Ian Gilmour's Annex B. You might wish to begin by seeking the Secretary of State for Trade's views; then those of the Secretary of State for Industry and the Minister of Agriculture; and finally, in the light of their comments, the views of the Chancellor of the Exchequer.

*Reference
£250 m
in minutes
at meeting
in note*

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CONCLUSIONS

7. You might guide the Committee to conclude that the package in Annex B to the Lord Privy Seal's minute is, subject to any minor adaptations agreed in discussion, on the right lines; that the Foreign and Commonwealth Secretary should be authorised to speak accordingly to the Poles during his forthcoming visit but without allowing himself to be drawn into detail; and that officials should seek the fullest details of what our partners are doing before the meeting of the Anglo-Polish Joint Commission in order to make certain that, in making concessions as outlined in Annex B, we should not be getting ahead of other countries.



(Robert Armstrong)

22nd October, 1980

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