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POLAND: ANNUAL REVIEW FOR 1979

*Her Majesty's Ambassador at Warsaw to the
Secretary of State for Foreign and Commonwealth Affairs*

SUMMARY

A disappointing year for Poland, dominated by doubts about the country's political and economic stability. Fundamental tension remains. The Church has gained in confidence from the Pope's visit but there have as yet been no concrete advances towards its specific aims. The hierarchy is biding its time (paragraphs 1-6).

2. The dissidents became more active towards the end of the year and more overtly anti-Soviet. The Government, finding that leniency had not produced the desired results, hardened its line. Discontent among the workers, a subject of much greater importance to the Government, was contained and dissent within the establishment driven underground (paragraphs 7-9).

3. The country suffered the worst winter and spring for years. The grain harvest was disastrous and this, with continued economic recession in the West, threw out of gear predictions of improvements in the hard-currency balance of payments. It may be 25 per cent better than in 1978 but still a good deal worse than predicted to Western bankers (paragraphs 10-12).

4. 1979 has been a bad year for the economy and politically stagnant. Inflation has risen and shortages intensified. But in spite of a bleak economic outlook there are major factors pointing to stability. Gierek still seems to the Russians, the West and most Poles the best bet: and he is fit again and in control. The financial situation is not irremediable in spite of the debt burden (paragraphs 13-18).

5. The Polish people are not starving and provided the Government can avoid a dramatic fall in their standard of living, discontent should be containable. The dangers to the *status quo* are miscalculations of each other's tolerance by the Russians, the régime or the Opposition; and an unpredictable spread of a minor incident into wider revolt. Localised riots or strikes are quite likely but a major outbreak in the early future, though it cannot be excluded, is not (paragraphs 19 and 20).

6. Poland has remained a loyal if unenthusiastic member of the Warsaw Pact. The visit of Mr. Blaker was appreciated but the Poles may be a touch more hesitant about the UK than they were a year ago (paragraphs 21 and 22).

7. British exports have done well in the circumstances and should total about £260 million for the year, much the same as for 1978. We shall be competing with other capitalist countries for a share of a smaller Polish cake but should be able to keep our end up (paragraphs 23 and 24).

8. A missing factor in Anglo-Polish relations is a visit by the Prime Minister or yourself (paragraph 25).

(Confidential)

My Lord,

Warsaw,

2 January, 1980.

The past year, like 1978, has been dominated by doubts about the political and economic stability of the Polish State. In my Annual Report for 1978⁽¹⁾ I said that despite blunders, shortages and discontent, Poland would survive 1979 without serious political unrest or economic breakdown. I have had no reason throughout the year to doubt this prediction.

2. It would be idle, however, to pretend that 1979 has shown much light at the end of the economic tunnel or prospect of break-out from political stagnation. The outlook for 1980 is bleak.

Social and political

3. The broad picture in Poland remains the same. Fundamental tension arising from a Catholic nationalist people ruled by a Marxist Soviet-dominated Government: a régime balancing the need to govern without provoking unrest against the need to maintain itself in power and placate the Soviet Union: a potentially strong political opposition held in check by fear of the consequences of pushing dissent too far.

4. This opposition has continued to consist of two main elements: the Church and what the West calls the dissidents, with the industrial and agricultural workers as possible reinforcements to either. Additionally, the end of 1978 and beginning of 1979 saw the brief surfacing of a movement for reform within the ranks of the Party and others normally supporting the régime.

5. The year 1979 was for the Church and for the Polish people the year of the Pope. Having taken, not without internal disagreement, the decision to allow the Pope to visit Poland, the Government did not stint its welcome. Thirty-two sermons and eight open-air masses in visits to five cities over eight days were arranged and 12 million Poles may have seen or glimpsed the Pope. There was reasonable press and television coverage, impeccable organisation and unparalleled co-operation between the Church and State authorities.

6. Yet so far as the consequences of the visit are concerned I still have little to add to my despatch of 22 June 1979.⁽²⁾ The Government can feel satisfied that it made the correct decision in that it gained some strength from the Pope's patient and cordial meetings with its leaders, and his limited endorsement of work for and with the régime. The Church has demonstrated its command of the people's loyalty and thereby humiliated the Party; it has gained in confidence and stature. But it has made no concrete advance towards its objectives of formal recognition, access to the media, greater circulation of religious newspapers and increased building of churches. The hierarchy still give the impression of biding their time.

⁽¹⁾ D.R. 66/79.

⁽²⁾ D.R. 154/79.

estimate I can now obtain for the year's hard-currency trade deficit is about \$1.2 billion, against a target of \$660 million, and against \$1.8 billion last year.

12. The authorities now speak of the hard currency balance moving into surplus in 1983 rather than 1981 and this is borne out by the "Guidelines for 1980-85" issued by the Party for the forthcoming Party Congress, which presages virtually nil growth over the next few years. The Polish economy is to cool down: projects begun are to be finished before new ones are undertaken. Meanwhile the Polish Government continues to repeat that, as the 10th industrial power in the world with massive mineral resources, the country's economy is fundamentally sound and that it will not default on its debts.

Assessment

13. Clearly 1979 has been a bad year for the economy. Apart from the immediate debt crisis, shortcomings in transport, energy and agriculture have not been decisively tackled. The problems, endemic in the system, of lack of incentives for good work and disincentives for bad; of overmanning, low level corruption and bureaucracy remain. Politically, in spite of the excitements of the Papal visit, the year has been a stagnant one in the sense that no reform or initiatives towards reform have taken place.

14. The régime are faced with major economic difficulty and political challenge from a more confident opposition. And the challenge is sharpened by the visible consequences of the economic crisis; a lack of things in the shops, power cuts and the threat of worse to come if the winter is a bad one. Inflation, moreover, (that is, prices of things other than basic foodstuffs, housing, transport and utilities, which are frozen) may be about 12-15 per cent against wage rises of around 8 per cent. And 1979 has seen the end for the technocrats, whose morale has consequently sunk, of the heady days of one exciting new capital project after another. Perhaps the régime's main problem is to dissipate the feeling that Gierek's "economic manoeuvre" has failed and that he and his team do not know what to do next.

15. In this situation, bleak as it may seem, there are nevertheless major factors for stability. Nearly all dissidents and their sympathisers temper their activities to their belief that the Soviet Union will use force to keep Poland in the "socialist camp". Fear of Germany mitigates dislike of Russia. The Russians want a quiet Poland and have so far reckoned that Gierek is the best man to provide it. The Western world, for its part, can see no prospect of a successor to Gierek being an improvement and most Poles think him better than any other potential leader. He won prestige and authority from the Papal visit: he seems fit again and in control. His Government has improved the quality of life in Poland and there is much to be lost in bringing it down. The forces in favour of preservation of Gierek and his brand of government are powerful.

16. It is true that Gierek seems to have no plans for the sort of political or economic change (e.g. greater decentralisation) which might seem likely to pull his régime out of the doldrums. He and his team, perhaps nudged by the USSR, have evidently concluded that for the moment the dangers of embarking on reform outweigh the possible benefits. No doubt Gierek will shuffle the Ministerial team somewhat after the Party Congress in February, especially if the ailing Prime Minister departs. Possibly the "mixture as before" directive of the "Guidelines for 1980-85" will be modified in the direction of greater incentives. But Gierek is temperamentally averse to change. And he may reflect that very often troubles come to oppressive régimes precisely when they do lift the lid.

17. But in fact change is going on under the surface all the time. Teenagers have started pelting the police with bottles like any Western football crowd. The law says that only censored literature can be published: but underground publications have a wide distribution, including perhaps members of the establishment, and the law does nothing about it. In due course they will have an effect—not necessarily explosive.

18. The financial situation is bad but perhaps not irremediable. A heavy burden of debt falls due in 1980 and 1981. But the Dresdner Bank, with quiet encouragement from the German Government, is re-financing much of that due in Germany. France has extended a large loan. Other European countries continue to extend project and other credit, some of which will be initially used for debt repayment. The prices of Polish raw materials for export have risen as well as those of imports. The USSR may help out.

19. The Polish people are not starving. Indeed many of them are doing remarkably well. But Poles, like Westerners, have become accustomed over the past decade to a constantly rising standard of living. Their Government now proposes that it remain broadly static for a few years. Deeper economic recession in the West and oil price rises would compound all difficulties. But if the Government can maintain roughly the current standard, avoiding a dramatic fall, they should be able to contain outbreaks of discontent with their usual mixture of concession, cajolery and intimidation.

20. The dangers then to the *status quo* (leaving aside major changes in the Soviet Union which are outside the scope of this despatch) are twofold. First the Russians, the régime or the Opposition might simply miscalculate each other's tolerance. Secondly, some spark such as a local food riot mishandled or a breakdown of power supplies might ignite wider revolt in which various sections of the opposition might combine. Such an event cannot be ruled out, but my feeling is that matters have not reached that pitch. If a revolt occurred the Church would do what it could to mitigate the consequences. Localised riots, strikes or disturbances are quite possible, but on the whole I think a major outbreak more unlikely than likely in the early future.

International affairs and Anglo-Polish relations

21. Poland has remained a loyal if unenthusiastic member of the Warsaw Pact. The Poles joined in the Pact's propaganda campaign against NATO's TNF modernisation but with less noise than that over the neutron bomb. The ultimate loyalty of the régime is of course to the "socialist camp". They are, however, enthusiastic promoters of détente, not only because they desire peace or because the Russians also pursue détente but because they fear that increased tension would limit their freedom of manoeuvre *vis-à-vis* the USSR, already under strain as a result of Poland's shaky economic position. They remain profoundly suspicious of Germany.

22. The Polish Government were glad of the visit by the Minister of State, Mr. Blaker, and they wish to improve their relations with Britain, which they rightly say are not as close as with some other Western countries. But I think they may be a trifle more hesitant about the UK than they were a year ago. They see Britain as one of the hardest-liners over TNF; they have suggested that we believe (unlike the French and Germans) that Europe ends at the River Elbe. There have been minor irritants like the Katyn band and the abortive BBC

Exhibition in Warsaw. And complaints at the performance of British firms, justified or not, have grown louder and were a factor in our loss of the important Pila contract to Japan.

23. That said, our exports, given Poland's economic position, have done well. The figure for the year should be in the region of £260 million, about the same as for 1978 when we passed the Americans, French and Italians to become Poland's second largest Western trading partner after the Federal Republic of Germany. Much of this is, however, due to business generated by the three major British projects in Poland, for which there are as yet no replacements.

24. New jumbo projects are unlikely for the time being, and in the face of the Polish shortage of hard currency we and other Western countries will be competing for shares of a smaller cake. But the Poles will still buy what they really need, especially in the field of transport, energy, housing and agriculture. British firms seem willing to stay in the market, and provided that we offer credit terms as good as those of our competitors, that the political element is not lacking and that British industry performs effectively, we should be able to keep our end up in this market.

25. A missing factor in Anglo-Polish relations, political and commercial, remains a visit to Poland by the Prime Minister and/or yourself Sir which the Poles greatly desire and for which in the light of your despatch of 7 December, 1979 I do not need to argue the case.

26. I am sending copies of this despatch to Her Majesty's Representatives at Moscow, East Berlin, Budapest, Bucharest, Sofia, Prague, Belgrade and the UK Delegation to NATO.

I am Sir

Yours faithfully

K. R. C. PRIDHAM.