



CONFIDENTIAL

*Poland*

PRIME MINISTER

Aid for Poland

The Foreign and Commonwealth Secretary mentioned in Cabinet this morning that he would be raising Aid for Poland at OD this afternoon. He added that he and the Chancellor of the Exchequer were in full agreement on the subject. This is good news if true, since their officials certainly are not.

2. The Foreign and Commonwealth Secretary's minute to you of 16th December (PM/80/85) included a passing reference (paragraph 2) to the line we should take with the Poles in the context of the meeting of the creditors club which is due to be held in Paris on 22nd-23rd December (but may now be postponed at American insistence). The Chancellor of the Exchequer's minute to you of 17th December challenges this and suggests a more cautious line. The Chancellor is known to be under pressure from the Governor of the Bank of England not to be too generous to the Poles in the first part of 1981 and to move on as quickly as possible to some longer term settlement of the Polish debt problem; the Governor is of course under pressure from British banks, who have many unsecured loans to the Poles at stake as well as their Government-guaranteed loans.

3. The confusion between Lord Carrington's line and Sir Geoffrey Howe's derives partly from the fact that when OD considered the subject on 10th December it did not focus on what should be said to the Poles, but only on the more immediate question of what should be said to our fellow creditors. The Paris meeting is primarily a meeting of creditors. It is not designed as an occasion for negotiating with the Poles, although they will be present for part of the time.

4. OD's decision on the line to be taken with our fellow creditors was quite specific:-

- (a) Our representatives at the Paris meeting should seek to agree with them on an assistance package covering the first half of 1981 (not a shorter period).



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- (b) This package should include both debt relief through refinancing and also new credit.
- (c) If possible, the package should only commit the United Kingdom to two-thirds of what (on a pro rata basis) the Poles have asked for under those two heads; but we should be prepared to meet the remaining third as well, if that would keep us broadly in line with our main partners.

5. OD did not decide what should be said to the Poles. But the Foreign and Commonwealth Secretary is no doubt right in saying that there will be political advantage in being as forthcoming to them as our negotiating position allows and in doing so as soon as possible. This suggests that we should be prepared (in concert with our partners) to indicate to the Poles in Paris what we would be prepared to do during the first half of 1981, to the extent that this has by then been agreed with our partners. But the Chancellor is clearly right to insist that we should not get out in front of our partners by indicating to the Poles any British intentions which have not been so agreed.

6. You may wish to guide today's OD meeting accordingly.

ReA

(Robert Armstrong)

18th December 1980