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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

ECONOMIC ASSISTANCE TO POLAND

We agreed at OD on 10 December (OD(80)26th Meeting) on a strictly limited measure of assistance to Poland, as part of a concerted package mounted by most of the major creditors. We agreed to provide between two-thirds and all of what the Poles wanted for the first six months of 1981, by way of new credits and refinancing of maturing loans. This was seen as an interim measure, pending a wider rescheduling or refinancing operation. UK participation was to be contingent on the other major creditors joining in.

2. A meeting of creditors took place in Paris on 22-23 December. Treasury and FCO officials attended. A Polish delegation was present part of the time. The US made it clear that the new Administration could do nothing until well into February. It would then take six weeks or so to negotiate a longer-term package. Meanwhile the Poles told the French chairman that they were running out of cash. A limited Soviet loan was almost exhausted. Some kind of bridging operation, for at least three months, would be needed. The UK representatives said that we could join in this, if sufficient others did the same, and indicated the scale of our possible help. But the French and Germans, while willing, claimed to lack Ministerial instructions. Austria was already committed to help. The rest said they would consider the position. The EC creditors agreed to meet again in Paris (with any others who were willing) on 16 January to finalise a bridging operation. Meanwhile they were free to talk bilaterally to the Poles, but without commitment. One exception was the provision of credit for food aid, which was recognised as a

/separate



separate and immediate problem.

3. Since that meeting, there have been three developments:-

(a) Food Aid. It has now been agreed at official level to provide up to £15 million of credits for the UK share of the EC food aid package. This was within existing Ministerial authority.

(b) France has unilaterally offered a F F 100 million a month refinancing credit for the first quarter of 1981; this is a fresh decision, extending an earlier loan.

(c) Germany has offered 120 million DM on new credits from 2 January, but this is part of a loan agreed in October. We understand that German Ministers are meeting on Wednesday to consider whether they can do anything else to help.

4. Following the French offer, the Poles asked our Embassy in Warsaw on Friday for UK participation in a bridging operation (covering limited refinance as well as new credits). They want to send a negotiating mission over here later this week. There is an obvious risk in agreeing to this. But I believe we can accept it, provided we make it clear to the Poles in advance:-

(i) that the talks are exploratory (e.g. to agree on the maturities in the first quarter, on which there are conflicting estimates);

(ii) that we shall explain the terms on which we might be prepared to offer aid (e.g. period; grace period; interest rates);

/(iii) that the



(iii) that the whole thing is subject to the outcome of the Paris talks on 16 January.

I understand that the Lord Privy Seal would support this. If you agree, arrangements will be made immediately.

5. There is then a minor but irritating technical point. The Report by Officials which went to OD in December said that ECGD were considering downgrading Poland from a "B" credit rating to "D" - i.e. exporters should pay a higher premium (about another 2 per cent on the insured value). This is normal practice for a country which is having problems in paying its debts; Poland is clearly not creditworthy at present. It is a technical matter which would normally be dealt with quite automatically. In ECGD's present financial difficulties I would not want to hold up such a move. But the news leaked in Warsaw and the press here picked it up. I understand that the Foreign Secretary fears the decision will have an adverse political effect, at a time when we are trying to be as helpful as possible to the Poles. As a compromise, it has been agreed at official level that we retain the present "B" rating for the food aid credits, so as to maintain the full value to the Poles (and prevent them switching the order to other EC countries). The matter does not have to be resolved before the Paris meeting on 16 January. But I fear that, if the Foreign Secretary cannot accept the downgrading, he and I will have to discuss it further with the Secretary of State for Trade.

6. It was also agreed in Paris that the bridging operation, as its name implies, was purely temporary. A further meeting between all major creditors and the Polish authorities will take place in mid-February, by which time the US position should be clearer.

/7. The Bank



7. The Bank of England has checked the private sector position. No bank has yet reported a default. All the clearers are rolling over short-term maturities as they arise, but not increasing their ^W exposure. They are looking nervously over their shoulders. The Bank is keeping closely in touch with the position and we shall have time to discuss matters before any irrevocable decisions are taken.
8. There is mounting press interest. The "Sunday Express" made this their lead story on Sunday. Officials have agreed interdepartmentally on a neutral "line to take" for the moment. Clearly we should discourage any exaggerated ideas about the scale of any UK assistance.
9. Apart from the two outstanding points above, there are no issues on which our negotiators need fresh instructions before the Paris meeting on 16 January. The existing OD decision is sufficient for this purpose. I suggest that we ask officials to be guided by this, and to agree UK participation in a three-month bridging operation, covering both new credits and refinancing, on a scale commensurate with the contributions of the other creditors, particularly our Community partners. It will then be necessary to revert to the longer-term issues, on which officials are preparing a further report.
10. I am sending copies of this minute to the other members of OD and to Sir Robert Armstrong.

R. Tolkien (Private Secretary)
for (G.H.)
6 January 1981

[*approved by the Chancellor and signed in his absence*]