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Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG

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PRIME MINISTER

ECONOMIC ASSISTANCE TO POLAND

In my minute of 6 January I reported the latest developments in our negotiations with Poland and secured your agreement that we should talk to a visiting Polish delegation.

2. The Poles came to see my officials on 9 January. The talks were purely exploratory and technical. We outlined the basis on which we might be prepared to help if other creditors seemed ready to do so as well, purely as a bridging operation until some longer-term agreement could be reached.

3. On 14 January I met the Lord Privy Seal and the Secretary of State for Trade to discuss two outstanding points: the question of country grading for Poland and the exact figures of assistance to be offered. On the country grading point we agreed to maintain the present 'B' category treatment for credit for food sales under the Community scheme. Thereafter, Poland would be downgraded to category 'D'. This is a normal routine change in such circumstances, and would not normally require political decision at all. We also agreed that we should finance up to £20 million of new business in the first quarter of 1981 (including £15 million for the Community food package) and £16 million by way of refinancing of debts falling due in the first quarter - approximately two-thirds of the expected maturities. All this was on the assumption that we kept broadly in line with the attitude of our other major Community partners.

4. At a meeting in Paris on 16 January, our officials were satisfied that this last condition had been met, and accordingly

/they indicated



they indicated the lines on which the UK would proceed for the next 3 months. The French Chairman then said that he was visiting America at the end of January and hoped to be able to persuade the new Administration to engage in a longer-term multilateral or concerted rescue operation of some kind, which would probably lead to negotiations with the Poles at the end of February or early in March. The bridging operation would thus ensure that the Poles were able to keep going until the end of the first quarter, when it would be replaced by a more permanent arrangement. It was, however, noted that these things take time, and that the whole thing might slip by another month or two.

5. Polish officials came to the Treasury on 19 January and were told the terms approved by Ministers. They professed themselves disappointed at the scale of our assistance, but it was made clear that it was based on a firm Ministerial decision.

6. The Polish Ambassador is due to see the Minister for Trade (Mr. Parkinson) on 20 January. I have no doubt that he will ask for more generous treatment. In my view it would be a mistake to concede anything at this stage. However, if the Minister feels it necessary, he could undertake to report to his colleagues on the Ambassador's representations. We could then use up a further £4 million negotiating margin which the Secretary of State for Trade, the Lord Privy Seal and I agreed might be brought in at some point. This would still leave us broadly in line with what the other Community countries are doing, and would help to reassure the Poles of continued British support. I see no case at all for going beyond a total of £40 million for new credits and refinancing combined.

7. I am sending copies of this minute to the members of OD, the Minister of Agriculture and to Sir Robert Armstrong.

(G.H.)