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Blend

Ref. A04241

PRIME MINISTER

Longer-term Economic Assistance to Poland

(OD(81) 7)

BACKGROUND

OD decided on 23rd October that we should help Poland economically, to the extent justified by our economic circumstances and by the response of our main partners. Time pressures subsequently made it necessary to subdivide the problem into (a) a bridging operation, covering the first three to six months of 1981, and (b) longer-term assistance thereafter. OD took decisions about (a) on 10th and 18th December, and we have been keeping in close touch on this with our main partners as well as with the Poles. The present meeting will be OD's first look at (b), on which serious international negotiations are likely to begin, as soon as the new United States Administration have sorted themselves out (a first meeting is to be held in Paris on 23rd-25th February). Most of the difficult decisions can be deferred until our partners' attitudes are clearer. But our negotiators require some Ministerial "steer" now. Hence the six questions posed in paragraphs 3 and 4 of Mr. Wade-Gery's covering note to the report by officials.

2. One of these questions - No. ii. in paragraph 3, on refinancing versus rescheduling - has become less urgent since the report was written. At that time the Treasury, who favour refinancing (as do ECGD), wanted an early decision. They have now been persuaded by the Bank of England, who favour rescheduling, that the rival merits of the two techniques should first be further studied as a general issue, i. e. going wider than the Polish context.

3. On three of the other questions - No. i. on the principle of a collective approach to Polish debt relief, No. v. on the initial time period to be covered and No. vi. on the percentage of eligible debts - your colleagues are likely to agree without difficulty to the report's recommended answers. But you should be aware that the answer to No. vi. is a carefully papered-over rift between the Foreign and Commonwealth Office (who want 85 per cent debt relief plus some new credit) and the Treasury (who want the percentage reduced if new credit is provided).

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4. The remaining two questions - Nos. iii. and iv. concerning the principle and modality of new guaranteed credit - may be more contentious. Although the principle is likely to be approved, that will conceal (permissibly, at this stage) a further difference of view between the Foreign and Commonwealth Office and the Treasury; the latter want to offer only a bare minimum and the former to be rather more generous. The modality issue will largely turn on which is less likely to attract Parliamentary criticism.

5. Two members of OD are liable at this meeting to have divided loyalties. The Treasury and Bank of England, both represented by the Chancellor of the Exchequer, do not wholly see eye to eye (see e.g. paragraph 2 above); and the same is to a lesser extent true of the Department of Trade and the Export Credits Guarantee Department, both represented by the Secretary of State for Trade. The Bank and ECGD are in different ways much influenced by the commercial banks' pessimism about Poland's economic prospects; the Treasury and Department of Trade are more conscious of the political imperative.

6. The Minister of Agriculture has been invited for this item because of his interest in Poland's capacity to go on importing British food; and the Secretary of State for Industry, in case the question of liberalising imports from Poland comes up.

7. The paper assumes that Polish political liberalisation is maintained and that there is no Russian invasion. This is merely a working hypothesis, not a prediction. If it proves wrong, the whole of the present exercise will have to be reconsidered from scratch. A separate report by officials on sanctions possibilities will shortly be circulated to OD and other Ministers for information.

HANDLING

8. General opening statements could come (if necessary) from the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer in that order. The negotiations are Treasury-led, but our political objectives provide the basis for them.

9. You should then establish that the Committee are content with the points where Ministers are simply invited to note (paragraph 5 of the covering paper); and that discussion need therefore focus only on the six decision issues described above (paragraphs 3 and 4 of the covering paper).

10. Question i.: the collective approach. The Chancellor of the Exchequer will endorse this, though without enthusiasm. Dissent is unlikely. But colleagues may have some questions for the Foreign and Commonwealth Secretary on other countries' likely intentions (e. g. the Americans, whom you may be asked to lobby when in Washington).

11. Question ii.: refinancing versus rescheduling. The Chancellor of the Exchequer will suggest further study of the general issues involved (see paragraph 2 above) between himself, the Secretary of State for Trade and (if interested) the Foreign and Commonwealth Secretary. Mr. Biffen should comment; and Lord Carrington should be asked if he wants his Department involved.

12. Question iii.: the principle of guaranteeing new credit. The Chancellor of the Exchequer should lead and the Secretary of State for Trade and the Foreign and Commonwealth Secretary should comment. The Secretary of State for Industry and the Minister of Agriculture may also have views. However grudgingly, some new credit will no doubt be accepted as inevitable. The Chancellor may want to set a ceiling figure (e. g. £50 million in 1981 including £20 million already agreed under the bridging operation); but it is not necessary to settle more than the principle at this stage.

13. Question iv.: the modality of guaranteeing new credit. This is primarily for the Secretary of State for Trade. But you will also want comments from the Chancellor of the Exchequer and (on the Parliamentary aspect) the Chancellor of the Duchy. Despite ECGD's advice to the contrary, the Committee will probably regard it as less controversial to stretch the "trade encouragement" provision in ECGD's Act, rather than revive the Act's outmoded "aid-giving" provision. The Foreign and Commonwealth Secretary will no doubt be ready to dispose summarily of any suggestion of using the Overseas Development Act and the Aid Budget.

14. Question v.: time period. The Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and the Secretary of State for Trade will endorse not going initially beyond the end of 1982. But they will also be clear that the operation will in due course need rolling forward for many years thereafter.

15. Question vi.: percentage of debt to be eligible for relief. The Chancellor of the Exchequer should lead, followed by the Foreign and Commonwealth Secretary. The Secretary of State for Trade may also have views. Despite underlying differences (see paragraph 3 above), the qualified proposal for 85 per cent eligibility is likely to be endorsed.

CONCLUSION

16. Provided clear answers to the six questions have emerged, e.g. as forecast in paragraphs 10-15 above, no general summing up should be necessary. The Chancellor of the Exchequer should be asked to inform and (as necessary) consult the Committee as negotiations progress.

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ROBERT ARMSTRONG

11th February, 1981