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Treasury Chambers, Parliament Street, SW1P 3AG
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Prime Minister

PRIME MINISTER

You may also like to
glance through pages 1-12
of the attached paper.

POLAND : POSSIBLE ECONOMIC SANCTIONS

Yours

I welcome the circulation of OD(81)10. This gives us all a chance to consider possible sanctions well ahead of time. If it proves necessary to impose them, we shall all know the problems.

2. I understand that we might have to meet at very short notice to decide on our course of action in the event of Soviet intervention. So perhaps it is worthwhile reminding you now of the problems we saw in imposing financial sanctions in the cases of Iran and Afghanistan. Briefly, the UK as a major world financial centre is much more exposed to the risk of retaliation than is any other country. In the present case, our banks are more heavily exposed in the Eastern bloc as a whole than are most other creditors. Conversely, sanctions are less effective against the Soviet Union and its allies, because (unlike Iran) they are debtors and not creditors of the West. Any action involving interference with the banking system is likely to be damaging to our interests (this goes as much for a moratorium as for a longer-term series of measures). In particular, any steps to freeze Soviet assets in this country would be extremely dangerous. I think this is common ground among Ministers, as well as between ^{ourselves} myself and the Western allies. But I believe it is worth reminding ourselves of the position now, in case action has to be taken in a hurry in the next few weeks.

/I am

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3. I am sending copies of this minute to the Foreign Secretary and the other members of OD, to the other recipients of OD(81)10, and to Sir Robert Armstrong.

A handwritten signature in black ink, consisting of a stylized, cursive 'G.H.'.

(G.H.)

19 February 1981

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