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Poland

PRIME MINISTEROD: New Credit for Poland

## BACKGROUND

At its meeting on 15th April, under the Home Secretary's chairmanship, OD agreed that the United Kingdom should participate in a multilateral agreement to relieve Polish debt - to the tune of 80 per cent - and should also provide a further £35 million of new credit during 1981. In the event it proved necessary to follow our allies in agreeing to 90 per cent rather than 80 per cent debt relief. The Chancellor of the Exchequer accepted this. In return, however, he now suggests (in his minute to you of 30th April) that we limit our additional new credit in 1981 to £25 million. This is logical enough, since his original agreement to go as high as £35 million was much influenced by the prospect that we were going to get away comparatively lightly as regards the percentage of debt relief. But the Foreign and Commonwealth Secretary (in his undated minute to you sent on 11th May) objects that £25 million is too little, in the light of Polish needs and our partners' intentions. He is likely to be supported by the Minister of Agriculture and the Secretary of State for Industry, whose respective clients do not want to lose their position in the Polish market and do not care if their exports have to be paid for by the British taxpayer rather than the Poles. Both the Minister and the Secretary of State have been invited to the meeting. The Secretary of State for Trade will be receiving divided advice from the Department of Trade (who favour more trade) and from Export Credits Guarantee Department (who favour more restraint over credit unlikely ever to be repaid).

2. A decision is urgent, since our representatives will have to show their hand at an international negotiation on 1st June.

3. In addition to resolving this central point of disagreement, OD will also need to decide how any new credit we now provide should be divided between agricultural and industrial exports.

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4. There is agreement at official level between all the Departments concerned that there are three basic options:-

- (a) To maintain the total of £35 million new credit for the rest of 1981 and divide it roughly on the basis of £15 million for agricultural sales and £20 million for industrial goods.
- (b) To reduce the new credit to £25 million, allowing £15 million for agricultural products and £10 million for industrial goods.
- (c) £25 million again, but divided £10 million for agriculture and £15 million for industrial goods.

5. The Chancellor's preference is for (b) because it is cheaper than (a) and less likely than (c) to be upset by any new European Community food aid agreement. The reasoning here is that, if the Poles used up £10 million of the credit to buy, say, barley from British stocks and then, later in the year, sought further supplies of Community grain, we could find ourselves with surplus stocks available but without the spare credit which would enable the Poles to buy them; and this state of affairs would be the more awkward for arising during the United Kingdom's Presidency. The Foreign and Commonwealth Secretary wants (a); but if forced to accept the smaller amount he would plump for (c) rather than (b) on the grounds that the lion's share of credit given to the Poles so far has been for agricultural exports. The Secretary of State for Trade would prefer to see the total credit limited to £25 million, provided that the bulk of it goes on industrial exports; i.e. his first preference is for (c), with (a) rather than (b) as his fallback. The Secretary of State for Industry takes the same view. The Minister of Agriculture will support Lord Carrington in going for (a); but failing that he naturally prefers (b) to (c).

HANDLING

6. You will wish the Chancellor of the Exchequer to introduce the discussion and then to invite the Foreign and Commonwealth Secretary's comments. You might then in turn seek the views of the Secretaries of State for Trade and Industry and of the Minister of Agriculture.



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7. . You will want to start with -

(i) £35 million or £25 million.

Only if the answer is £25 million will you need to go on to -

(ii) The division between agriculture and industry.

8. On (i) you will wish to establish whether a British figure of £25 million would be consistent with our economic objectives in Poland, which are to maximise the chances of having all our debts eventually repaid; whether it would be likely to prompt reductions in the level of new credit offered by our partners; and what effect that would have in Poland.

9. On (ii) (if you get to that), could we in fact supply more agricultural products if the Poles want them? Would there be any more economic way of disposing of the commodities in question? If we do have surpluses and this is the best way of disposing of them, should this be done at the expense of helping our industry to get Polish orders? And how severe in practice would be the effects on industry of limiting industrial credit to £10 million?

#### CONCLUSION

10. In the course of the discussion, you may get a feel for whether the Chancellor or the Foreign and Commonwealth Secretary is readier to give way on £25 million versus £35 million. Failing that, you could reasonably guide the Committee towards £25 million, since £35 million was clearly more than either the Foreign and Commonwealth Secretary or the Home Secretary (in the chair) were expecting the Chancellor to offer last time round; and if he had stuck at £25 million then he would probably have got away with it. Failing even that, £30 million would of course be the obvious compromise figure.

11. On industry versus agriculture, £30 million should probably be divided evenly. If the total is to be £25 million, the case for allocating £15 million to agriculture will be fairly strong, provided that the Minister of Agriculture can demonstrate that agricultural exports both save intervention storage costs and attract a proportion of payment from FEOGA sources (i.e. in real money).

Robert Armstrong

19th May 1981