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PRIME MINISTER

Food for Poland

BACKGROUND

The Foreign and Commonwealth Secretary's minute (PM(81) 43) dated 16th September, explains why an early decision is required on his wish that the United Kingdom should participate, for the third time, in the provision of food by the European Community to Poland at prices 15 per cent below those obtaining on the world market. The Minister of Agriculture, in his letter to the Chancellor of the Exchequer, also dated 16th September, argues that it would be advantageous to participate in the Community scheme in order to dispose of 150,000 tons of barley at once. Participation would require us to provide the Poles with £15 million of export credit.

2. At their 9th meeting on 20th May, OD decided that new credit for Poland should be limited to £25 million in 1981 and that this should be divided between agricultural and industrial exports. The division was subsequently set at 50:50.

3. Since Lord Carrington's minute was written, it has been established that ECGD in fact have available (as a result of OD's May decision plus unspent balances from 1980) the whole of the £15 million credit which the proposed barley sale would require; not just £9 million as his paragraph 6 says. But as things stand this £15 million is earmarked for industrial rather than agricultural exports.

4. There are therefore two issues for decision:-

- (i) Should any new money now be provided for credit for Poland, over and above the £15 million which is at present earmarked for industrial exports, in order to facilitate barley exports? Although Lord Carrington's minute canvasses this possibility, there is unlikely to be much support for it, given our present economic circumstances and the unlikelihood of our ever being

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repaid. Moreover, ECGD have now concluded that they would be exceeding their legal powers if they lent the Poles any money beyond what is already authorised, unless they reactivated the aid-giving provisions of their Act, which would require notification to Parliament and would be highly controversial.

- (ii) Should the money to provide credit for barley exports be found by raiding the money earmarked for industrial exports?

5. Discussion will centre on (ii). Ministers representing the Foreign and Commonwealth Office and the Ministry of Agriculture will answer Yes; those speaking for the Departments of Trade and Industry will answer No. Treasury Ministers, having got their way on (i), will be neutral on (ii) but inclined in the end to accept Lord Carrington's judgment of the foreign policy imperative.

There will be three areas of argument:-

- (a) Financial. Selling barley rather than industrial goods will be marginally more beneficial to us in two ways. We shall save intervention storage costs of perhaps £1.2 million; and we shall receive about £2 million net from EC funds under the export subsidy arrangements (i.e. about £2 million more than if our barley is not sold to Poland, we would eventually get back under the budget adjustment procedures).
- (b) Industrial. If we stick to industrial exports, rather than barley, there will be some marginal gain in employment terms. The Departments of Trade and Industry felt badly done by under the 50:50 split agreed after OD's May meeting; and will therefore be even more opposed to moving now to a 100:0 split in agriculture's favour. It is also arguable that industrial goods would do more for the Poles' long-term economic health than food.
- (c) Political. The political case is clearly set out in Lord Carrington's minute. If we did not participate in the EC food package, that would open us to criticism from the Americans, French and Germans as well as from the Poles themselves; and the lack of adequate food supplies

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is exacerbating the short-term difficulties in solving Poland's internal political and economic problems. The Poles must in the end be the best judges whether in their present circumstances they need food more desperately than industrial goods.

HANDLING

6. The Foreign and Commonwealth Secretary should introduce his proposal; he is being briefed to make the factual correction on the amount of credits still outstanding. The Chancellor of the Exchequer should then comment on the expenditure implications. This should enable you to establish that no new credit should be provided; and that the sole issue is therefore whether we should favour agricultural rather than industrial exports.

7. Mr. Buchanan-Smith (in the Minister of Agriculture's absence) might then be asked to put the agricultural case; and Mr. Rees (in the Secretary of State for Trade's absence) and the Secretary of State for Industry (if he is present) to put the industrial case. You will wish to probe whether the Polish preference for agricultural credit is as absolute as Lord Carrington suggests; and whether there is scope for some intermediate position, involving provision of only part of the barley requested. But in the end his judgment of what the Polish situation most requires is likely to be the decisive factor.

CONCLUSION

8. You might guide the Committee to agree:-

- (i) that no new credit should be provided for 1981;
- (ii) that the United Kingdom should participate in the new Community food package;
- (iii) that the extent of our participation, and therefore the amount of agricultural credit we make available (at the cost of industrial credit) should be settled in discussion with the Poles, subject to any minimum allocation for industrial goods which the Committee may decide upon.



Robert Armstrong

17th September 1981