


CONFIDENTIALPRIME MINISTEREconomic Aid for Poland
(OD(81) 51 and 52)

BACKGROUND

In the eleven months since OD first considered the problems of bailing the Poles out of their economic mess (OD(80) 26th Meeting) the mess has become a good deal worse, with a prospective increase to about \$36 billion of cumulative hard-currency indebtedness and no likelihood of net repayments beginning until around 1988. On the other hand there has been no breakdown within Poland, and no Soviet invasion; and the Renewal lives on. It is impossible to be sure how far the rescheduling of Western debts and the continued provision of trade credit have contributed to this; or how far more Western economic assistance will similarly help to stave off disaster in 1982. But Western help has clearly given the Poles a breathing space, and has so far avoided default and its attendant public and private sector losses.

2. The Committee will have before them a report by officials (OD(81) 51) reviewing the economic background to the immediate decisions required, which are set out in the covering note; and a memorandum by the Foreign and Commonwealth Secretary (OD(81) 52) powerfully arguing the political case for our doing roughly as much in 1982 as we have done in 1981. In addition to rescheduling debt maturities and sustaining the Ursus project, which are likely to be as readily agreed for 1982 as they were for 1981, the Foreign and Commonwealth Secretary proposes that in the more contentious area of new credit we should offer £60 million in 1982, which compares with £65 million in 1981.

3. The Chief Secretary, Treasury (in the Chancellor's absence) will have no difficulty in agreeing to rescheduling and to the continuation of Ursus; and the Secretary of State for Trade will similarly agree on behalf of Export Credits Guarantee Department. On new credit for industrial and agricultural exports, there will be a general disposition in the Committee to do all we reasonably can to help, because of the wider considerations set out by the Foreign and

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Commonwealth Secretary. The Secretary of State for Industry and the Minister of Agriculture will in addition support him on Departmental grounds. So will the Secretary of State for Trade in his Department of Trade capacity, while in his ECGD capacity making clear that repayment prospects are now too bleak for any large new loans to Poland to be possible under the Export Guarantees Act. But the Chief Secretary will then argue strongly, on public expenditure grounds, that any new money should be produced by the Foreign and Commonwealth Secretary, i. e. by transfer from the aid programme; and the Foreign and Commonwealth Secretary will argue equally strongly that this is impossible because that programme is already hopelessly overstretched.

4. Lurking behind this disagreement will be the wider Treasury/Foreign and Commonwealth Office argument about public expenditure cuts. In MISC 62 the Chief Secretary asked for £42 million to be contributed by the Foreign and Commonwealth Secretary, who refused; and the Home Secretary has concluded that this deadlock should be resolved under your chairmanship before the public expenditure exercise gets back to the Cabinet. Neither the Foreign and Commonwealth Secretary nor the Chief Secretary are likely to feel able to give way on money for Poland while the MISC 62 stand-off is still unsettled. It may therefore be sensible to try to wrap the two quarrels up together in a single compromise. If pushed, the Chief Secretary might be prepared to find £20 million of new money for Poland. It would in principle be reasonable to ask the Foreign and Commonwealth Secretary to match this pound for pound, i. e. to offer Poland a further £20 million by transfer from the aid programme. That would make £40 million, which might be accepted by the Committee as a reasonable offer given our economic circumstances. But the only chance of getting the Foreign and Commonwealth Secretary to agree to contribute £20 million would probably lie in the Chief Secretary agreeing in return to drop the MISC 62 demand for £42 million; in other words to settle for half the MISC 62 demand, and for that half to be used as additional new money for Poland. Such a deal will not be recommended to either Minister by his officials and would be pretty unpalatable to both. But a compromise on these lines, or some variant of it, may be the best, indeed the only, way to resolve the impasse.

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5. Three basic points are axiomatic.
- (a) Any assistance we give is conditional on there being no Soviet invasion or equivalent internal clamp-down. If there is, all bets are off (though we should still need some mechanism for eventually recovering as much as possible of what the Poles already owe us). In that context, ECGD are sensibly keeping the level of their outstanding short-term credit as low as possible; at £8 million it is now below the £10 million authorised by Ministers in April, so that no further decisions are needed in this area.
- (b) We should not get out in front of our main Western partners. The machinery for Western consultation has worked well. Any new rescheduling will certainly be on a common multilateral basis. On new credit, such evidence as we have suggests that the French and Germans will each offer about £100 million in 1982. The Americans seem almost bound to do considerably more. Indeed they may conceivably launch a really major rescue operation for Poland; if so, we and other allies would no doubt be pressed to take a substantial share, which in our case could well be larger than the Foreign and Commonwealth Secretary's present bid.
- (c) All bets would also be off if Poland were to default before the end of 1981. If she did, she could probably get through 1982 without external assistance, since her exports should just about pay for her essential imports; her present problems are caused by her need not only to import but also to service her debts, which as a defaulter she would ex-hypothesi not be doing.

HANDLING

6. You could invite the Foreign and Commonwealth Secretary to explain his proposals in the light of the Polish economic and political situation and of the attitude of other Western Governments. The Chief Secretary could then comment.
7. If they are agreed on the two comparatively easy issues, i.e. on rescheduling and on Ursus, you should then establish that the Secretary of State for Trade also agrees and that no other member of the Committee dissents.

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8. The rest of the time available can then be spent on the two difficult issues: new agricultural and industrial credit, and where the money for it should be found. The Secretary of State for Trade, the Secretary of State for Industry and the Minister of Agriculture should be asked to comment; and then other members of the Committee. The Home Secretary and the Lord President in particular may have views on how far public and Parliamentary opinion will expect the Government to go. If wider public expenditure issues are raised, the Home Secretary should comment on the MISC 62 position. This may open the way towards some compromise; either on the lines of paragraph 4 above, or failing that on the basis of limiting new credit to £20 million overall, which would be new money, and leaving the MISC 62 row for settlement later. Either way, the exact breakdown as between agricultural and industrial exports should be left open, for settlement in the light of development.

CONCLUSION

9. You should record conclusions as follows:

- (a) Rescheduling to be agreed on the basis proposed.
- (b) Ursus project to be continued by ECGD.
- (c) New credit, of whatever amount agreed, to be divided between industry and agriculture in the light of developments.
- (d) Public expenditure basis for (c).

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Robert Arms trong

11th November 1981