



Ref: B06368

PRIME MINISTER

c Sir Robert Armstrong

Poland

## BACKGROUND

Your ad hoc Ministerial meeting tomorrow afternoon is being held at the Foreign and Commonwealth Secretary's suggestion, to decide what line he should take on economic measures vis-a-vis Poland - and, in the Polish context, vis-a-vis the Soviet Union --at various impending international meetings. The most important of these is his highly secret meeting with his American, French and German colleagues on 10th January; but for security reasons he may prefer at your meeting to refer only to the NATO Foreign Ministers meeting on 11th January and subsequent further meetings of the Ten.

2. Your meeting will have before it a letter from the Foreign and Commonwealth Secretary's office setting out the issues for immediate decision, with recommendations. Although this will not issue until late tonight at earliest it will be based on extensive interdepartmental consultations at official level under Cabinet Office auspices, and will therefore take full account of other Ministers' likely views. It should not in itself prove very contentious, because no really difficult decisions are needed at this stage. But your colleagues will be well aware that further ahead lie all the problems, familiar from the Afghanistan and Iran contexts, of how to reconcile the political imperatives of foreign policy with the economic imperatives of a nation which lives by trade.

3. As regards Poland itself, the letter will make clear that no sanctions are at present contemplated. But decisions are needed on how slow to go on our outstanding programme of economic assistance to Poland. On this, the letter will annex and endorse an interdepartmentally agreed paper by officials recommending that almost everything should be frozen until at least the end of January, when political and economic conditions can be reviewed. The only exceptions are the 1981 rescheduling arrangements (which should stand); short-term credit (which has only been continued for commercial reasons and should be terminated now that these have disappeared); and possibly some credit for the Ursus project (if necessary in order to prevent Massey Ferguson pulling out before the situation has clarified).



4. On the Soviet Union, the letter will suggest that business-orientated contacts should continue but that we should explore our allies' attitude in a number of fringe areas, eg bilateral agreements and possibly higher European Community tariffs against Soviet goods. On the crucial question of what we should do (or not do) in order to avoid undermining American sanctions, it will suggest further exploration by officials both of what the Americans have in mind and of the conditions under which we could help them. The latter, at the Secretary of State's insistence, are likely to be fairly stringent: eg we should not get ahead of our European partners, nor attack existing contracts.

5. There is clearly much scope in the future for disagreements both between our allies (notably the Americans and Germans) and between British Ministers (who on the economic side are deeply sceptical of the wisdom and efficacy of any sanctions). This reinforces the argument for limiting tomorrow's discussion to taking decisions which are immediately needed; to giving the Foreign and Commonwealth Secretary a general steer for his international approach; and to reassuring his colleagues that they are not going to be bounced into substantive sanctions without adequate collective debate.

6. The Chancellor of the Exchequer and the Secretaries of State for Trade and Industry will be present, as well as the Foreign and Commonwealth Secretary. The Minister of Agriculture cannot be; but his Department's interests are not controversial as regards Poland and are not involved as regards the Soviet Union.

7. Brussels telegram no. 2 gives the Ten Foreign Ministers' communique of 4th January; the crucial passage on "no undermining" is in paragraph 7. Washington telegram no. 3950 of 29th December gives President Reagan's statement on American sanctions against the Soviet Union.

#### HANDLING

8. After asking the Foreign and Commonwealth Secretary to introduce his office's letter you could conveniently deal first with the purely Polish issues, which should prove relatively simple. All present are likely to endorse the holding action he will be proposing.



9. The main focus of the meeting can then be the Soviet issues. On these you will need the Secretary of State for Trade's comments in particular; and the Chancellor of the Exchequer and the Secretary of State for Industry will also have views. It should not be too difficult to endorse the highly tentative line which the Foreign and Commonwealth Secretary wishes to take in the next few days. But you may like to underline the need for further collective discussion, eg next week in OD, when American and European attitudes are clearer; and to allow some preliminary discussion of the major underlying issues, as follows -

a. Is the general British approach to the Polish crisis likely to prove robust enough in terms both of domestic opinion and of East-West relations generally?

b. To the extent that we cannot prevent some divergence between American and European policies, would we exacerbate or mitigate the situation by overtly backing the Americans?

c. What are any sanctions intended to achieve? What developments would justify their withdrawal?

#### CONCLUSION

10. The discussion is likely to enable your summing up to support the limited proposals in the Foreign and Commonwealth Office letter but to note that British policy will require further collective consideration as the international prospects become clearer. In other words, the difficult decisions are still to come.

6th January 1982

R L WADE-GERY