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FM PARIS 141900Z JAN 82
TO PRIORITY FCO

TELEGRAM NUMBER 56 OF 14 JANUARY

INFO PRIORITY UKREP BRUSSELS, UKDEL NATO, WARSAW, WASHINGTON,

INFO ROUTINE BONN, ROME, MOSCOW.

INFO SAVING BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG,
ATHENS.

FROM CAREY
MIPT : POLISH DEBT RESCHEDULING

FOLLOWING IS TEXT OF CHAIRMAN'S LETTER TO THE POLISH GOVERNMENT.

QUOTE

THE GROUP OF SIXTEEN CREDITOR COUNTRIES OF POLAND MET ON
JANUARY 14, 1982 IN PARIS TO DISCUSS THE RESCHEDULING OF POLAND'S
OFFICIAL OR OFFICIALLY GUARANTEED DEBT.

THE GROUP AGREED THAT EVENTS HAD TAKEN PLACE IN POLAND
INDICATING EXCEPTIONAL CIRCUMSTANCES ALONG THE LINE OF WHAT
HAD BEEN ENVISAGED UNDER IV - 3 CLAUSE OF THE APRIL 27, 1981
AGREED MINUTE. HOWEVER THE GROUP CONSIDERED THAT THE CLAUSE
AS SUCH SHOULD NOT BE INVOKED AT THIS TIME.

AS FAR AS NEGOTIATIONS ON THE 1982 RESCHEDULING ARE
CONCERNED, A BROAD CONSENSUS AMONG CREDITOR COUNTRIES IS
NECESSARY TO CONTINUE THESE NEGOTIATIONS. SINCE THERE
IS NO SUCH CONSENSUS TODAY, IT WAS CONSIDERED THAT THESE
NEGOTIATIONS SHOULD NOT BE RESUMED FOR THE TIME BEING.

HOWEVER I WILL, AS CHAIRMAN OF THE GROUP OF CREDITOR
COUNTRIES, KEEP IN COMMUNICATION WITH YOURSELF AND MY COLLEAGUES
TO APPRECIATE WHETHER DEVELOPMENTS ARE SUCH THAT NEGOTIATIONS CAN
BE RESUMED. IN THE MEANTIME, ALL CREDITOR COUNTRIES INDEED
EXPECT POLAND TO LIVE UP TO HER INTERNATIONAL FINANCIAL
OBLIGATIONS.

UNQUOTE.

FCO PLEASE PASS SAVING ALL.

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FM PARIS 141850Z JAN 82

TO PRIORITY FCO

TELEGRAM NUMBER 55 OF 14 JANUARY

INFO PRIORITY UKREP BRUSSELS, UKDEL NATO, WARSAW, WASHINGTON.

INFO ROUTINE ROME, MOSCOW, BONN.

INFO SAVING BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, ATHENS.

FROM CAREY

PARIS TELNO 36: POLISH DEBT RESCHEDULING

THE MEETING OF CREDITOR COUNTRIES WITHOUT THE POLES TOOK PLACE TODAY. IT WAS AGREED THAT THE FRENCH CHAIRMAN (CAMDESSUS) WOULD HAND OVER A LETTER TO THE POLISH EMBASSY IN PARIS ON 15 JANUARY. TEXT OF LETTER IN MIFT.

2. THE FORMULATION IN PARAGRAPH THREE WAS THE OUTCOME OF A COMPROMISE BETWEEN DELEGATIONS ADVOCATING A MORE FIRM STATEMENT (UNITED KINGDOM, WEST GERMANY, USA AND NETHERLANDS) AND A MINORITY OF NEUTRAL COUNTRIES (SWEDEN, SWITZERLAND AND FINLAND) WHO APPARENTLY WANTED TO LEAVE THE DOOR OPEN FOR EARLY RESUMPTION.

3. IT WAS AGREED THAT NO DATE SHOULD BE FIXED FOR A RESUMPTION OF DISCUSSIONS, AND IT WAS LEFT THAT FRANCE AS CHAIRMAN WOULD KEEP IN TOUCH WITH THE COUNTRIES CONCERNED. FCO PLEASE PASS SAVING ALL.

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FM BONN 151230Z JAN 82

TO ROUTINE FCO

MR. ALEXANDER, 10. DOWNING STREET.

TELEGRAM NUMBER 29 OF 15 JANUARY

INFO ROUTINE PARIS WARSAW WASHINGTON MOSCOW UKREP BRUSSELS

POLAND: DEBTS TO GERMAN BANKS

1. FIRST SECRETARY ECONOMIC HAD A NUMBER OF CONVERSATIONS WITH GERMAN BANKERS IN FRANKFURT ON 13 JANUARY. THE PREVAILING MOOD IS ONE OF VERY CONSIDERABLE GLOOM AND ANXIETY. TOTAL GERMAN BANKING ASSETS IN POLAND ARE RECKONED AT ABOUT DOLLARS 4.5 BILLION THOUGH THE PICTURE IS SOMEWHAT OBSCURED BECAUSE OF THE FACT THAT MUCH OF THE LENDING HAS BEEN DONE VIA SUBSIDIARIES IN LUXEMBOURG. THE LARGER BANKS ARE THOUGHT TO BE ABLE TO COPE WITH LOSSES (SOME HAVE SET UP RESERVE FUNDS FOR THIS PURPOSE) BUT THERE IS CONSIDERABLE CONCERN THAT SOME OF THE SMALLER BANKS MAY NOT BE ABLE TO PULL THROUGH AND THUS THAT THE RISK OF THE POLES BEING DECLARED IN DEFAULT IS A STEP NEARER. THE PROSPECT OF THE KNOCK-ON EFFECT AND THE IMPACT ON CONFIDENCE ARE RECEIVED WITH DISMAY.
2. SLOANE WAS TOLD THAT DURING FRIEDRICH'S DISCUSSIONS IN WARSAW (WARSAW TELNO 98) THE POLES HAD MADE A NUMBER OF IMPOSSIBLE REQUESTS IE POSTPONING ALL PAYMENTS FOR SIX MONTHS AND DEMANDING A NEW RESCHEDULING AGREEMENT. THE GERMANS INSISTED THAT NO NEW DEAL COULD BE STRUCK UNTIL EXISTING COMMITMENTS WERE HONOURED. THE POLES GAVE THE IMPRESSION OF FAILING TO UNDERSTAND THE SIGNIFICANCE OF A DEFAULT AND IN GENERAL TO BE OUT OF TOUCH WITH WESTERN REALITIES. IN RESPONSE TO THE GERMAN PROPOSALS THAT THEY SHOULD GIVE PROMISORY NOTES GUARANTEED FOR COMECON BANKS OR THE MOSCOW STATE BANK, THE POLES SAID THAT THE RUSSIANS AND OTHER EASTERN PARTNERS HAD ALREADY BEEN VERY GENEROUS AND THEY COULD NOT APPROACH THEM AGAIN.
3. AS REGARDS THE DOLLARS 288 MILLION OUTSTANDING IN RESPECT OF 1981, THERE IS SOME HOPE IN FRANKFURT THAT THE POLES CAN FIND ANOTHER DOLLARS 60 - 70 MILLION BUT CONSIDERABLE DOUBT THAT THEY WILL BE ABLE TO GO BEYOND THAT AND FURTHER DOUBT ABOUT THE USSR'S ABILITY TO BAIL THE POLES OUT. THE RUSSIANS THEMSELVES NEEDED SUBSTANTIAL FOREIGN EXCHANGE FOR GRAIN IMPORTS AND BOTH IN THE GOLD AND EURODOLLAR MARKETS MIGHT FACE FALLING PRICES.
4. ACCORDING TO GERMAN LAW THE BANKERS HERE DO NOT NEED TO CLOSE THEIR BOOKS UNTIL THEY ARE AUDITED. AUDITING DATES VARY FROM BANK TO BANK AROUND FEBRUARY AND MARCH. SO THERE IS STILL SOME TIME.
- TAYLOR

[THIS TELEGRAM WAS NOT ADVANCED]

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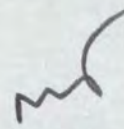
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FM WARSAW 061825Z JAN 82

TO PRIORITY FCO

TEL NO 045 OF 6TH JANUARY 1982

INFO PRIORITY: PARIS, BONN, WASHINGTON, MOSCOW, UKDEL NATO,
MODUK, DOT.

(FCO PLEASE PASS COPIES TO TREASURY AND BANK OF ENGLAND. 

POLAND : FINANCIAL SITUATION.

1. FIRST SECRETARY COMMERCIAL CALLED ON KARCZ, MINISTRY OF FINANCE, TODAY TO DISCUSS POLISH ATTITUDES TO EXTERNAL FINANCIAL QUESTIONS IN PRESENT CIRCUMSTANCES.

2. KARCZ SAID THAT HE BELIEVED THAT SOME OF POLAND'S BANKING CREDITORS WOULD BE MEETING IN LONDON ON 12 - 13 JANUARY. HE WAS INTENDING TO VISIT VIENNA AROUND 14/15 JANUARY WITH WOLOSZYN, BANK HANDLOWY, WHERE SOME TALKS WITH MEMBERS OF THE BANKS' TASK FORCE MIGHT TAKE PLACE. KARCZ HOPED THAT THE DIALOGUE WOULD CONTINUE, DESPITE THE DIFFICULT POLITICAL SITUATION THAT EXISTED WITH SOME COUNTRIES. IN THE MEANTIME THE BANKS ON THEIR OWN INITIATIVE, HAD EXTENDED THE DEADLINE FOR REACHING AN AGREEMENT ON 1981 RESCHEDULING UNTIL 10/12 JANUARY. KARCZ CLAIMED THAT THE BANK HANDLOWY HAD BEGUN PAYING SOME OF THE OUTSTANDING INTEREST TO WESTERN BANKS. POLAND HAD MANAGED TO FIND DOLLARS 150M OF THE OUTSTANDING AMOUNT AND WOULD PAY THIS OUT. HE DENIED THAT THE OTHER DOLLARS 350M HAD BEEN FOUND. HE SAID THAT POLAND STILL HOPED TO OBTAIN IT FROM WESTERN GOVERNMENTS AND BANKS WHO, DESPITE RUMOURS TO THE CONTRARY, HAD NOT YET REPLIED TO THE MOST RECENT POLISH REQUESTS FOR THIS MONEY.

3. AS REGARDS OFFICIALLY-GUARANTEED CREDIT, KARCZ SAID THAT WHEN HAD VISITED PARIS AFTER CHRISTMAS, CAMDESSUS HAD PROMISED TO INFORM HIM BETWEEN JANUARY 5 - 10 ABOUT WESTERN CREDITORS' WILLINGNESS FOR FURTHER DISCUSSIONS WITH THE POLISH SIDE. KARCZ HOPED THESE WOULD TAKE PLACE. COHEN ASKED WHETHER POLAND HAD BEGUN PAYMENTS OF INTEREST DUE UNDER THE 1981 RESCHEDULING AGREEMENTS. KARCZ REPLIED THAT POLAND WISHED TO HONOUR HER OBLIGATIONS UNDER LAST YEAR'S PARIS AGREEMENT. HOWEVER, HER ABILITY TO DO SO WOULD DEPEND ON THE ATTITUDE TAKEN BY HER CREDIORS TO POLISH REQUESTS FOR ECONOMIC HELP IN 1982. THIS CONCERNED NOT ONLY RESCHECULING BUT ALSO NEW CREDITS - IN OTHER WORDS, THE "ENTIRE PACKAGE". KARCZ DISMISSED AS WHOLLY IMPRACTICABLE EARLIER WESTERN SUGGESTIONS THAT POLAND SHOULD REDUCE HER NEED FOR NEW MONEY SINCE, HE CLAIMED, THIS WOULD MEAN A REDUCTION BY HALF IN IMPORTS. KARCZ EXPRESSED THE HOPE THAT WESTERN CREDITORS WOULD RECOGNISE THAT IT WAS IN THEIR OWN INTERESTS TO CONTINUE TO HELP POLAND. IF THIS WAS DIFFICULT POLITICALLY FOR SOME COUNTRIES IN THE PRESENT CIRCUMSTANCES, HE WAS CONFIDENT THAT SOME "INFORMML" AGREEMENTS COULD BE

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REACHED WITH THEM AT THE SAME TIME AS NEW BILATERAL AGREEMENTS WERE REACHED WITH OTHERS. KARCZ OBSERVED THAT EVEN A MORATORIUM WOULD REQUIRE A CONSIDERABLE DEGREE OF COOPERATION.

4. KARCZ THEN LAUNCHED INTO A DEFENCE OF MARTIAL LAW IN BY NOW FAMILIAR TERMS. HE CLAIMED TO HAVE BEEN SHOCKED BY READING "HYSTERICAL" REPORTS OF POLISH EVENTS IN THE WESTERN PRESS DURING HIS RECENT VISITS ABROAD. WHEN COHEN POINTED OUT THAT THE ANSWER WAS FOR THE AUTHORITIES TO LIFT RESTRICTIONS ON WESTERN DIPLOMATS AND CORRESPONDENTS, SO THAT THEY COULD SEE THE TRUE PICTURE FOR THEMSELVES, KARCZ SAID THAT HE WAS CONFIDENT THAT SOME OF THE RESTRICTIONS, WHICH WERE AN INEVITABLE BY-PRODUCT OF MARTIAL LAW, WOULD BE LIFTED SHORTLY. HE CLAIMED NOT TO UNDERSTAND HOW SOME WESTERN GOVERNMENTS FELT ABLE TO ENCOURAGE SO-CALLED HUMANITARIAN AID TO POLAND, WHILE AT THE SAME TIME DENYING OTHER FORMS OF ECONOMIC HELP WHICH WAS NEEDED TO KEEP PEOPLE IN WORK PRODUCING MUCH-WANTED CONSUMER GOODS, INCLUDING FOOD AND MEDICAL PRODUCTS. KARCZ ALSO COMPLAINED THAT, IF THE WEST CUT OFF ECONOMIC AND TECHNOLOGICAL TIES WITH POLAND IT WOULD DRIVE HER TO SEEK ALTERNATIVE LINKS. IT WOULD BE MANY YEARS BEFORE THIS PROCESS COULD BE REVERSED.

5. KARCZ ALSO HAD A GOOD DEAL TO SAY ABOUT THE POLISH ECONOMY. WE WILL REPORT SOME OF THIS BY BAG, BUT THE MAIN THRUST OF HIS REMARKS WAS THAT THE ECONOMY WAS ALREADY PERFORMING MUCH BETTER FOLLOWING THE IMPLEMENTATION OF MARTIAL LAW AND THE OTHER ECONOMIC MEASURES TAKEN. FOR EXAMPLE, COAL OUTPUT WAS UP AND POLAND HOPED TO BE ABLE TO EXPORT 3M TONNES OF COAL TO THE WEST IN THE FIRST QUARTER OF 1982 - A MUCH HIGHER AMOUNT THAN FOR MANY MONTHS, HE SAID. ALTHOUGH MARTIAL LAW HAD SOME UNDESIRABLE SIDE EFFECTS WHICH HE HOPED WOULD NOT LAST LONG IT HAD ENABLED THE GOVERNMENT TO IMPLEMENT MEASURES WHICH WOULD NOT HAVE BEEN POSSIBLE IN PREVIOUS CONDITIONS. INDEED, THE WEST HAD BEEN URGING POLAND TO TAKE THESE MEASURES, AND MARTIAL LAW WAS THE LEAST UNPALATABLE METHOD OF ENSURING THEIR SUCCESS. IN REPLY TO A SEPARATE QUESTION, KARCZ SAID THAT POLAND WAS RECEIVING A CONSIDERABLE AMOUNT OF ECONOMIC HELP FROM EASTERN EUROPE, AND ESPECIALLY THE SOVIET UNION. DEPUTY PRIME MINISTER MAJEJ AND FINANCE MINISTER KRZAK WERE CURRENTLY IN MOSCOW DISCUSSING SOVIET DELIVERIES TO POLAND IN 1982, ALTHOUGH IT WAS TOO EARLY TO EXPECT AN AGREEMENT ON BILATERAL SUPPLIES FOR THE ENTIRE YEAR.

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COMMENT (UNDERLINED)

6. KARCZ'S MAIN MESSAGE SEEMED TO BE THAT THE WEST SHOULD SHOW MORE PATIENCE AND UNDERSTANDING OVER EVENTS IN POLAND THAN HAD BEEN THE CASE SO FAR. HE REPEATED SEVERAL TIMES THE REQUEST THAT NO FINAL DECISIONS SHOULD BE TAKEN WHICH WOULD CLOSE THE DOOR TO FURTHER ECONOMIC ASSISTANCE FOR POLAND. BUT HE SAID NOTHING TO INDICATE THAT THERE WOULD BE ANY RETURN TO THE PROCESS OF RENEWAL IN THE ECONOMIC SPHERE, BAR ONE REFERENCE TO THE NEED TO AVOID THE MISTAKES OF THE PAST. HIS JUSTIFICATION FOR CONTINUED WESTERN AID IGNORED COMPLETELY THE POSSIBILITY THAT BY PROVIDING SUCH AID WESTERN GOVERNMENTS MIGHT THINK THAT THEY WERE SUPPORTING A REPRESSIVE REGIME; AND HIS ATTEMPTS TO SUGGEST THAT THE WEST SHOULD APPLAUD MARTIAL LAW BECAUSE IT HAD ENABLED HARSH ECONOMIC MEASURES TO BE TAKEN WERE CLUMSY.

7. DESPITE HIS APOLOGIA FOR RECENT EVENTS, KARCZ APPEARED PESSIMISTIC THAT SUCH ARGUMENTS WOULD SWAY GOVERNMENTAL AND PUBLIC OPINION IN THE WEST TO THE EXTENT THAT THE PROSPECTS FOR FURTHER ECONOMIC ASSISTANCE WOULD REMAIN OPEN.

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