

RESTRICTED

GRS 1100

RESTRICTED

FM WARSAW 051500Z FEB 82

TO PRIORITY FCO

TELNO 218 OF 5TH FEBRUARY 1982

INFO ROUTINE: WASHINGTON, PARIS, BONN, UKDEL NATO, MOSCOW

INFO SAVING: EAST BERLIN, PRAGUE, BUDAPEST, BUCHAREST, BELGRADE,
HELSINKI AND STOCKHOLM

POLAND : THE ECONOMY.

THE POLISH GOVERNMENT HAS MADE A NUMBER OF SIGNIFICANT STATEMENTS
THIS WEEK INDICATING THAT, ALTHOUGH PROSPECTS FOR SOME SECTORS OF
THE ECONOMY - PARTICULARLY RAW MATERIALS EXTRACTION - ARE LOOKING
BETTER FOLLOWING THE IMPOSITION OF MARTIAL LAW, ACUTE PROBLEMS EXIST
IN OTHER AREAS AND WILL ALMOST CERTAINLY GROW WORSE. THE IMPOSITION
OF WESTERN SANCTIONS, ESPECIALLY THE WITHOLDING OF CREDITS FOR
AGRICULTURAL AND INDUSTRIAL GOODS, IS THE CAUSE OF SERIOUS CONCERN
FOR THE MILITARY REGIME.

AGRICULTURE

2. AGRICULTURE MINISTER WOJTECKI STATED ON 3 FEBRUARY THAT WESTERN
RESTRICTIONS ON NEW CREDIT WOULD LEAD TO A SHORTFALL OF SOME 3
MILLION TONNES OF GRAIN AND FODDER NEEDED BY POLAND. THE EFFECTS
OF THIS WOULD INCLUDE A DROP IN POULTRY OUTPUT OF 350,000 TONNES.
HE ADDED THAT FORECASTS OF A RISE IN AGRICULTURAL OUTPUT OF 5-7
PER CENT IN 1982 WOULD HAVE TO BE REVISED BECAUSE OF SANCTIONS AND
OTHER MEANS WOULD HAVE TO BE FOUND OF ACCELERATING POLAND'S AIM OF
AGRICULTURAL SELF-SUFFICIENCY. THE GOVERNMENT INTENDED TO PERSEVERE
WITH ITS AGREEMENTS WITH PRIVATE FARMERS, HOWEVER, AND COMPULSORY
DELIVERIES TO THE STATE WOULD ONLY BE USED AS A LAST RESORT EVEN
THOUGH GRAIN PURCHASES FROM THE PRIVATE SECTOR WERE UNSATISFACTORY.
IN A SEPARATE PUBLICATION, THE PLANNING COMMISSION'S MAIN
ASSUMPTIONS FOR THE FIRST TWO QUARTERS OF 1982 SHOW A DECREASE IN
THE NUMBER OF ANIMALS FOR SLAUGHTER OF SOME 40 PER CENT BY MID
1982 OVER THE SAME PERIOD LAST YEAR. THIS, SAYS THE REPORT, WILL
MEAN EITHER A FURTHER CUT IN MEAT RATIONS OR, PREFERABLY IN THE
COMMISSIONS VIEW, ADDITIONAL INCREASES IN PRICES FOR MEAT.

RESTRICTED

/INDUSTRY

RESTRICTED

INDUSTRY

3. THE POSITION IN INDUSTRY IS LITTLE BETTER. ENTERPRISES WITHIN HIGH PRIORITY SECTORS ARE SAID TO BE PERFORMING WELL, WITH FIRST QUARTER INCREASES EXPECTED IN PRODUCTION OF COAL (+ 7.4 PER CENT), SULPHUR AND CEMENT PUBLISHED DAILY PRODUCTION FIGURES FOR COAL ARE AVERAGING 620 - 630,000 TONS AT THE MOMENT WITH SATURDAY PRODUCTION BETWEEN 550,000 AND 600,000 TONS. THE URSUS TRACTOR FACTORY IS ALSO FUNCTIONING NORMALLY ACCORDING TO ITS TECHNICAL DIRECTOR. ON THE OTHER HAND INDUSTRY OUTSIDE THE PRIORITY PROGRAMMES, ESPECIALLY IN AREAS HEAVILY DEPENDENT ON IMPORTS, AND SCARCE RAW MATERIALS, FACES A GRIM PROSPECT. DEPUTY PRIME MINISTER MADEJ THIS WEEK PREDICTED A FALL IN INDUSTRIAL OUTPUT AS A WHOLE OF 8-10 PER CENT IN THE FIRST QUARTER OF 1982 OVER THE NONE-TOO-GOOD FIRST THREE MONTHS OF 1981. OUTPUT OF ROLLED PRODUCTS IS EXPECTED TO DROP BY 28 PER CENT AND CRUDE OIL PROCESSING BY 21 PER CENT. MADEJ SAID THAT THE TYRE INDUSTRY WILL OPERATE AT ONLY 60 PER CENT OF CAPACITY AND THE LEATHER AND SOME CHEMICAL PLANTS AT BELOW 50 PER CENT OF POTENTIAL. OTHER AREAS OF PARTICULAR CONCERN ARE THE TEXTILE INDUSTRY (ESPECIALLY WOOLLENS AND SOME COTTONS), DETERGENTS AND SOAP PRODUCTS; AND A WHOLE RANGE OF HOUSEHOLD DURABLES AND ELECTRICAL PRODUCTS. AS A RESULT, MARKET SUPPLIES OF MANY BASIC ITEMS E.G. SHOES AND SOME CLOTHING, WILL BE SMALL OR EVEN NON-EXISTENT. THE PRODUCTION OF POLCORFAM (IMITATION LEATHER) WAS FOR A WHILE SUSPENDED SEVERAL WEEKS AGO.

FOREIGN TRADE AND PAYMENTS

4. DEPUTY TRADE MINISTER KARAS SAID THIS WEEK THAT ALL THE PRIORITY AREAS IN TRADE POLICY - ACHIEVING REASONABLE EXPORTS, IMPORTS OF ESSENTIAL ITEMS; REPAYMENT OF DEBTS AND OBTAINING NEW CREDITS - FACED NEW OBSTACLES AS A RESULT OF WESTERN ACTION, WHICH HAD COME AS A BLOW TO POLISH SOCIETY. HAVING STRESSED THAT POLAND WISHED TO SOLVE ITS DEBT PROBLEM BY NEGOTIATION, KARAS ADDED THAT "SHE WOULD NOT BEAR RESPONSIBILITY FOR OTHER SOLUTIONS IMPOSED ON HER". THE PLANNING COMMISSION, MEANWHILE, ARE EXPECTING IMPORTS FROM THE WEST IN THE FIRST QUARTER OF THE YEAR TO BE 30 PER CENT DOWN ON 1981, ALTHOUGH IMPORTS FROM CMEA COUNTRIES WILL RISE BY 11 PER CENT (BOTH FIGURES IN VALUE TERMS.) THEY ARE HOWEVER HOPING THAT EXPORTS TO THE WEST WILL REMAIN AT ABOUT 1981 LEVELS IN VALUE. (ALTHOUGH THE COMMISSION ADMIT THAT THIS WILL BE DIFFICULT TO ACHIEVE GIVEN THE DROP IN IMPORTS.) IF CORRECT, POLAND SHOULD ACHIEVE A HARD CURRENCY TRADE SURPLUS OF 900M TRANSFERABLE ZLOTYS (ABOUT DOLLARS 270M) IN THE FIRST QUARTER OF 1982.

RESTRICTED

ECONOMIC REFORM

5. THE MAIN MEASURES OF ECONOMIC REFORM INTRODUCED SINCE 1 JANUARY - NEW INDUSTRY PRICES AND GREATER ENTERPRISE AUTONOMY - ARE FARING BADLY UNDER MARTIAL LAW. OBVIOUSLY SHAKEN BY THE LARGE PRICE INCREASES INTRODUCED BY ENTERPRISES UNDER THEIR NEW FREEDOM, THE GOVERNMENT THIS WEEK ANNOUNCED MAJOR EXTENSIONS IN THE LISTS OF ITEMS WHOSE PRICES ARE CONTROLLED DIRECTLY BY THE STATE. A NEW SOCIAL PRICE COMMISSION WATCHDOG HAS BEEN ESTABLISHED. MEANWHILE ENTERPRISES OUTSIDE THE PRIORITY SECTORS ARE FINDING THAT WITH ONLY LIMITED ACCESS TO RAW MATERIALS AND OTHER IMPUTS (INCLUDING HARD CURRENCY) THEIR NEW DECISION-MAKING FREEDOM IS OF LITTLE VALUE. THE MASSIVE RISES IN PRICES OF GOODS AND SERVICES UNDER GOVERNMENT CONTROL, WHICH WERE EFFECTIVE FROM 1 FEBRUARY, HAVE SO FAR PROVOKED ONLY SPORADIC RESISTANCE (AS FAR AS IS KNOWN). THESE INCREASES, NEEDED TO STABILISE THE ECONOMY BUT NOT PART OF ECONOMIC REFORM AS SUCH, HAVE NOT BROUGHT FORTH ANY SIGNIFICANT IMPROVEMENT IN SUPPLIES SO FAR, AS MANY COMMENTATORS EXPECTED WOULD HAPPEN.

COMMENT

6. ALTHOUGH THE MILITARY REGIME WILL HAVE BEEN PLEASED THAT PRICE INCREASES HAVE BEEN IMPLEMENTED WITHOUT MAJOR PROBLEMS SO FAR, AND THAT OUTPUT IN SOME KEY SECTORS SHOWS SIGNS OF IMPROVEMENT, THEY MUST BE VERY CONCERNED AT THE SUPPLY PROSPECTS FOR THE COMING MONTHS. HOWEVER MUCH THE REGIME MAY TRY TO SHIFT THE BLAME ON TO THE WEST FOR THIS STATE OF AFFAIRS, THE MAN-IN-THE-STREET HERE WILL LOOK TO THE GOVERNMENT FOR A SOLUTION, AND WILL BLAME THEM IF IT IS NOT FORTHCOMING. THE GOVERNMENT MUST ALSO BE EXTREMELY UNCERTAIN OVER THE WEST'S NEXT MOVES ON THE FOREIGN DEBT QUESTION. ALTHOUGH PROGRESS SEEMS FORTHCOMING IN THE RESCHEDULING TALKS WITH WESTERN BANKS, THE ATTITUDE OF THE 16 WESTERN GOVERNMENT CREDITORS REMAINS A CRUCIAL UNKNOWN FOR THE POLISH AUTHORITIES.

FCO PLEASE PASS SAVING TO ALL SAVING ADDRESSEES

MELHUISH

[REPEATED AS REQUESTED]
[THIS TELEGRAM WAS NOT ADVANCED]

POLAND SPECIAL
STANDARD

EESD
CSCE UNIT
NAD
SED
WED
ECD (E)
ESID
FED
CAD
SAD

UND
TRED
ERD
SEC D
OLA
CONS D
CONS EM UNIT
CABINET OFFICE

ADDITIONAL DISTN.
POLAND SPECIAL

[COPIES SENT TO NO 10 DOWNING ST]

3

RESTRICTED