



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

Prime Minister

To note.

A. J. C. 12.  
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SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

POLISH DEBT RESCHEDULING

In your minute of 27 September to the Prime Minister, covering papers on Eastern Europe and the Soviet Union, you referred to the problem of rescheduling Poland's official debts in 1982.

2. I entirely agree with your assessment that it is becoming increasingly important to tackle this. As the paper I circulated to OD on 17 February made clear, it is strongly in our financial interest to do so. As time goes on, the case for movement on this issue becomes ever stronger:-

a. the effect of refusal to reschedule is to allow the Poles de facto 100 per cent rescheduling of both principal and interest. This is quite contrary to the aim of putting pressure on the Poles to meet the three NATO political desiderata;

b. the Poles are now falling behind on their obligations under the 1981 agreement, and the indications are that they will make no effort to bring these up to date until there is some movement on the creditors' part towards an agreement for this year;

c. the banks are making good progress in their negotiations with the Poles for a 1982 agreement on unguaranteed debt. It is not satisfactory that governments should lag badly behind, with the risk that the room for manoeuvre on the terms of any rescheduling will be constrained by the agreement reached by the banks;

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- d. there is an increasing danger that the creditors groups may break ranks, as individual countries strive to protect their own position.
3. I recognise the political difficulties of making progress on this issue while the pipeline row is unresolved and the Americans still argue fiercely and illogically against rescheduling, as I was reminded at my meeting with Don Regan on 20 September. But I would still hope that with careful preparation, it should be possible to present a move to reopen negotiations on rescheduling in its proper light - that is, not as a concession to the Poles, but rather as an attempt to tighten the financial pressure on them by attempting to achieve repayment of some part of their debts.
4. I propose therefore that, at the meeting of the Polish Creditors Club in Paris on 25-26 October, our officials should continue to press the case for resumption of rescheduling talks. The Americans, who know our views, will have no cause for surprise or complaint at this, and by keeping up the pressure we shall bring nearer the day when we get some of our money back.
5. My only other comment relates to Yugoslavia, which is referred to in your second paper. I agree that in the event of rescheduling we should be willing to play a constructive part in promoting a viable solution. Whether that will require us to offer generous terms is something on which I would rather keep an open mind at present. As you know, we are heavily exposed in Yugoslavia both absolutely and relatively, so our approach will have an important bearing on the outcome.
6. I am copying this minute to the other recipients of yours.

A handwritten signature in black ink, appearing to be 'G.H.'.

(G.H.)

11 October 1982

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