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From the Private Secretary

4 November 1988

Dear Lynn,

PRIME MINISTER'S MEETING WITH THE
POLISH PRIME MINISTER IN WARSAW ON THURSDAY 3 NOVEMBER

The Prime Minister had a further meeting with the Polish Prime Minister in Warsaw on the morning of 3 November. Mr. Rakowski was accompanied by Mr. Olechowski, Foreign Minister, Mr. Wojtik, Secretary of State for Foreign and Economic Co-operation, Mr. Gertych, Polish Ambassador in London and Mr. Duchowski of the Polish Ministry of Foreign Affairs. H.M. Ambassador, Warsaw was also present.

Mr. Rakowski asked whether there were any points the Prime Minister wished to raise as a result of their discussion the previous evening. The Prime Minister said that one point had arisen during her subsequent discussion with Independents about agriculture, and that was the degree of state control over agriculture. Far from being genuinely private, it seemed there were rigid controls over both inputs and the sale of products. Mr. Rakowski said that agriculture had distinctive characteristics in Poland which marked it out from other socialist countries. It was not collectivised. Instead there were an enormous number of small farms below five hectares, and at least one million farmers were also in industry. To make farming profitable, these small farms had to be restructured into larger units. But the economic conditions had to be right and that meant it would be a very slow process. Mr. Rakowski continued that the Government recognised the key importance of agriculture. Steps had already been taken to guarantee farmers their rights of ownership. This had already produced results. Indeed over the last eight years agriculture had been the only sector of the Polish economy which had steadily improved, with increased investment in farm buildings and machinery. There were indeed controls over the procurement of agricultural produce for sale. But as from 1 January 1989 this monopoly would be lifted. The Government had also decided on measures to close the gap between rural incomes and those of workers in cities. These steps would lead to enormous change in conditions in the Polish countryside.

The Prime Minister said that, all the same, there seemed to be no incentive for people to work their land more efficiently, particularly if there was a rigid state control over inputs such as the purchase of machinery and fertilisers. Mr. Rakowski gave a detailed account of the experience of his cousin, who now

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farmed the family's land of some sixty hectares. He had two tractors, a Fiat car, a colour television and a suite of Yugoslav furniture. He had recently added an annex to the house with central heating. It had taken him ten years - only ten years - to make it. His main complaints were the poor quality of machinery available and the lack of spare parts. His relative success was not uncharacteristic. The number of tractors had more than doubled over the last seven years and a great deal of progress had been made. Of course Polish agriculture was still far behind that of Western Europe. But it could not be changed at a stroke. The Prime Minister said that the answer lay in prices. If the price was right, the farmer would produce for the market. Mr. Rakowski conceded this: there had been a free market in fruit, vegetables and flowers for years and it worked perfectly well. His aim was to extend the free market to all agricultural produce and leave supply and demand to determine the price. Agriculture must be the priority. One consequence of this was the need to persuade the heavy industry barons to expand production of tractors, machinery and fertilisers to meet farmers' needs. Unfortunately, there was still a lot of old fashioned thinking in Poland which said that the economy would be strong only if heavy industry was strong.

Mr. Rakowski said that he would like to take up something which the Prime Minister had said the day before. She had asked how the Polish Government could achieve its objectives if it did not have the support of the people. Certainly they did not have total support. Equally he hoped the Prime Minister did not believe the caricature whereby the unfortunate, lonely government was on one side and the people of Poland on the other. If that was true, his government would last no time at all. In reality, the economic record of the last few years, including payment of some \$12 billion of interest on foreign debt, showed that people were working. The Government were conducting intensive polling to track the national mood. He had been pleased to receive a poll the previous evening which showed that his approval rating as Prime Minister had gone up from 37 to 53 per cent in recent weeks. That showed a healthy basis of support. It depended very largely on a single factor, namely the belief that he was committed to improve economic conditions. The Prime Minister said that she did not want to disappoint Mr. Rakowski but she was not very impressed by the polls. If he was taking the really difficult decisions, then his popularity would be plummeting. The changes needed for the long-term produced short-term hardships. In her own case in the United Kingdom, the most difficult years had been between 1979 and 1981. The polls had been frightful. But she had ignored them and pressed on with the right policies, and they had begun to pay off after three or four years. The only poll she minded about was the one which took place every five years in a general election.

The Prime Minister said that she would like to hear more about the Government's plans for economic reform. Mr. Rakowski said the Government needed time. There were many difficulties in the economy. For instance there was a shortage of labour. There were also absurdities in social policy, such as 3-year maternity leave for women and early retirement at 43 for miners. All these problems had to be tackled. He knew full well that he would face strikes and demonstrations if he persisted with rationalisation. But there was no alternative. He thought

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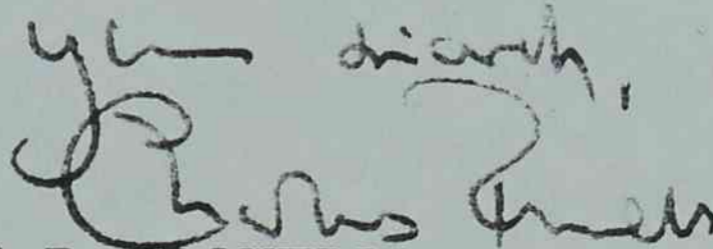
there were lessons to be learnt from the trade union reforms in the United Kingdom. The Prime Minister cautioned Mr. Rakowski to remember that there was a crucial difference between the British and Polish situation: in Britain trade union members had an alternative outlet for political activity, in Poland they did not.

The Prime Minister said there were a number of practical issues which she would like to mention briefly. We were ready to help with management training if the Polish Government would find that helpful. The offer did not imply any criticism but was intended to be helpful. Mr. Rakowski - who appeared not to understand the Prime Minister's offer - said that many Polish managers were receiving training in the West and learning to be independent. The Prime Minister continued that we would also like to see more exchanges of teachers and pupils to spread contacts between Britain and Poland more widely. In the same spirit, we would be taking steps to speed up the system of issuing visas. Mr. Rakowski welcomed these two proposals. For his part, he would welcome a stronger British presence in Poland. There were historic links. But English was rapidly being replaced by German, and German industry enjoyed a considerably better reputation in Poland. The most useful way in which Britain could help Poland was over her foreign debt. This was a noose round Poland's neck and restricted the options for economic reform. He hoped the Prime Minister would use her prestige to establish a favourable climate for Poland in the Paris Club and at the IMF. Poland desperately needed some breathing space. The Prime Minister said that agreement with the IMF was the vital step which would unlock a great deal of other help.

The Prime Minister urged Mr. Rakowski to cheer up. She had faced many difficulties in the first years of her first term of office but had come through them. We wanted Poland to make the necessary breakthrough. Mr. Rakowski said that he was optimistic. He believed that the round table dialogue would take place despite all the difficulties. He also had tremendous faith in the Polish people. Poland would get through.

Over lunch later, both Mr. Rakowski and Mr. Olechowski pressed the Prime Minister hard for help over rescheduling of Poland's debt. The Prime Minister insisted that agreement on the IMF was the essential first step. That would unlock many doors. There was also some further discussions of the prospects for the round table. Mr. Rakowski claimed that the Government had sent Mr. Walesa various concrete proposals for the agenda. They awaited a reply. He added that the Government were ready for power-sharing. The Prime Minister said that she did not think power-sharing the right concept. The key question was whether the Government and party were prepared to relinquish their power over large areas of national life and restore them to the people.

I am copying this letter to Alex Allan (H M Treasury), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Neil Thornton (Department of Trade and Industry), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

you diary,

C.D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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