



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

6 October 1988

Dear George,

Thank you for your letter of 8 September, reporting on your recent visit to Poland as Chairman of the East European Trade Council.

As you say, the current Polish economic situation remains thoroughly discouraging. Undoubtedly large scale Western assistance, in the form of longer term debt relief and new credits will be needed if the country is ever to achieve a lasting economic recovery. The case for looking sympathetically at long-term arrangements would be helped if Poland would agree to an IMF Standby Arrangement, which is important in helping to instil discipline in economic policy, although I recognise that there is little immediate prospect of US agreement to a fund programme, at least until after the Presidential election. The case would be helped too if Poland could conclude the bilateral debt agreements with official creditors under last December's Paris Club agreement on debts falling due this year.

Clearly, my visit will be a chance to assess prospects for any improvement both in terms of economic performance and of political liberalisation, which I see as interlinked. If I conclude that prospects for economic and political reforms look favourable, and particularly if an IMF programme is in place, I would be favourably inclined to encourage other Heads of Government to draw appropriate policy conclusions.

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Turning to the specific projects you mention, I know the Poles have emphasised the priority they attach to the construction of the new terminal at Warsaw airport. They have assured us of their readiness to finance it by diverting airport dues and taxes into an account outside Poland. But this would not remove the need for export credit guarantees in support of Mowlem's bid. I am afraid that, in the prevailing situation - and quite apart from any consideration of the commercial risks or financial policy implications - Government financial support would be inconsistent with our policy approach towards the Polish economy and new credit, which I have outlined above. I do not believe there is any overriding political argument to apply in this case.

I am aware of the difficulties Costain Engineering has experienced with its involvement in the PVC project at Wloclawek. I was pleased to learn from your letter that you have discussed the matter with the Poles. I hope it will prove possible to reach a mutually satisfactory settlement.

I have noted the other topics you mention: industrial modernisation, visas and assistance with management training are all subjects I expect to be raised during my discussions in Poland.

Yours ever
Rayner



CPC

The Rt. Hon. Earl Jellicoe, KBE DSO MC
Chairman

26 October 1988

Davy Corporation

15 Portland Place
London W1A 4DD
England

Tel: 01-637 2821

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The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1A 2AA

Dear Margaret.

FILE ON TRIP.

Thank you for your letter of 6 October expressing the hope that my initiative opposite the Poles with regard to the PVC complex at Wloclawek, which was built by Costain and Davy, would produce a mutually satisfactory settlement.

I feel that I should let you know in view of your impending visit to Poland that these hopes have been disappointed as the Clients' only response to my suggestions (which the Polish Ministry concerned was disposed to look at favourably) was to reiterate their demands for financial compensation which have neither factual nor contractual justification.

My proposal involved some relatively small extra costs to the Poles which would have substantially increased the production and revenue of the plant and therefore made perfectly good business sense. It can therefore be concluded from their decision that internal political problems dominate the thinking of the Management to the exclusion of commercial common sense. Indeed this situation may well be a microcosm of the present Polish sickness.

The Poles owe us no money and we owe them no obligations. However, we regret not finding a solution to their problems despite continuous efforts over the years.

On a happier note I have to say that the Management of the Chemical Plant which Davy built at Kedzierzyn have a totally different attitude, run an extremely efficient operation and are looking for further assistance from us in expanding their production. I understand also that Costain have similar experiences with plants in other parts of Poland. Perhaps this is a new face of Poland of which perhaps we shall see more in the future.

With sincere good wishes.

James Earl Jellicoe

George

JELlicoe



Foreign and Commonwealth Office

London SW1A 2AH

4 October 1988

Dear Charles,

Poland

Lord Jellicoe wrote to the Prime Minister on 8 September reporting on a recent visit to Poland in his capacity as Chairman of the East European Trade Council. He recommends, inter alia, that the UK might take the lead within the Community on future economic assistance to Poland, and that we offer ECGD support for Mowlem's tender for a project to modernise Warsaw Airport. The whole question of economic and financial policy towards Poland was covered in my letter of 22 September, which you are considering. I attach a draft reply for the Prime Minister's consideration along the lines of the latter. It has been cleared with the DTI and ECGD.

Yours ever,

L Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:
PM

Reference

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Copies to:

The Rt Hon. Earl Jellicoe KBE DSO MC

JDS BOV

*To issue
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SUBJECT:

PRIVACY MARKING

..... In Confidence

CAVEAT

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Clearly, my visit ~~next month~~ will ^{be a} give me the chance to assess prospects for any improvement both in terms of economic performance and of political liberalization, which I see as interlinked. If I conclude that prospects for economic and political reforms look favourable, and particularly if an IMF programme is in place, I would not ^{be favourably} hesitate ^{induced} to encourage other Heads of Government to draw appropriate policy conclusions.

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POLAND: pm's visit

Mar 28





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 September 1988

I enclose a copy of a letter the Prime Minister has received from Lord Jellicoe.

I should be grateful for an appropriate draft reply to reach this office by Tuesday 27 September.

I am sending a copy of this letter and enclosure to Jeremy Godfrey (Department of Trade and Industry).

(C. D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.



R13/9

The Rt. Hon. Earl Jellicoe, KBE DSO MC
Chairman

Davy Corporation

15 Portland Place
London W1A 4DD
England

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8th September 1988

The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

Dear Margaret

I made my first visit last week to Poland as Chairman of the East European Trade Council. The Poles could not have received me better. I feel that you may wish to have a brief summary of some views I formed about the Anglo-Polish trade front.

You will not be at all surprised to learn that your visit to Poland will attract tremendous attention in that country. I know that this first-ever visit to Poland by a Prime Minister from Britain will have a predominantly political content. Nevertheless, I hope that, thanks to the vital part which you now play in East/West relations, your visit might perhaps give a useful and much-needed fillip to Anglo-Polish Trade.

The position on the Anglo-Polish trade front is not perhaps derisory. However, as you well know, it can hardly be described as brilliant, given the fact that we have 8% of Polish trade with the non-Socialist world, compared with the Federal German Republic's 35%.

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To put it mildly the Polish economy is in the doldrums. For example, I understand that the Polish GNP per head is not expected, even on optimistic assumptions, to attain the 1978 level before 1992.

It is of course primarily up to the Poles to put their economic house in order. Be that as it may, I returned from Warsaw just wondering whether there might not be some scope for a British initiative on the IMF front.

The Poles, I believe, reactivated their membership of the IMF and the World Bank two years ago. Since then, their negotiations with the IMF - for example, in connection with a Stand-By Agreement, have more or less hung fire. I recognise the importance of the American factor in IMF decisions and also that it is highly unlikely that there will be any significant move on the American side until a new US Administration is in the saddle. However, it does seem to me that in this sensitive and complicated area the UK might have a valuable role to play.

That being said, my thought is that you may wish to consider, following your visit and dependent on the impressions which you form during it, whether it might not be desirable for the UK to take the lead with some of our main partners in the EEC with a view to trying to reach some sort of consensus on the line which the West might take with the Poles in 1989 as far as the IMF, a Stand-By Agreement, and all the rest are concerned. It seems to me that a more concerted Western approach to this whole matter - which has, of course, much wider political implications - could possibly be useful.

So much for the wider issue. As far as specific Anglo-Polish trade matters are concerned, there is only one particular project and one particular contract which I believe are worth drawing to your attention.

The specific project is the modernisation of Warsaw Airport. The Polish Ministers whom I saw confirmed that this is a project that will go ahead and that it had the advantage of being largely self-financing. They gave me to understand that

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there are some eight foreign companies interested and that their final choice will be largely determined on the relative attractiveness of the financial offers.

This project has a high profile and it is one in which Mowlem are interested. If Mowlem could secure it this would undoubtedly give quite a considerable boost to Anglo-Polish trade relations. In view of this, and in view of the fact that the project should be largely self-financing, you may wish to consider before your visit whether, quite exceptionally, some element of ECGD support for it might be made available.

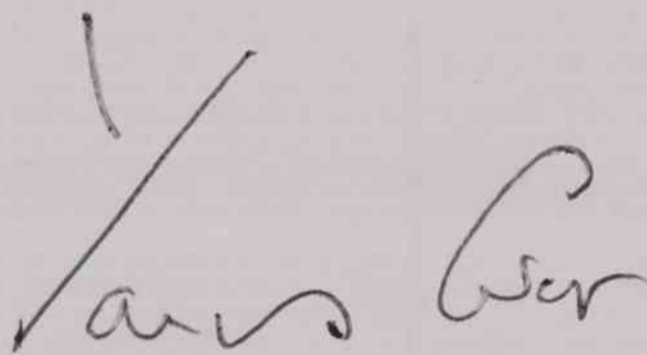
The particular contract which I would like to bring to your attention is the PVC project at Wloclawek for which Costain Petrocarbon is the main contractor and for which Davy (and I avow a personal interest here) is a significant sub-contractor. This contract has given rise to all sorts of difficulties with the Poles and I think it would be a very good thing if it could possibly be settled before your visit to Poland. I have made certain suggestions to the Poles whom I saw and I have, of course, kept the Embassy closely informed. Indeed, Stephen Barrett, our new Ambassador, was at most of the talks which I had with the Poles. I think there is just a ghost of a chance that the Poles might have some real incentive to reach a mutually satisfactory settlement with the British companies concerned in the light of your impending visit.

I am on the point of leaving on a fairly protracted visit to the Far East and am only due to return at the end of the first week in October. If I find on my return that there is a real chance of settling this particular and rather time-consuming matter with the Poles, I shall ensure that your office is fully informed. I should add that the PVC plant in question is not a small one, its replacement value these days is around £1 Billion.

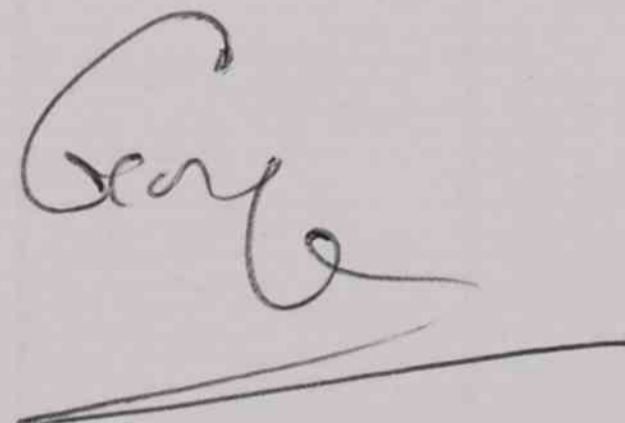
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It would be quite wrong to trouble you with any more Anglo-Polish Trade stuff but perhaps you will allow me to mention three other matters.

- a) Modernisation. As in the Soviet Union, I believe that, long term, British industry could play quite a major role in the much needed modernisation of Poland's basic industries - their chemical industry, their iron and steel industry and so on.
- b) The Poles are very keenly interested in Business Management Training and I am sure the UK have much to offer in this area.
- c) Visas. In almost all my conversations with Polish ministers and officials, they referred to the fact that they met with much more delays in obtaining visas for their business visitors to the UK than they do with their other major trading partners. I know that this matter is being looked into. I draw it to your attention since I believe that it is quite a significant impediment to our trade with Eastern Europe.



JELLICOE



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