



Foreign and Commonwealth Office

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Jean Charles,

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R. Minister
CB 12/7.

Poland/Hungary at the Paris Summit

Policy towards Hungary and Poland is likely to be a prominent item at the Paris Summit. A decision is needed on President Bush's initiative (his message of 6 July) calling for the establishment of a G7 consortium to discuss coordination of policy towards Poland and Hungary. There will also need to be a reaction to General Jaruzelski's letter of 30 June to the Prime Minister and the heads of G7 governments. The Poles appear to expect an answer from President Mitterrand on behalf of the seven governments.

Our reactions to the Jaruzelski letter are as follows:

(a) On assistance with food supplies, there are practical obstacles to be overcome, because of the Community's success in reducing intervention stocks. At the European Summit the Prime Minister said she hoped that the Community could be sympathetic. Even modest help in this area could have a significant psychological impact in Poland. It would show that the West was not indifferent to the people's current difficulties.

(b) IMF programme. As the Prime Minister told Jaruzelski on 10 June, we believe that this should be exacting but not intolerable. We doubt whether a programme can be in place much before the end of the year. We are sceptical that drawings under an IMF programme would be as high as \$700 million a year.

(c) Paris Club. We (and the Americans) are willing to reschedule 1989 maturities in advance of an IMF agreement. Any other rescheduling would follow an IMF agreement. Full debt forgiveness requires further study.

(d) World Bank loans. We can support them in principle but believe that an IMF agreement should preferably come first.

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(e) New UK credit. We do not wish to consider this until after an IMF agreement.

(f) Management training and support for the private sector. This is covered by the £25 m know-how fund for Poland.

(g) EIB/World Bank investment in the food industry. Would support World Bank but not EIB programme.

The Bush initiative.

The Prime Minister welcomed this in her message of 10 July but suggested that a high profile operation would give rise to exaggerated Polish and Hungarian expectations. The use of the word "consortium" might imply some kind of rescue operation. The Prime Minister therefore suggested that the President should not mention this part of his proposal to the East Europeans in advance of a discussion in Paris. As far as we know the President referred not to a consortium but to "concerted international action"; and announced a relatively modest programme of help for Poland, including two separate offers of, respectively, \$100 m and \$15 m of new money (both subject to Congressional approval). We have reservations about some of his programme, eg over the release of World Bank funds in advance of an IMF agreement, but in general the UK and US position are still close. We also need to know what Bush said to the Poles in private, but we are unlikely to get a debrief before the Summit.

The initial reactions of most other G7 governments to the Bush scheme for a consortium are favourable, although the French are strongly opposed to the creation of any new institutions and may take the lead in watering down the Bush proposal. The Japanese have so far taken no position. There has been some criticism in Poland of the modest scale of US support.

The language suggested by the Americans for the East-West Declaration (sent to you separately) implies that the Brady Plan for commercial debt reduction will apply to Poland "provided it meets the conditions". This causes us three difficulties: firstly the Brady proposal relates to commercial debt and its application should be matters for commercial rather than governmental judgement; secondly an IMF programme for Poland would have to be in place; thirdly there should be no implied connection between debt reduction and the commitment to a Paris Club rescheduling of 1989 maturities.

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Subject to the Prime Minister's views the Foreign Secretary thinks that our line at the Summit might be as follows:

- we welcome the President's initiative for coordinating Western positions.
- we agree on the need to avoid overlap and are attracted by the idea that individual Western countries might specialise in particular areas of assistance to Poland (eg the environment).
- we believe that a high profile consortium will give rise to exaggerated expectations.
- particularly at the present time, when the Poles are under strong economic pressure, we must not give the impression that we are willing to underwrite their economy. Western help should be conditional, in order to maintain the impetus for reform. The key element must be an IMF agreement, followed by post-1989 rescheduling within the Paris Club. The question of new credit can be considered thereafter.

The Foreign Secretary believes that the Summit should take a decision on practical follow-up to the President's proposals. President Bush suggested an ad hoc arrangement headed by Deputy Foreign Ministers. In our view, however, the best solution would be to agree on detailed discussions on practical forms of assistance in an ad hoc group of senior officials. This should aim to meet as soon as possible after the Summit. Secondly a positive response to Jaruzelski's bid for help over food would have a major psychological impact in Poland.

I am copying this letter to Alex Allen and Nigel Wicks (HM Treasury) and Neil Thornton (DTI).

Yours ever

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