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Have you
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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 June 1989

Thank you for your letter of 23 May. This crossed with mine of two days earlier, in which I explained our view that a meeting of Western policy makers to discuss your ideas for Poland would be premature.

The letter you have received from Mr. Wroblewski surely underlines the need to allow events to unfold rather than to try to force their pace. There are the negotiations within the International Financial Institutions, to which my earlier letter refers. In addition, the Round Table agreements will produce important legislative changes within Poland which will affect your proposals. Mr. Wroblewski referred to the laws before Parliament to set up a National Property Fund and settle the principles for the sale of shares in state enterprises. As he emphasised, worker councils could have a large role to play in this process.

Another area of current uncertainty is the relationship with the commercial banks. Some are considering projects to convert some debt into equity in Polish companies. Clearly if this trend develops, it will converge with some of the ideas you are promoting. It would certainly seem more sensible for private banks to take a stake in Polish enterprises rather than for creditor governments to do so.

I may have some better ideas after we have seen General Jaruzelski at the weekend. But with all the current uncertainty, the best course seems to me to go on refining your proposals and discussing them with the Polish Government and with Solidarity.

(C. D. POWELL)

Mr. George Soros

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Foreign and Commonwealth Office

London SW1A 2AH

6 June 1989

Dear Charles,

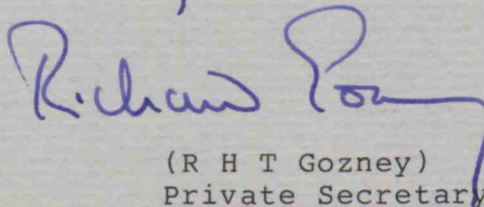
Soros Plan

Thank you for your letter of 24 May, following Mr Soros' further letter to you of 23 May, asking for advice on his proposal for a meeting at policy-making level to discuss his scheme for economic assistance for Poland. You had already replied on this point in your letter of 21 May, which he will by now have received.

Mr Soros also sent a copy of a letter from the Polish Minister of Finance, Wroblewski. While welcoming the plan, this helpfully indicated that there was much in it that had to be worked out in detail to take account of post-Round Table legislation. It also pointed out that some of the ideas coincided with what the Poles are already seeking, eg the conversion of commercial bank debt into equity. Mr Soros could therefore be reasonably advised to continue his discussions with the Polish experts from both the Government and Solidarity sides on those aspects of the plan which they can between them move forward. On the broader question of official debt, however, the appropriate place for discussion will continue to be in the Paris Club and the IMF, as your earlier letter made clear.

/ I enclose a draft letter from you to Mr Soros. I am copying this letter to Johnathan Taylor (HM Treasury).

Yours ever,


(R H T Gozney)
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:

Reference

Charles Powell
DEPARTMENT:

TEL. NO:

POJAAM

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:
George Soros Esq

Copies to:

KKIAGY

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SUBJECT:

PRIVACY MARKING

..... In Confidence

CAVEAT

Thank you for your letter of 23 May. This ~~letter~~ crossed with mine of two days earlier, in which I explained our view that a meeting of Western policy makers to discuss your ideas for Poland would be premature.

The letter you have received from Mr Wroblewski ^{*surely*} underlines the need to allow events to unfold rather than to try to force their pace. There are the negotiations within the International Financial Institutions, to which my earlier letter refers. In addition, the Round Table agreements will produce ^{*important*} ~~significant~~ legislative changes within Poland which will ~~have a bearing on~~ ^{*affected*} your proposals. Mr Wroblewski referred to the laws before Parliament to set up a National Property Fund and ^{*settle*} ~~arrange~~ the principles for the sale of shares in state enterprises. As he emphasized, worker councils could have a large role to play in this process.

Enclosures flag(s)

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considering projects to convert some debt into equity in Polish companies. Clearly if this trend develops, it will converge with some of the ideas you are promoting. It would certainly seem more sensible for private banks to take a stake in Polish enterprises rather than for creditor governments to do so. Many of ~~the latter~~ are privatising their domestic state industries.

Against this background of uncertainty at both the domestic and international levels, the best advice I think I can give, for the time being, is that you continue your discussions with the Polish Government and Solidarity to refine and ^evelop your proposals on those matters which lie outside the remit of the Paris Club and IMF.

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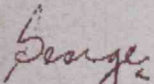
June 9, 1989

Mr. Charles Powell
Prime Minister's Personal Office
10 Downing Street
London WC1
England

Dear Charles:

The informal Round Table discussion of my plan for Poland will take place in Warsaw on June 19th. I shall be in London on June 15 and 16 and would be happy to discuss the situation and to hear about Jaruzelski's visit. As you know, I would welcome an opportunity to meet with Margaret Thatcher, if possible.

Sincerely,


George Soros

GS:asg

George SOROS
7/6



T.G.
EAM

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 May 1989

POLAND

I enclose further correspondence from George Soros which has crossed with my letter to him. I should be grateful for advice and a draft reply.

I am copying this letter and enclosure to Jonathan Taylor (HM Treasury).

CHARLES POWELL

R H T Gozney Esq
Foreign and Commonwealth Office

A handwritten signature in the bottom right corner of the page.

SOROS
fund

May 23, 1989

Mr. Charles Powell
Prime Minister's Personal Office
10 Downing Street
London WC1
England

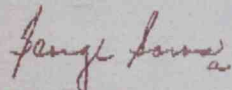
Dear Charles:

I attach the reply I received from the Polish Government today. As you can see, they are ready to take part in discussions under the aegis of the Batory Foundation and suggest a date between June 4 and June 15. The economic advisers to Solidarity have already expressed their enthusiastic support for the plan and indicated that they would be willing to modify the provisions for employee self-management in the "Round Table" agreement.

I believe a meeting among the major Western participants at the policy-making level ought to precede any meeting of experts in Warsaw.

Please advise me how to proceed.

Sincerely,



George Soros

GS:asg

Att.

MINISTER FINANSÓW

Warszawa, May 23, 1989

Dear Mr. Soros :

I would like to inform you that we have studied with great care Your proposal of overcoming the economic crisis in Poland.

The proposal is convergent, in many respects, with the solutions which are being adopted by the Polish government. In particular this includes creation of capital market, sales of equity capital of the Polish companies to private, domestic as well as foreign, investors and use of debt to equity swaps. Our present works provide conditions for broader discussion of your proposal at the expert level.

Therefore, please do accept our readiness to take part in such a discussion between experts of both sides. It seems that there are no obstacles to arrange such a discussion under auspices of the Batory Foundation. I would suggest that a discussion may take place between June 4th - June 15th, 1989.

In my opinion it would be beneficial to consider at the very beginning some questions that might be essential for the final solutions and their feasibility. This refers to the following issues :

-- According to the legal regulations being in force, the transfer of control of an enterprise to any legal body as well as its transformation into a joint stock company or sale of its equity capital requires acceptance of its employees selfmanagement. It should be pointed that we have already experienced such cases, so such solutions might be adopted to limited extent, however, they require negotiations with the concerned enterprises. These solutions might be applicable on larger scale after the Parliament approval of necessary law. It would be possible after the

elections of the new Sejm if such a proposal would find the necessary support of the majority of political forces represented in the Parliament.

-- According to your proposal the establishment of the Agency would imply reaching an agreement with the Paris Club. This involves a question who and in what manner should undertake such at least initial negotiations. According to my experience, the policy of the Club is to avoid engagement in any nonconventional solutions lest to set a precedent. Moreover, the Club stresses that being only an organizer of the cooperation between the creditors it cannot get involved in any agreements going beyond its functions.

-- Next issue refers to the structure and the composition of the Agency. Whether the members in question are to be selected on the basis of personal confidence or by the decision of the representatives of the institutions. Is the participation of the representatives of the Polish government taken into account? How is the responsibility of the agency for the enterprises property to be regulated? Should the participants engage their own resources or is it possible to find a guaranteeing institution (if so, who could offer such a guarantee)?

-- To what extent the agency would be obliged to comply with the current decisions of the Government based on the existing law? To what extent the enterprises of the Agency would have to follow the national regulations being in force?

-- According to the former policy and the agreements of the "Round Table" considered attention is being attached in Poland to the workers participation in management decisions, i.e. in form of the workers selfmanagement. To what extent this idea of workers participation in decision making could be implemented in the

reprivatised enterprises?

-- An important element of your proposal is a three-year moratorium on the Paris Club debt. At present however the Paris Club maintains that no moratorium might be under discussion. Moreover, even in the case of moratorium declaring, the foreign exchange resources would not be increased. An important question, in this context, is who would be ready to provide new money for the first phase of implementation of your proposal. It is a key question because our domestic resources are not sufficient for starting such a process. When planning the implementation of the program it is necessary to decide the sequence of steps to be taken. Which sequence should be followed: Paris Club-Agency - IMF or IMF - Agency - Paris Club? Who in every particular case should be the main partner in negotiations?

- In the whole proposal a great importance is being attached to the question of money stabilization. According to the proposal the zloty is to be pegged to the ECU. The question is how to arrange such a pegging and how to set the exchange rate.

The presented matters do not cover the whole subject. There are still many more detailed, but very important problems to be considered, e.g. a question of assets evaluation, rules governing the transfer of foreign investors profits, etc.

Having presented some of my remarks, I would be obliged if you could let us know your point of view on the questions being touched in this letter before the experts meeting.

Sincerely Yours,

Minister Finansów

Wp. *[Handwritten signature]*
Andrzej Wróblewski