

SUBJECT u OPS
MASTER

file PMU
c:\foreign\kohl

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T209/89



10 DOWNING STREET

LONDON SW1A 2AA

cc FCO
HMT

THE PRIME MINISTER

28 November 1989

Dear Helmut

We had a most valuable discussion in Paris on 18 November about Eastern Europe and I was very pleased that we were all able to agree on the general approach. It is also highly gratifying that the West is now putting in place a major programme of assistance for Poland, on a scale not seen since the Marshall Plan. We have all of us responded promptly to new proposals which have been put forward, and many of them have already been agreed. The crucial test is always, "are the new proposals in the best interests of Poland and are they cost effective"?

I am not at all convinced that the proposal for an East European Development Bank meets that test for the following reasons:

- (i) There appears to be no shortage of financial resources becoming available for assisting Poland and Hungary. The constraint on economic reform in those countries is not a lack of overseas aid, but domestic economic conditions, and a lack of skilled manpower to carry out reforms, budgetary and monetary policies, to establish a proper banking system, to identify those enterprises which should be developed and which close down, and so on.
- (ii) The key to the future of prosperity of the Eastern European countries can only lie in the encouragement of

ATS.

their private sector. The proposed Bank has too much the character of a parastatal bureaucratic institution rather than a flexible free market one which will encourage private enterprise.

- (iii) The institution would not be best placed to attract funds from other important donors, particularly the United States and Japan. Those countries are more likely to cooperate with an existing institution, for example, if its terms of reference were expanded so as to permit it to give special help to Eastern Europe, rather than with a new untried institution.
- (iv) There are already a lot of national and international bodies seeking to help Poland; the IMF, IBRD, the International Finance Corporation, the European Commission, the European Investment Bank as well as national governments. The creation of yet another institution would make the effective coordination of the international effort even more difficult.

So as I made clear at the Elysee meeting, I continue to have doubts about whether a case has been made for a new institution. A better approach would, in my view, be to build on well tried existing institutions. One possibility might be to ask the International Finance Corporation, the private sector arm of the World Bank, to set up an affiliate, using its own staff as a core, to operate on a larger scale, and with greater flexibility, than hitherto in Eastern Europe. That course should provide the right private sector impetus, avoid new institutions and bureaucracy and stand a better chance of attracting US and Japanese funds.

I hope that you can support this approach.

Warm regards,

Yours sincerely

Rajantshaltin

His Excellency Dr. Helmut Kohl



file M
CPC

10 DOWNING STREET
LONDON SW1A 2AA

C. bank

From the Private Secretary

28 November 1989

DEVELOPMENT BANK FOR EASTERN EUROPE

Thank you for your letter of 28 November about the message to Chancellor Kohl on the Development Bank for Eastern Europe. I have asked the Foreign Office to despatch this straightaway and am sending them the original for later transmission.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office).

C. D. POWELL

T. Tarkowski, Esq.
H. M. Treasury

cc/c



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

28 November 1989

C D Powell Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

Dear Charles,

DEVELOPMENT BANK FOR EASTERN EUROPE

attached.

The Chancellor has seen Stephen Wall's letter of today's date.

He remains of the view that, whatever the stage that deliberations in Bonn have reached, speed is now of more importance than fine tuning the message.

In his judgement, therefore, the letter should now issue.

I am copying this letter to Stephen Wall.

Tarczew Tarkowski

T TARKOWSKI
Private Secretary



28.11.87
20.12.87
12.12.87
10.12.87
09.12.87
08.12.87
07.12.87
06.12.87
05.12.87
04.12.87
03.12.87
02.12.87
01.12.87
31.11.87
30.11.87
29.11.87
28.11.87

Treasurer: Christopher
SWISS BAC

COMPTROLLER

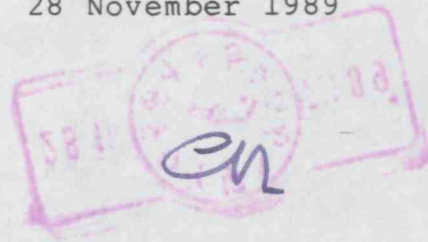
11



Foreign and Commonwealth Office

London SW1A 2AH

28 November 1989



Jean Lancelot

Development Bank for Eastern Europe *top*

I have seen copies of your letter to Charles Powell of 27 November and his reply of the same date.

I understand that Ministries in Bonn are under a general remit from Chancellor Kohl to consider the French proposal in a positive way, but thoroughly. The German Finance Ministry, like us, are not convinced of the need for a new institution and may ask pointed questions at the officials' meeting under French chairmanship tomorrow. The German government will not adopt a final position until after tomorrow's meeting and, with German Ministers preoccupied with other matters, it is unlikely that Kohl himself will reach a definitive view at this stage. In other words, the position is the one I described to you on the telephone on Friday.

In the light of the advice we have had from our Embassy in Bonn, it remains our view that the best course of action would be to take stock after tomorrow's meeting, when it will be possible to consider a message which more closely addresses the concerns which we and the Germans share.

If, despite this advice, the Chancellor recommends that the message should issue today, the Foreign Secretary accepts that that must be a matter for his judgement.

I am copying this letter to Charles Powell (No 10).

Jans,
Stephen Wall

(J S Wall)
Private Secretary

T Tarkowski Esq
HM Treasury



10 DOWNING STREET
LONDON SW1A 2AA

the 6AM
C:/foreign
Tarkowski
CP

From the Private Secretary

27 November 1989

DEVELOPMENT BANK FOR EASTERN EUROPE

The Prime Minister has agreed to sign the letter to Chancellor Kohl sent under cover of your letter of 27 November. But I understand that the Foreign and Commonwealth Office have doubts about the timeliness of action tomorrow, on the grounds that Chancellor Kohl is not due to reach a decision until later. I should be grateful if this point could be resolved between the Treasury and the FCO. Meanwhile, I will hold on to the letter.

I am copying this letter and enclosure to Stephen Wall.

CHARLES POWELL

T Tarkowski Esq
HM Treasury



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

27 November 1989

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Dear Charles,

EASTERN EUROPEAN DEVELOPMENT BANK

This proposal by the French was discussed at the Paris dinner on November 18, where there was a cautious response from the Prime Minister and Chancellor Kohl. We understand that the Commission shares some of our doubts.

Chancellor Kohl, we understand, is due to take on Tuesday a decision in principle on whether to support such a bank. In order to reinforce his doubts, the Chancellor believes it would be helpful if the Prime Minister were to write to Kohl tonight, on the lines of the attached draft. There is a better chance of influencing Kohl now, than getting this proposal killed at Strasbourg when there will be other even more difficult subjects on the table.

I am copying this letter to Stephen Wall (FCO).

Tomasz Tarkowski

T TARKOWSKI
Private Secretary

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO

Chancellor Kohl

We had a most valuable discussion in Paris on 18 November about Eastern Europe and I was very pleased that we were all able to agree on the general approach. It is also highly gratifying that the West is now putting in place a major programme of assistance for Poland, on a scale not seen since the Marshall Plan. We have all of us responded promptly to new proposals which have been put forward, and many of them have already been agreed. The crucial test is always, "are the new proposals in the best interests of Poland and are they cost effective"?

2. I am not at all convinced that the proposal for an East European Development Bank meets that test for the following reasons:

(i) There appears to be no shortage of financial resources becoming available for assisting Poland and Hungary. The constraint on economic reform in those countries is not a lack of overseas aid, but domestic economic conditions, and a lack of skilled manpower to carry out reforms, budgetary and monetary policies, to establish a proper banking system, to identify those enterprises which should be developed and which close down, and so on.

(ii) The key to the future of prosperity of the Eastern European countries can only lie in the encouragement of their private sector. The proposed Bank has too much the character of a parastatal bureaucratic institution rather than a flexible free market one which will encourage private enterprise.

(iii) The institution would not be best placed to attract funds from other important donors, particularly the United States and Japan. Those countries are more likely to cooperate with an existing institution, for example, if its terms of reference were expanded so as to permit it to give special help to Eastern Europe, rather than with a new untried institution.

(iv) There are already a lot of national and international bodies seeking to help Poland; the IMF, IBRD, the International Finance Corporation, the European Commission, the European Investment Bank as well as national governments. The creation of yet another institution would make the effective coordination of the international effort even more difficult.

3. So as I made clear at the Elysee meeting, I continue to have doubts about whether a case has been made for a new institution. A better approach would, in my view, be to build on well tried existing

institutions. One possibility might be to ask the International Finance Corporation, the private sector arm of the World Bank, to set up an affiliate, using its own staff as a core, to operate on a larger scale, and with greater flexibility, than hitherto in Eastern Europe. That course should provide the right private sector impetus, avoid new institutions and bureaucracy and stand a better chance of attracting US and Japanese funds.

4. I hope that you can support this approach.



