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OD(81) 8th Meeting

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held in Conference
Room A, Cabinet Office, Whitehall on
WEDNESDAY 15 APRIL 1981 at 11.30 am

PRESENT

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department (In the Chair)

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Chancellor of the Duchy of Lancaster
and Paymaster General

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Biffen MP
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery
Mr R M Hastie-Smith

SUBJECT

POLISH DEBT

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POLISH DEBT

Previous Reference: OD(81) 2nd Meeting, Item 1

The Committee had before them a letter from the Chancellor of the Exchequer's private secretary to the Prime Minister's private secretary covering a note by Treasury and Foreign and Commonwealth Office officials which described the existing position as regards current international negotiations on Polish debt and related matters and listed six questions for Ministerial decision.

THE CHANCELLOR OF THE EXCHEQUER said that an acceptable Polish debt settlement appeared to be taking shape. Only one of the six questions for decision presented any real difficulty. This concerned the provision of new credit for Poland. Britain had already agreed to provide a total of £40 million in 1981, all but £8 million of which was already committed. This was not ungenerous, given the state of the Polish economy and the poor prospects for repayment. Poland was overborrowed already. Some of Britain's fellow-creditors, such as France, had their own reasons for offering more extensive credit and would no doubt press Britain to go further. In general such pressure should be resisted, although there might be a case for assisting further food exports and for some limited concessions of a pump-priming nature to help the Poles re-establish their export industries and thus improve the prospects for eventual debt repayment.

In discussion there was support for the view that Poland's economic situation made it unwise to contemplate further new credit on the scale the Poles themselves were currently seeking. But on political grounds, and because of the close interaction between Poland's political and economic prospects, it was strongly argued that some additional British credit should be provided as a contribution to the overall Western effort. Britain's economic stake in Poland was not much less than that of France or other major creditors; and she had a major political interest in working to avert Soviet repression there, on which a strong British line had rightly been taken in public. Poland's request for over £80 million more from Britain in 1981 was clearly too high. But there was a good case for providing a further £35-40 million.

THE HOME SECRETARY, summing up the discussion, said the Committee agreed that Britain should sign the proposed debt relief agreement; and that the British technique for providing relief should be to reschedule rather than to refinance. On balance it was further agreed that British representatives should attend any international meeting about the provision of new credit and should agree to provide a further £55 million in 1981. The Export Credits Guarantee Department should be directed by the Secretary of State for Trade to provide this under the trade encouragement provisions of the Export Guarantee Act. The new credit should not be limited to agricultural exports, on the extent of which the Ministry of Agriculture, Fisheries and Food should consult further with the Treasury; and where non-agricultural exports were concerned further consideration should be given to the possibility of tying the credit to items of particular importance to British industry. The ECGD should also continue short-term cover for Poland of approximately £10 million at any one time. Parliament should at an appropriate stage be informed of the arrangements for further new credit; but there should be no undue publicity, because many countries in the Third World might resent the special treatment being given to Poland.

The Committee -

1. Invited the Chancellor of the Exchequer, in consultation with the Foreign and Commonwealth Secretary to arrange for the United Kingdom to sign the proposed multilateral debt relief agreement with Poland; and, in consultation with the Secretary of State for Trade, to arrange for Polish debts to be rescheduled accordingly.
2. Invited the Chancellor of the Exchequer, in consultation with the Foreign and Commonwealth Secretary and the Secretary of State for Trade, to arrange for the United Kingdom to participate in any further international meetings on the provision of additional new credit for Poland in 1981 and to offer £55 million under that head.
3. Invited the Secretary of State for Trade, in consultation with the Chancellor of the Exchequer, to instruct the Export Credits Guarantee Department as necessary that further new credit for Poland should be provided under the trade encouragement provisions of the Export Guarantee Act and that short-term cover should continue to be provided for Poland on the existing basis; and, in consultation with the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster, to arrange for Parliament to be informed.
4. Invited the Secretary of State for Trade to consult the Chancellor of the Exchequer and the Minister of Agriculture about the extent to which the agreed new credit should be applied to agricultural exports; and to consult the Chancellor of the Exchequer and the Secretary of State for Industry about the extent to which it might be tied to items of particular importance to British industry.



PM/81/25

PRIME MINISTER

Polish Debt

CABINET OFFICE	
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11 MAY 1981	
FILING INSTRUCTIONS	

Ed. McWade
Mr. Hagley
Mr. Wel. S.

1. The Chancellor's minute of 30 April records the decision of the Western Creditors to offer Poland 90% debt relief. I agree that it was right for us to go along with the consensus.

2. The Chancellor goes on to propose that we should make an off-setting reduction in the amount of new export credit we would be prepared to offer to the end of this year. I firmly believe we should stick to the figure of £35 million agreed at OD on 15 April, which is in itself substantially less than any of the other major Western trading partners of Poland has made available.

3. Our overall objective is to help promote in Poland the economic recovery which will be essential if the Poles are to maintain the gains of the 'renewal' and to repay their debts. The economy cannot be turned around without imports from the West, for which the Poles will need further hard currency credits; Kisiel, the Polish Deputy Prime Minister who called on you in December, saw Ian Gilmour on 8 May and emphasised in particular the need for credit over the next two or three months to keep the factories going in the uncertain period up to the Polish Party Congress in July. Our partners are likely to be sympathetic and they will expect us to play our part. I understand that the French and Germans have so far made available \$554 million and \$310 million respectively in 1981, and that the US have kept open a \$590 million credit line for grain purchases. Our own figure, if we stick to the additional £35 million agreed in OD on 15 April, will be about \$166 million.

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4. I understand that there is already some difficulty in deciding how £35 million of additional credit should be allocated between agricultural and industrial exports, for each of which good cases can be made.

5. I am sending copies of this minute to the members of OD and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office

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