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OD(80) 21st Meeting

COPY NO 44

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at  
10 Downing Street on  
THURSDAY 23 OCTOBER 1980 at 4.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

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

The Rt Hon Francis Pym MP  
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP  
Lord Privy Seal

The Rt Hon John Nott MP  
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry  
(Items 2 and 3)

The Rt Hon Peter Walker MP  
Minister of Agriculture,  
Fisheries and Food  
(Items 2 and 3)

The Rt Hon Sir Michael Havers QC MP  
Attorney General  
(Item 1)

The Hon Nicholas Ridley MP  
Minister of State Foreign and  
Commonwealth Office  
(Item 1)

Admiral of the Fleet  
Sir Terence Lewin  
Chief of the Defence Staff  
(Item 4)

SECRETARIAT

MR MDM FRANKLIN Sir Robert Armstrong (item 3)  
Mr R L Wade-Gery  
Mr R M Hastie-Smith  
MR DM ELLIOTT (item 3)

Revised Front Page dated 27.10.1980.

**SECRET**

22

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24

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26

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MEMOS  
1

2

3



SECRET

CONTENTS

Item No	Subject	Page
1	ANGLO-GUATEMALAN NEGOTIATIONS OVER BELIZE	1
2	POSSIBLE ECONOMIC ASSISTANCE FOR POLAND	3
3	HARMONISATION OF EXCISE DUTIES	5

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1. ANGLO-GUATEMALAN NEGOTIATIONS OVER BELIZE  
Previous reference OD(80) 10th Meeting, Item 2

The Committee considered a paper by the Foreign and Commonwealth Secretary (OD(80) 59) describing the outcome of recent negotiations with Guatemala over Belize.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (MR RIDLEY), said that the negotiations were going quite well. As he had made clear to the Guatemalans, the momentum towards independence for Belize was now unstoppable. The United Nations (UN) General Assembly was likely to adopt by an overwhelming majority a resolution calling for such independence by the end of 1981. He had also made clear that there could be no question of ceding territory to Guatemala. Despite their disappointment, the Guatemalan Government seemed to be growing reconciled to these prospects. They realised that they were isolated internationally; and they had indicated, although so far only in private, that they would not resort to military action. But it remained possible that they might fall on the issue, with unpredictable consequences. If agreement could be reached with Guatemala, the British garrison in Belize could be withdrawn by the date of independence, although the Belizeans would need British help in building up their own Defence Force. If no agreement were reached with Guatemala, British troops would probably have to remain temporarily in Belize after independence; otherwise the Prime Minister, Mr Price, would refuse to proceed to independence, and the British garrison would then have to remain indefinitely. But it had been made clear to Mr Price that British troops could remain after independence only for a strictly limited period, and on condition that every step of his foreign policy was agreed with the British Government in advance. If this condition were broken, Britain would be free to leave Belize to her fate. In the long run Belize had to learn to live with Guatemala as a neighbour whose size and strength were inherently much greater than her own.

In discussion there was general agreement with the conclusions of OD(80) 59. The following points were made -

- a. Consideration had been given to the possibility of associating other countries with the defence of Belize after independence. But militarily this would offer little advantage (the United States Government would certainly not be willing to take part), and politically it might restrict Britain's freedom to withdraw at a moment of her own choosing.

SECRET 1

22

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MEMOS  
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SECRET

b. The intention would be to withdraw British troops from Belize within six months after independence. There were good reasons to expect this to be possible, although there could be no certainty at this stage. The alternative of agreeing in advance on a phased withdrawal which began at independence would undermine Mr Price's confidence and perhaps increase the danger of Guatemalan attack. If an attack did occur while British troops remained, a state of war between Britain and Guatemala would effectively have broken out. But on the basis of the policy proposed in OD(80) 59 it seemed unlikely that there would be such an attack.

c. Consideration would need to be given to what costs would be involved in Britain's disengagement from Belize (eg if British troops had to remain temporarily after independence) and how these should be met. Questions which might arise in this context were examples of a more general problem, on which a separate submission would shortly be available for Ministers to consider.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the general approach proposed in the Foreign and Commonwealth Secretary's paper. It was essential that a firm date should be set for the withdrawal of British forces from Belize after independence. This should be a matter of months rather than years, and should be made clear to Mr Price.

The Committee -

1. Agreed that Britain should vote for a United Nations Resolution calling for independence for Belize by the end of 1981.
2. Agreed to the holding of a Constitutional Conference in London in 1981.
3. Agreed that negotiations with Guatemala should continue, on the basis of the "Possible Points for an Agreement" attached to OD(80) 59.
4. Agreed that, if British forces had to remain in Belize after independence, a firm and early date should be set for their withdrawal.
5. Agreed that separate consideration should be given to any financial problems arising from Britain's disengagement from Belize.
6. Invited the Foreign and Commonwealth Secretary and the Minister of State (Foreign and Commonwealth Office) to proceed accordingly.

SECRET 2

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2. POSSIBLE ECONOMIC ASSISTANCE FOR POLAND

The Committee considered a note by the Secretaries (OD(80) 60) to which was attached copies of minutes to the Prime Minister of 20 and 22 October from the Lord Privy Seal and Chancellor of the Exchequer, and a letter of 22 October from the Secretary of State for Trade to the Lord Privy Seal, about the British reaction to Poland's likely need for further economic and financial assistance from the West.

THE LORD PRIVY SEAL said that the Poles were up to their ears in debt and their economic position seemed likely to get worse. There were strong political reasons for helping them. It was very much in Western interests that political liberalisation in Poland should survive and perhaps spread, but it would not survive if economic collapse led to political anarchy and Soviet military intervention. It was therefore necessary to decide what help Britain could offer, and more immediately what the Foreign and Commonwealth Secretary should say during his visit to Poland from 29-31 October. The Minister of State for Trade would also require guidance for the annual Anglo-Polish Joint Commission in Warsaw on 10-14 November. A possible line for both Ministers was set out in Annex B to his minute of 20 October. More detailed proposals for British policy should be developed by officials in the light of a meeting which the French were proposing to call in Paris early in November. This should have the satisfactory result of placing assistance for Poland in a multilateral framework.

In discussion there was general agreement that the British response proposed by the Lord Privy Seal was likely to prove appropriate; but that it would be important to ensure that Britain did not get out in front of other Western countries. The following additional points were made -

- a. There would be economic advantage for Britain if a refinancing loan to Poland avoided a default and the consequent rescheduling of Polish debts. A loan through the banking system at market rates would avoid the immediate cost to public funds which would be involved in further loans at subsidised rates. Britain's share of such a loan might amount to £200 million. A further extension of £100 million of ECGD credit might also be appropriate. But this should not be for more than one year at a time.

CONFIDENTIAL

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MEMOS

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b. As regards quotas there should be no addition to imports of such goods as television sets because of the undesirable effects on domestic industry.

c. It was likely that the British export in which the Poles had the greatest interest was grain, which would be welcome given existing surpluses. To the extent that there was any scope for influencing other Polish purchases in this country it would be desirable for them to buy goods such as industrial materials which would be helpful to their own economic situation.

THE PRIME MINISTER, summing up the discussion, said that there was general agreement that it was in this country's interest to assist Poland but only to the extent justified by our own economic circumstances.

The Committee -

1. Agreed that during his forthcoming visit to Poland the Foreign Commonwealth Secretary should not go beyond a general indication of Britain's willingness to help where possible.

2. Agreed that the proposed British line at Annex B to the Lord Privy Seal's minute of 20 October should form the basis for further work by officials, in the light of discussions with other potential donors, on the line which the Minister of State for Trade might be advised to take at the Anglo-Polish Joint Commission meeting.

3. HARMONISATION OF EXCISE DUTIES

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that he was concerned about the policy and presentational implications of the Presidency compromise proposals for harmonising excise duties on alcoholic drinks that were due to be discussed at the 27 October Fiscal Council. He agreed that they offered a means of reaching an accommodation with the Commission on the infraction proceedings they had brought against the United Kingdom in the European Court and that in the light of the Court's interim judgement it would be preferable to go along with the compromise than to risk the possibility of an adverse Court ruling requiring us to move rapidly towards a wine/beer excise duty ratio of 3:1. But given the misleading way in which the proposals had already been treated in the Press, and the damaging effect this could have on the image of the Community in the United Kingdom, it was essential that the outcome of the Fiscal Council should be presented to the Press with the utmost care.

THE CHANCELLOR OF THE EXCHEQUER said the Press reports of a 7p increase in the duty on beer were grossly misleading. The relationship between our excise duties on beer and wine could be adjusted in a number of different ways, involving reductions in wine duties as well as increases on beer; and we would in any event have until 1987 to bring the ratio down to 3:1 if the compromise proposals were accepted. Even a 3:1 ratio would not be new in our experience, for it had prevailed in our taxation throughout the 1950s and 1960s. We should nevertheless seek three improvements in the Presidency's package: a single rate of VAT in each member state for all drinks, to stop the French and Italians charging a higher rate of VAT on whisky; a wine/Beer ratio of 3.5:1 instead of 3:1; and a de minimis relief designed to improve the duty position of English wine producers. If necessary to avoid being forced back to the Court we might in the end concede the second and third of these points, but we should stand fast on a uniform rate of VAT for all drinks.

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MEMOS

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THE PRIME MINISTER, summing up a brief discussion, said that the Committee endorsed the line proposed by the Chancellor of the Exchequer for the 27 October Fiscal Council, and agreed that special attention would need to be given to the Press handling of its outcome. To this end the Chancellor of the Exchequer, in consultation with the Minister of Agriculture, Fisheries and Food, should arrange for appropriate Press briefing to be provided through the Paymaster General. The briefing should aim to correct the false impression that beer duties would have to rise sharply as a result of action in the Community and should stress the positive elements in the Presidency compromise if adopted.

The Committee -

Invited the Chancellor of the Exchequer to be guided accordingly.

Cabinet Office

27 October 1980



No 10 have asked for advice. Mr. Wade-Gary is drafting.

CABINET OFFICE  
A 6653  
20 OCT 1980  
FILING INSTRUCTIONS  
FILE NO. 12

Prime Minister

POSSIBLE ECONOMIC ASSISTANCE FOR POLAND

You will recall that in his message to you of 27 August President Carter referred to Poland's likely need for further economic and financial assistance from the West and suggested that our aid should be designed to encourage the Poles to undertake a more fundamental and systematic reform of their economic system. In reply, you said that you looked forward to hearing what the President had in mind (we have had no response), that you would welcome any proposal for ensuring that our help went to benefit the Polish people rather than to the shoring up of an unreformed system, but that we would have to take care to avoid accusations of interference.

2. The Polish Ambassador called on me last week to put forward, on the instructions of his Prime Minister, a number of specific requests for economic assistance from the UK. The details are attached at Annex A. The Ambassador made it clear that, while the subject would not be formally on the Agenda, the Poles would want to pursue it during the Foreign Secretary's visit from 29-31 October. We shall therefore need a line before then. Officials from a number of Departments have now looked at this.

3. The Poles have told us that they are making similar approaches to the US, France, FRG and Italy, and they seem to have been in touch also with Austria, Belgium, Norway and Sweden. The Americans have already given us details of the informal requests they have received (which include one for \$3 billion in further /credits

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MEMOS  
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credits on favourable terms), but they have not indicated how they intend to respond. We shall be following this up with them and comparing notes also with other countries involved. We should coordinate our response closely. It may suit the Poles to try to handle the matter by separate bilateral contacts, but there is no reason for us to go along with this provided we are discreet.

4. None of us will find the question easy. The Polish economy is in serious difficulty and the authorities have had to make concessions to consumers and wage earners which will make things worse at least in the short term. Poland needs external credits to stay afloat until the economy can be restored to health. That will take several years at best, and Poland will have difficulties in servicing her debts. It seems quite possible, as indicated in the press, that Poland's hard currency debt may rise from \$22 billion at present to \$30 billion or even more in the next 3-5 years - assuming lenders are found. We do not have the same means of ensuring that Poland will adopt sensible, and, if needed, painful policies of adjustment as we do when the IMF is involved, and it is generally accepted that the Russians would not tolerate a Polish move to join the IMF in the present circumstances. Furthermore the political situation in Poland remains precarious, and it is impossible to say at this stage whether the significant move towards democracy represented by the events of the last few weeks can or will be maintained.

5. Yet what is happening in Poland is of major political importance not only for that country but for Europe. The West has a substantial interest in any loosening of the Soviet system. To achieve this the reforms already agreed will have to be consolidated. The Poles cannot do this without financial assistance. We can safely assume that the Russians will not provide the requisite /economic

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MEMOS  
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economic aid without setting very harsh conditions. If we refuse to help therefore the implication will be that we are indifferent to events there, which is not the case. Without outside assistance the Poles will be forced to crack down economically. This would provoke more strikes and probably Russian intervention, with all the dangers that that would entail. The end result would be the opposite of what we and other Western countries have been trying to encourage in our policy towards Eastern Europe.

6. There are other considerations to bear in mind. There will be financial limits to what individual countries can do. And there are a number of dangers which each will wish to avoid: in particular that of committing money over a long period without the possibility of withdrawing if economic or political conditions should change for the worse; and of making concessions to the Poles which have been refused, or could not be offered, to countries who might consider they had a better claim and whose cases could not plausibly be distinguished. We should watch carefully the use to be made of any British money provided, given the glaring facts about the nature of the Polish economy and our wish to avoid shoring up an unreformed system. We could also look for ways of helping Poland in ways which do not involve government guarantees or spending public money for example by helping them with their marketing in hard currency areas. Any assistance we do make would have to be in instalments, so that it can be withdrawn if the Poles or the Russians crack down. And of course even with Western financial aid there can be no guarantee that the Russians will not intervene.

7. The balance is not easy to strike. But, at the end of the day, I believe that at least the Americans, the French and the Germans will conclude (as President Carter and Herr Schmidt have already indicated) that something should be done to help the Poles and to  
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CONFIDENTIAL

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MEMOS  
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provide concrete evidence of Western interest in their future. All three have recently provided some extra finance for Poland, either new money, guarantees or refinancing. We shall be expected to play our part, and I think on balance that we should.

8. If you and other colleagues agree this general conclusion, neither the Foreign Secretary during his visit to Warsaw nor the Minister of State for Trade (who will be leading our team at the Annual Anglo-Polish Joint Commission in Warsaw on 10-14 November) need be drawn into too much detail on what we may be able to do. But they will need to have guidance on the points on which they could indicate our willingness to enter into more detailed discussion with the Poles. I would suggest the line at Annex B. I am sorry that the Polish approach has not given us much time before the Foreign Secretary sets off on 27 October.

9. I am sending copies of this minute to Geoffrey Howe, Keith Joseph, John Nott, Peter Walker and Sir Robert Armstrong.

J.H.G.

20 October 1980

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MEMOS  
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ANNEX A

The following are the requests put by the Polish Ambassador on 13 October:-

- (a) some postponement of the repayment of ECGD guaranteed debt in 1981 and 1982 (the Poles say they are not proposing an actual moratorium);
- (b) an agreement on the availability of further credit from ECGD which would assure the Poles of credits for certain commodities, particularly chemicals, fibres, steel and grain, over the next three years;
- (c) 5 year repayment periods for these new ECGD credits from 1981 (including two year grace periods);
- (d) the lowering of the permitted minimum size of contract which can be covered by ECGD guarantees;
- (e) liberalisation of British quotas for imports of Polish leather goods and small television sets;
- (f) British support in GATT for the suspension until the end of 1982 of the Poles' minimum import growth quotas.

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ANNEX B

The following is the line suggested as guidance for the visits to Warsaw of Lord Carrington and Mr Parkinson (references are to the Polish shopping list at Annex A):-

- (a) Any suggestion of a moratorium or postponement of the repayment of ECGD guaranteed debt would cause us considerable difficulty. Such a proposal would almost certainly have to be negotiated multilaterally with other creditors; it would limit our ability to provide further export credit; and there would be an immediate effect on public expenditure. Agreement to some amount of refinancing would avoid these difficulties. We could consider offering an ECGD guarantee of new bank loans of a certain amount, and the financial liability would thus be a contingent one. Such financing should in the first instance be offered only for 1981. This would exert a degree of leverage on the Poles, and give us the flexibility to withdraw later if economic or political conditions required it. But I think we should recognise that even on optimum performance by the Poles, refinancing will be needed in 1982 as well, and probably beyond. If we agreed to proceed on this basis, we could tell the Poles this this was a subject which we would be prepared to explore further at official level after the Joint Commission. There would thus be plenty of time for the departments involved to agree a detailed brief, and we should of course wish to make sure that the Poles gave us as clear as possible an indication of their economic plans.
- (b) We could agree in principle to further credits for the commodities in question, but would once again prefer to avoid committing ourselves for more than one year at a time.

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ANNEX B (contd)

We could, however, say that we would expect the arrangements to roll over, other things being equal. We could offer to explore further with the Poles, as for (a) above. When we came to work out the detailed brief for these discussions, we should consider how far we could place the emphasis on items such as grain and agricultural machinery, which both make economic sense and are of direct benefit to the Polish people.

- (c) Grace periods cause serious difficulty. But we may be able to move towards 5 year repayment periods, more especially if other Western countries are prepared to do so too.
- (d) I understand that there need be no objection to this if it is a point to which the Poles attach importance.
- (e) Keith Joseph will wish to comment, but I understand that these are particular sensitive areas. If this is so, and we can agree to the reasonably forthcoming line suggested above on the other points, I would suggest that we tell the Poles quite clearly that this is not an area which we can usefully pursue.
- (f) This is a point for the European Community, but we should be able to tell the Poles that we understand their difficulties and will work with our partners for a mutually acceptable solution. We presumably accept that the Poles are not going to be able to meet their GATT import growth commitment while they restore their balance of payments to equilibrium, and the latter is clearly the more important.

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From the Secretary of State

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The Rt Hon Sir Ian Gilmour Bt MP  
Lord Privy Seal  
Foreign and Commonwealth Office  
Downing Street  
London SW1

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22 OCT 1980
FILING INSTRUCTIONS
FILE No. 36/1

22 October 1980

~~cc Mr Wade Gandy  
Mr G. G. Gandy  
Mr M. G. Smith  
Mr W. G. Smith~~

Dear Ian -

POSSIBLE ECONOMIC ASSISTANCE FOR POLAND

2

Thank you for your minute of 20 October. I must say that in view of our existing £1 billion ECGD exposure in Poland I am not enthusiastic about increased cover. However, in the context of the refinancing package I am prepared to agree with the proposals in your Annex B; I have, however, one or two points to add.

We will need, I believe, to decide by the date of the Joint Commission on the size and shape of the credit package we are prepared to offer. The Poles have made it clear to officials that their purchasing contracts for 1981 are let during November and that they will need to know by then what they can expect from us.

As regards quotas, I would like to suggest that, subject to the views of Keith Joseph, we might be prepared to go a little way to help the Poles, perhaps by bringing forward to this year the concessions already agreed (but not yet tabled in Brussels) for 1981. These would not affect leather goods but would allow an additional 5 to 7% increase in imports of television sets.

I agree with your proposals regarding the Poles import commitment under the GATT. They have not in fact met it for some years and a temporary derogation until 1982 seems to do no more than admit the facts of life. We should, however, make clear that we see no

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From the Secretary of State

Treasury Chambers, Parliament Street, SW1P 3AG  
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link between the Polish import commitment and the phasing out of the Community remaining quotas on imports from Poland.

One final point. I am not entirely clear what is envisaged by your suggestion in paragraph 6 of your minute that we should help the Poles with their marketing in hard currency areas, but I think we should be very wary of accepting any commitment which would lead us to be, as it were, export managers for Polish products.

I am copying this to Geoffrey Howe, Keith Joseph, Peter Walker and Sir Robert Armstrong.

*John Nott*  
*JN*

JOHN NOTT

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Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

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cc Mr Le Chevalier  
Mr Wood - Geny  
Mr Austin-Smith  
Mr Winterton-Smith  
JCH

POSSIBLE ECONOMIC ASSISTANCE TO POLAND

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Ian Gilmour minuted you on 20 October about the response which Peter Carrington should give when he visits Poland at the end of this month to the proposals for economic assistance which the Poles have put forward.

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2. I agree with him that the questions raised are difficult. The political situation in Poland is unstable, and the concessions made to the strikers have made the country's foreign currency situation worse. There is no certainty at all that Poland will have the ability to meet its foreign currency indebtedness in the foreseeable future.

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3. Our present level of exposure is very high - over £1 billion, and exceeded only by the French. The Polish proposal could increase our exposure to the extent that we agree to further credits for commodities. (Also, public expenditure would be increased, if these credits attracted interest rate support). Given the prospects for the Polish economy, I think we should be very cautious about doing this, in a situation where prudently we should be looking for a reduction. We must also bear in mind that Poland might set a precedent for our treatment of other countries.

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4. Politically the United States and West Germany are more immediately concerned in the Polish situation. Neither, we understand, has yet had a formal request from the Poles. The Americans have been told informally what the Poles have in mind, and a telegram from our Embassy in Washington (No 4312 of 17 October) set out some of the US preliminary thinking. Apparently, in the State Department's view any restructuring must be multi-lateral (the normal procedure in these circumstances). It is not at all clear that the Americans are in a position to take very quick decisions.

5. I agree, of course, that we should do nothing to precipitate a further crisis in Poland, which might lead to Russian intervention. I accept that we may well have to give help to the Poles. But I do not think that we should get ahead of the other major countries involved. As Ian says, we should co-ordinate closely with the others, and this apparently is what the Americans want. Therefore I hope that while Peter Carrington can express sympathy and understanding with the Poles during his visit, he should not commit us in principle to any particular form of assistance. It seems entirely defensible that we are still considering their proposals. Meanwhile we should co-ordinate, in the most appropriate way, our thinking with that of the other major creditor countries.

I am copying this minute to Ian Gilmour, Keith Joseph, John Nott, Peter Walker and Sir Robert Armstrong.

*G.H.*

PS. cc also to other members of OD

(G.H.)

22 October 1980

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MEMOS  
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