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Treasury Chambers, Parliament Street, SW1P 3AG
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23 June 1981

The Rt. Hon. Lord Carrington PC KCMG MC
Secretary of State for Foreign and Commonwealth
Affairs

Dear Foreign Secretary

POLISH ECONOMY

I have still not received the expected letter from the French Finance Minister M Delors but I understand that it will contain a request on the lines indicated in your minute of 22 June. — *WKP*

I do not think we should accede to this request. First I think we should be almost alone in doing so. The German response so far has been very cool. So has the Italian. To judge by their attitude in previous Paris discussions the small creditor countries are likely to be hostile and will not see why they should take an equal share in the rescue operation. If we showed an interest but offered only \$30 million we should soon find either that the venture collapsed or that we should be asked for considerably more.

Second I doubt very much if even \$500 million will be enough. There is no evidence that the Polish trade deficit can be cut this year to the extent necessary. Exports are falling and imports have not been cut back as much as they should. Relatively little new credit is on offer in forms which the Poles can readily use. Instead of forming a "pump priming" fund to get things moving again I believe the \$500 million would merely go to finance the deficit for the rest of the year.

Third, the Bank of England would be very reluctant to join in such a venture. There is no security for a loan on the scale proposed. The Polish gold reserves are totally inadequate and are in any case thought to be pledged already. So the central banks would look to Governments for support. If the Bank of England were to join in, any such guarantee would have to be given by the Foreign Office and the contingent liabilities regarded as a potential charge against your public expenditure programmes. The risk that the guarantee would be called is so great that I do not believe you would want to take it on these terms.

/Fourth - although

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Fourth - although this is a matter for you, not for me - I doubt very much if even credit on this scale would achieve its political objective. It could not produce any significant improvement in the living standard of the Polish people and certainly not in the runup to the Party congress next month. It might conceivably avoid the Western powers being blamed collectively for the Poles' economic problems. But in my view if the hardliners are going to take over in Poland they will do so irrespective of any excuses we may offer them. And any initiative of this kind without American participation seems very unlikely to succeed.

I therefore remain strongly opposed to British participation in a scheme of this kind. Unless you and the Prime Minister, to whom I am copying this letter, feel otherwise, I propose to reply to M Delors to say that we cannot join in. A copy also goes to Sir Robert Armstrong.

Yours sincerely
Peter Jenkins

for GEOFFREY HOWE
(Approved by the Chancellor of the Exchequer and signed in his absence)



FCS/81/84

CHANCELLOR OF THE EXCHEQUER*Prime Minister*

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*See attached (v. gloomy)
assessment of the Polish economy
just received from Warsaw*

*Ambs*POLISH ECONOMY

1. Since our last OD meeting on 20 May to discuss the Polish economic situation the situation in Poland has given increasing cause for anxiety. Both economic and political factors have heightened the sense of crisis. We are now entering a critical phase in the run-up to the Polish Party Congress.
2. I believe that the Congress may represent the first and last opportunity for the supporters of a more liberal and popularly supported administration in Poland to establish their position and obtain the mandate they need to offer the country firm leadership, on which both economic and political stability will ultimately rest. I believe that it is in the broadest Western interest that they should be given this chance.
3. But the Poles' economic problems are now so acute that immediate disaster threatens. There is the risk of default or a moratorium, leading to economic collapse and political unrest, which in turn could scarcely fail to precipitate a Soviet intervention. Our whole strategy for handling the Polish crisis since last autumn would then have failed, and we should have entered a new and potentially fateful period in post-war relations in Europe.
4. Western Governments have done their part in responding to Polish appeals, but the banks, particularly the American banks, have so far been less helpful. This and other factors have led to an acute liquidity problem. As you know the Poles have now

/asked