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OD(81) 9th Meeting

COPY NO 46

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

—
MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 20 MAY 1981 at 5.30 pm
—

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

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

The Rt Hon Lord Soames
Lord President of the Council

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

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery
Mr W N Wenban-Smith

SUBJECT

POLISH DEBT

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POLISH DEBT

Previous Reference: OD(81) 8th Meeting

The Committee had before them a minute of 30 April to the Prime Minister from the Chancellor of the Exchequer, proposing that the Committee should review their earlier decision to offer Poland £35 million of additional new credit during 1981; and a subsequent minute to the Prime Minister from the Foreign and Commonwealth Secretary, in which he argued against any reduction in this sum.

THE CHIEF SECRETARY, TREASURY, said that, when the Committee had agreed to allow £35 million of new credit to Poland, beyond what had previously been committed for 1981, they had done so in the expectation that the proportion of Polish debt on which relief would be granted would be limited to 80 per cent. In the event the Chancellor had decided, in order to maintain a common front with Poland's other Western creditors, to accede to Polish requests for 90 per cent relief of outstanding debt. For the United Kingdom the cost of this concession would be over £8 million. The level of new credit, which was a matter for decision by each creditor Government, would be discussed at an international meeting convened by the French on 1 June. Given that Poland's economic situation was so bad that no credit was commercially justifiable, and given the context of the Committee's earlier decision, it would not be justifiable in the new circumstances for the United Kingdom to provide more than £25 million of extra credit.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the £10 million at issue would not in itself be crucial to Poland's economic recovery. However, even at £35 million, the amount of new credit assistance which the United Kingdom was prepared to offer compared very unfavourably with the efforts of our major allies, who would expect us to play a full part in achieving common Western objectives in Poland. He doubted whether in practice it would be possible to resist pressures to go beyond £25 million.

THE PRIME MINISTER, summing up a brief discussion, said that on balance the allocation to Poland of the £10 million under discussion would not represent the best use of the United Kingdom's limited credit resources. The maximum

of new credit should therefore be set at £25 million for the rest of 1981, and every effort should be made to resist pressures to go beyond that figure. Detailed examination would be needed to determine the best division of the available credit between industrial goods and agricultural commodities. This should be carried out by the Ministers directly concerned.

The Committee -

1. Agreed that new credit to be offered to Poland for the remainder of 1981 should be limited to £25 million and invited the Chancellor of the Exchequer in consultation with the Foreign and Commonwealth Secretary to instruct the United Kingdom negotiators accordingly.
2. Invited the Chief Secretary, the Secretary of State for Industry and the Minister of Agriculture, in consultation with the Foreign and Commonwealth Secretary and the Secretary of State for Trade, to decide upon and report the best allocation of the available new credit as between industrial and agricultural exports.

Cabinet Office

21 May 1981



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

CABINET OFFICE	<i>cc Mr. Widdowson</i>
A 2558	<i>(Mr. Harlow)</i>
1 MAY 1981	<i>1. R. Widdowson</i>
FILING INSTRUCTIONS	<i>2</i>
FILE No. _____	

POLISH DEBT

The British delegation signed the Polish Debt Agreement on Monday on the lines approved by OD before Easter, but with one important modification.

2. OD agreed that we should accept an 80 per cent re-scheduling of Polish debt for the remainder of 1981. On 23 April the Polish Government made an approach to Western Ambassadors in Warsaw asking them to reconsider the 80 per cent figure - the Poles wanted 95 per cent.
3. We made preliminary enquiries in capitals. It appeared that the Americans and Germans were prepared to agree to 90 per cent but that everyone else, including the French Chairman, was holding out. You will remember that I had myself been prepared originally to go to 85 per cent.
4. During the meeting, however, the French position crumbled under pressure from the Americans and Germans, and the objections of some of the smaller countries were withdrawn. I was consulted and agreed to our going up to 90 per cent if the other creditors did so. The difference is about £8 million, which will add to the PSBR during the rest of 1981.

/I am sure it was



5. I am sure it was right to accept this further increase. A fairly generous debt settlement was essential since Poland had no chance of paying off her existing obligations. New credit is another matter. I very reluctantly agreed to £35 million of new credit for 1981 if and when it became necessary to offer this. The French have now called a meeting for 26 May to discuss this question. As previously agreed by OD, our delegation have indicated their willingness to attend, but I believe we should now give them fresh instructions and reduce the amount of new credit we are prepared to offer from £35 million to £25 million to take account of the additional benefit from the 90 per cent rescheduling. The Americans pressed for the increase to 90 per cent in the hope of thereby staving off pressure for new credit, which they are not themselves prepared to provide (though there is still about \$500 million of an earlier U.S. credit still undrawn and available).

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

A handwritten signature in dark ink, appearing to be 'G.H.'.

(G.H.)

30 April 1981