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UK / POLISH RELATIONS

INTERNAL SITUATION

ECONOMIC ASSISTANCE

POLANDPART 1 : AUGUST 1979PART 10 : FEBRUARY 1988

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PART 10 ends:-

CDP to FCO 31. 8. 89

PART 11 begins:-

FCO to CDP 1. 9. 89

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 August 1989

POLAND

I might pass on one or two points which Nicholas Bethell made to me on his return from Poland where he had seen Walesa, the new Prime Minister and others.

He said that the new Government felt that the historic importance of what had happened in Poland had not been sufficiently recognised in statements by Western Governments. I said that I found this rather surprising, but the Prime Minister would be making our position clear in her speech to the IPU on 6 September. Nicholas Bethell added that the new Government were also disappointed that the promised food supplies from the EC were not arriving more rapidly. They wanted to be able to point to a very early improvement of the food supply situation. I said that this was a matter of logistics. Are we in fact making sure that the EC is moving sufficiently rapidly to implement the decisions taken at the beginning of August?

Nicholas Bethell asked whether the Prime Minister could see Janusz Onyszkiewicz while he was here for the IPU Conference. I said that I would try and ensure that they had a talk at the Reception following the opening of the Conference but I was not sure a separate meeting would be possible. I would be very happy to see him myself.

Nicholas Bethell said that Walesa was not keen to visit the United Kingdom at the invitation of the TUC. Would it not be possible to find a way for the Government to invite him? Obviously his position was somewhat difficult to define in protocol terms. But there was no doubt that, with President Jaruzelski, he was the most important person in Poland. I said that we would give some thought to this. I should be grateful for advice.

*I should be very happy
to invite him*

CHARLES POWELL

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

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CHARLES POWELL

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

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MY TELNO 519 : NEW POLISH GOVERNMENT

SUMMARY

1. GEREMEK DESCRIBES SOLIDARITY OBJECTIVES FOR GOVERNMENTAL POSTS. REAFFIRMS URGENT NEED FOR FOOD AID, BUT RECOGNISES THAT MAJOR EFFORT IN ECONOMIC RESTRUCTURING MUST COME FROM POLES THEMSELVES.

DETAIL

2. WHEN I CALLED ON GEREMEK ON 31 AUGUST HE TOLD ME THAT IT WAS NOW EXPECTED THAT THE COMPOSITION OF THE MAZOWIECKI CABINET WOULD BE ANNOUNCED AT THE BEGINNING OF NEXT WEEK.

3. GEREMEK SAID THAT IN ADDITION TO THE DEFENCE AND INTERNAL AFFAIRS PORTFOLIOS THE PZPR WOULD RETAIN THE MINISTRY OF FOREIGN AFFAIRS. THIS NO DOUBT MEANS THAT OLECHOWSKI WILL REMAIN FOREIGN MINISTER: GEREMEK DESCRIBED HIM AS AN EXPERIENCED PROFESSIONAL, WHICH HE CERTAINLY IS. THE CITIZENS' COMMITTEE'S INTEREST IN FOREIGN AFFAIRS WOULD BE MET BY THE APPOINTMENT OF A SOLIDARITY MEMBER AS A DEPUTY FOREIGN MINISTER, AS WELL AS BY THE SELECTION OF ONYSZKIEWICZ AS CHAIRMAN OF THE SEJM FOREIGN AFFAIRS COMMITTEE.

4. GEREMEK ADDED THAT IT WAS IMPORTANT THAT THE PZPR SHOULD BE COMPELLED TO HAVE CO-RESPONSIBILITY FOR THE ECONOMY. HOWEVER, SOLIDARITY WERE DETERMINED THAT THE COMMUNISTS SHOULD NOT HAVE THE POST OF MINISTER OF FINANCE, WHICH, AS HE PUT IT, THEY INTENDED TO BUILD UP FROM A POSITION OF RELATIVELY MINOR IMPORTANCE IN THE GOVERNMENT TO ONE WITH RESPONSIBILITIES APPROXIMATING TO THOSE OF THE CHANCELLOR OF THE EXCHEQUER IN THE BRITISH SYSTEM. THE CURRENT PROBLEM WAS THAT THE PZPR WERE PRESSING THE CLAIMS OF BAKA FOR THE POST OF MINISTER OF FINANCE. THEY WOULD HAVE TO ACCEPT OTHER CABINET POSITIONS IN THE ECONOMIC DOMAIN INSTEAD.

5. I REMINDED GEREMEK THAT WE HAD NOTED WITH SATISFACTION THE

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PRIORITY WHICH MAZOWIECKI HAD ACCORDED TO REACHING AN AGREEMENT WITH THE IMF. HE CONFIRMED THIS BUT UNDERLINED ONCE AGAIN THE IMPORTANCE OF WESTERN FOOD AID OVER THE NEXT 6 - 9 MONTHS, I.E. UNTIL THE NEXT CROP SEASON AND POLISH AGRICULTURE HAD HAD TIME TO RESPOND TO THE MEASURES NOW ENVISAGED. I SAID THAT IT WOULD BE A MISTAKE FOR THE MAZOWIECKI GOVERNMENT OR SOLIDARITY TO BELIEVE THAT WESTERN SATISFACTION, WHICH WAS REAL, AT THE TURN OF EVENTS IN POLAND WOULD LEAD TO ANY CHANGE IN WESTERN POLICY ON ECONOMIC ASSISTANCE IN THE LONGER TERM. ANY CONCEIVABLE CHANGE FOR THE BETTER FROM THE POLISH POINT OF VIEW WOULD MAKE ONLY A VERY MARGINAL CONTRIBUTION TO THE SOLUTION OF THE PROBLEMS THAT HAD TO BE TACKLED HERE. THE FACT REMAINED, AND I HOPED THAT THE POLES WOULD BEAR IT FIRMLY IN MIND, THAT BY FAR THE GREATER PART OF WHAT NEEDED TO BE DONE LAY ENTIRELY IN THEIR HANDS. I MADE THE POINT IN THIS WAY BECAUSE OF SOME WORRYING SIGNS THAT EXPECTATIONS WERE BEGINNING TO EMERGE HERE THAT WESTERN COUNTRIES SHOULD GREET THE ARRIVAL OF A MAZOWIECKI CABINET BY SIGNIFICANT INCREASES IN ECONOMIC ASSISTANCE IN ITS VARIOUS FORMS.

6. GEREMEK AGREED AND REPEATED THE DISTINCTION HE HAD DRAWN BETWEEN THE URGENT NEED FOR FOOD AID OVER THE MONTHS AHEAD, WHERE THE WEST COULD HELP AND WHERE THE AID HAD GREAT POLITICAL AND PSYCHOLOGICAL IMPORTANCE, AND LONGER-TERM RESTRUCTURING WHERE HE ACCEPTED THAT THE POLES MUST PUT FORWARD AN EFFECTIVE POLICY.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 August 1989

POLAND

The Prime Minister has commented that, in the light of recent political developments in Poland, we need to take a fresh look at the level of Western assistance. Having promised Poland help in the event of political change, we must now stand by our commitments. We have of course undertaken a number of short-term measures: the food aid through the European Community and the bilateral help of which the Prime Minister informed President Jaruzelski during his visit to the United Kingdom. The key remains for Poland to reach agreement with the IMF. But even with that proviso, the Prime Minister feels that we need to be ready to provide more emergency aid, particularly in the agricultural field; and should be working out proposals for further assistance once an IMF agreement is in place. In her view, this is bound to involve writing off a substantial part of Poland's debt.

Be The Prime Minister wants us to be in the lead in taking forward international help for Poland. We must not underestimate the historic nature of the opportunity now offered in Poland to see a country emerge from the grip of Communism and the crucial importance of the experiment succeeding. She would like to address these issues in a message to President Bush. I should be grateful if you would let me have a draft, in consultation with the other departments concerned, as soon as possible.

I am copying this letter to John Gieve (HM Treasury), Neil Thornton (Department of Trade and Industry), Myles Wickstead (Overseas Development Administration) and Trevor Woolley (Cabinet Office).

(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

LONDON SW1A 2AA

24 August 1989

THE PRIME MINISTER

Dear Prime Minister,

Please accept my warm congratulations on your appointment as Prime Minister of the Polish People's Republic. I recall with much pleasure our meeting during my visit to Gdansk last November.

You face three challenges at a crucial moment in Poland's history: first, to form a government that truly reflects the will of the Polish people; second, to take Poland along the path of democracy; third to implement the difficult decisions necessary to restore Poland's economic health. I wish you every success in your task.

May I take this chance to reaffirm our readiness to help Poland achieve democracy and economic recovery.

Yours sincerely

Ronald Reagan

Mr. Tadeusz Mazowiecki

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MDHOAN 2245

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FM FCO
TO IMMEDIATE WARSAW
TELNO 352
OF 241210Z AUGUST 89

NEW PRIME MINISTER

1. PLEASE PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO MR MAZOWIECKI.

QUOTE, PLEASE ACCEPT MY WARM CONGRATULATIONS ON YOUR APPOINTMENT AS PRIME MINISTER OF THE POLISH PEOPLE'S REPUBLIC. I RECALL WITH MUCH PLEASURE OUR MEETING DURING MY VISIT TO GDANSK LAST NOVEMBER.

I WISH YOU EVERY SUCCESS. FIRST, IN FORMING A GOVERNMENT THAT FIRMLY REFLECTS THE WILL OF THE POLISH PEOPLE. SECOND, IN YOUR HISTORIC TASK OF TAKING POLAND ALONG THE PATH OF DEMOCRACY. THIRD, IN IMPLEMENTING THE DIFFICULT DECISIONS NECESSARY TO RESTORE POLAND'S ECONOMIC HEALTH.

MAY I TAKE THIS CHANCE TO REAFFIRM OUR READINESS TO HELP POLAND ACHIEVE DEMOCRACY AND ECONOMIC RECOVERY. UNQUOTE.

2. SIGNED ORIGINAL FOLLOWS BY BAG.

MAJOR

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10 DOWNING STREET
LONDON SW1A 2AA

24 August 1989

From the Private Secretary

MESSAGE TO NEW POLISH PREMIER

Thank you for the draft which you provided. As discussed, the Prime Minister has agreed a very slightly amended version. This I attach and I would be grateful if it could be dispatched promptly as soon as he has been confirmed as Premier.

(DOMINIC MORRIS)

R. N. Peirce, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET

Prime Minister

Agree to sign the
attached message to Mr
Mazowiecki? It will be dispatched
tomorrow as soon as we hear
he has been confirmed as
Poland's new premier.

It is warmer in tone than
the message you sent to
Genl Kiszczak (Ref A)

23/8.

OK to go?



the department for Enterprise

The Rt. Hon. Lord Trefgarne
Minister for Trade

Charles Powell Esq
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Trade and Industry

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Date

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23 August 1989

Prime Minister
The economic political
bits are now rather outdated
but Alan Clark's observations on
Poland's economy are still valid.

Dear Charles

As usual - Alan's
reports are excellent.

By
3/8.

MINISTER FOR TRADE'S VISIT TO POLAND, 17-21 JULY 1989

Mr Alan Clark, in his capacity as Minister for Trade, visited Poland from 17-21 July to identify investment opportunities there.

The attached report was prepared shortly after the visit. I understand that following his posting to MOD, Mr Clark preferred to make his own arrangements to report to the Prime Minister, but that he was content for you to be sent the report as attached.

I apologise for the delay in sending the report, but I think it is still valid despite the upheavals in Poland. The visit was in fact a very successful one.

I am copying this letter and report to Richard Gozney at FCO.

Yours sincerely,
Glyn Williams

G WILLIAMS
PRIVATE SECRETARY



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the department for Enterprise

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PRIME MINISTER

Investment Opportunities in Poland

I spent last week in Poland in fulfilment of the undertaking you gave to General Jaruzelski on 10 June. Although investment opportunities are still constrained, it proved a most instructive visit that was all the more rewarding for unmistakable signs that the disintegration of the Communist system is gathering pace. It also showed beyond doubt that there is an important role for the "Know-how" fund that you promised General Jaruzelski.

I was accompanied by a delegation of businessmen who were encouraged by the prospects for investment and collaboration with Polish firms. I had discussions with Ministers from the Ministries of Foreign Economic Relations, Environmental Protection, Industry, Agriculture, and Finance. I also met the Presidents of the Export Development Bank and Foreign Investment Agency, representatives of Solidarity and made two factory visits.

My visit coincided with the election by the Parliament of General Jaruzelski as President. Those members of the Government whom I met were all seized of the need to agree an IMF programme and to press ahead with economic reforms. The most delicate of these will be the deregulation of food prices, the first stage of which may take place next month. The Government will need to be resolute to carry through its programme of reforms but I was particularly impressed by the Poles' evident realisation that they must generate the basis for their own future prosperity by reform from within, rather than through reliance on outside aid. That said, a measure of EC food-aid and a bridging loan from the Bank of International Settlements once an IMF programme is in place, could be crucial in helping the Government through the difficult initial phase of the reforms.

The Constraints on Investment

The constraints on investing in Poland - and indeed on buying and selling there - will be largely familiar to you: the zloty is soft and getting softer, with inflation accelerating towards 100% or more this year; convertible currency is scarce, all the more so since private holders have every motive to hoard it; the law of property is ambiguous and the prospect of its enforcement uncertain. Political control and subsidies have made prices unreal and misleading. Wages bear little if any relation to company earnings and the trade unions are pressing for indexation. Industrial management is largely crushed by bureaucratic interference and trade union restrictions, with entrepreneurial enterprise marginalised into such activities as the growing of flowers. What came as a surprise to me was the absence of financial expertise: accountancy and banking are in their infancy; despite the open talk in more than one Ministry of introducing a stock exchange this year or next, there is as yet no recognised provision for buying and selling industrial assets.

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Few Poles understand how money can be made to lubricate the mechanisms of a modern economy.

Despite all this, the very low wage levels prevalent, and the Government's apparent intention to move towards a more market-orientated economy, give rise to considerable potential opportunities for investment. German companies are already starting to take advantage of the more favourable climate for inward investment created by the recent legislation on joint ventures. This provides for more favourable treatment for joint ventures than Polish companies in matters of taxation and conversion of foreign currency earnings. I was also impressed by the enterprising attitudes of some Polish businessmen, notably the President of the Export Development Bank. I shall ask officials from ECGD to establish contact with him in due course.

Conclusions

Bearing in mind the limitations of a single visit, albeit supported by many meetings with Polish trade ministers and officials over the last three years, I offer the following conclusions:

- (i) Nothing we can do for the Poles at a reasonable cost can help them more than management training, particularly on financial services including book-keeping and elementary accountancy as well as banking techniques and business strategy.
- (ii) With regard to decisions on how to spend the "Know-how" fund, I endorse the Poles' preference for short, practical, low-level courses supported by an adequate supply of good basic text-books translated into Polish.
- (iii) Consideration should be given to using existing institutions in Poland, including the Furnell Management School in which ICL has a share, though, as one Pole pointed out to the evident surprise of his colleagues, care should be taken to see that access to the training given is not cornered by the Nomenklatura or those otherwise enjoying the approval of the Communist Party.
- (iv) The FCO should also know of a strong recommendation from the President of the Foreign Investment Agency in Warsaw (Mr Skakuj) to the effect that they too should establish a small agency in Warsaw to co-ordinate British use of the Fund. My own instinct however would be to spend the Fund's money through British companies working under contract to the Fund's administration in London.
- (v) Our policy of dialogue with Eastern Europe (set out in Geoffrey Howe's letter to you of 5 September 1985) has worked and is still working well. Dialogue could be even more valuable in future at Ministerial, official and business levels and should be maintained and reinforced, particularly with a view to encouraging the development of legal and administrative provisions for a market economy



the department for Enterprise

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to help supplement the recourse that is now being made to the Polish Commercial Code of 1934.

- (vi) Although the present Polish encouragement of joint ventures with Western companies still suffers from the authorities' wish to retain control of such endeavours, there are potentially profitable opportunities, particularly for large companies able to negotiate their own terms.
- (vii) Because of the constraints mentioned above, Poland is, like the rest of Eastern Europe, very much a market in which DTI and our Embassy's commercial staff can make a significant contribution to business. All of the businessmen in my party came from leading companies in sectors nominated by the Poles at the Joint Commission in May and all were grateful for the official support they received from both sides.
- (ix) Once it becomes firmly established that direct foreign investment in Polish equity is not only acceptable but welcome, there should be valuable opportunities in the sectors for which the Poles are now seeking joint ventures, namely the manufacture, processing, packaging and storage of food and drink; textile machinery; hotels and electronics. Should it become possible and practical for UK companies to invest in the construction of houses, as I think it may if we work at it, the Polish market could become very valuable indeed.
- (x) Meanwhile we should also press our interests in other sectors like the modernization of steel mills and the control of pollution, where the need is obvious but the prospect of payment obscure pending the restoration of medium-term cover from ECGD, which may perhaps become possible for specific projects once an IMF programme is firmly in place.

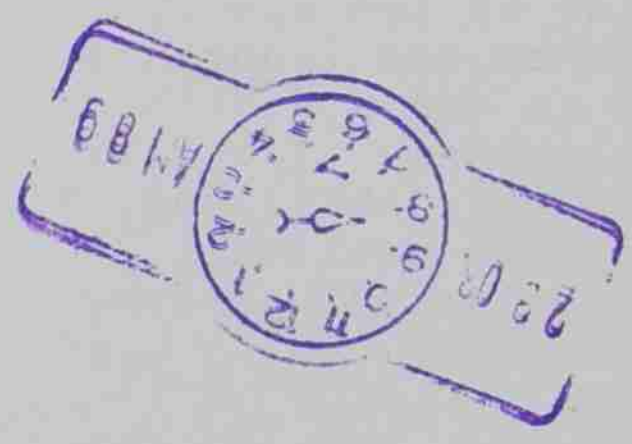
I should express my admiration for the way that some leading Poles were prepared to criticise the Communist system openly in formal discussion with me, exposing for instance the ignorance and irresponsibility of the Party's approach to money and the proper use of resources among many other weaknesses. I should also like to say how grateful I was to the Charge d'Affaires, Mr Gordon Wetherell, and his staff, who produced an excellent programme of meetings at a time when their Ambassador was away and their Embassy was under extensive repair.

ALAN CLARK

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POLAND : APPOINTMENT OF PRIME MINISTER

SUMMARY

1. TELEGRAM DESCRIBES EVENTS LEADING TO NOMINATION OF MAZOWIECKI. FOLLOWING SOLIDARITY'S OVERWHELMING ELECTION VICTORY, AND JARUZELSKI'S NARROW ELECTION TO THE PRESIDENCY, APPOINTMENT OF FURTHER MEMBER OF THE OLD GUARD AS PRIME MINISTER UNACCEPTABLE. DETERIORATING ECONOMIC SITUATION INCREASES PRESSURE ON SOLIDARITY TO TAKE THE INITIATIVE. NEW PARLIAMENTARY ROLE OF THE ZSL AND SD CREATE AN OPENING SKILFULLY EXPLOITED BY WALESAPARTY AND RUSSIANS SUFFICIENTLY REASSURED TO ENABLE JARUZELSKI' TO CALL ON MAZOWIECKI

DETAIL

2. ON 23 OR 24 AUGUST THE SEJM WILL ALMOST CERTAINLY CONFIRM THE NOMINATION OF THE FIRST NON-COMMUNIST PRIME MINISTER IN EASTERN EUROPE FOR OVER 40 YEARS. THE SHORT GAP BETWEEN PRESIDENT JARUZELSKI'S NOMINATION OF TADEUSZ MAZOWIECKI ON 19 AUGUST AND HIS CONFIRMATION IS ALREADY TURNING OUT TO BE A PERIOD OF TOUGH BARGAINING BETWEEN THE PZPR AND SOLIDARITY OVER THE SIZE AND NATURE OF THE FORMER'S SHARE IN THE NEW ADMINISTRATION. WALESAPARTY YESTERDAY REACTED TO PZPR CLAIMS TO RETAIN SUCH PORTFOLIOS AS FOREIGN AFFAIRS AND FINANCE (IN ADDITION TO THE ALREADY PROMISED MINISTRIES OF DEFENCE AND INTERNAL AFFAIRS) BY WARNING AGAINST ATTEMPTED BLACKMAIL BY THE PARTY.

3. THE ROUND TABLE AGREEMENTS OF APRIL WERE UNIQUE IN THE POST WAR HISTORY OF EASTERN EUROPE FOR BOTH THE QUALITY AND VOLUME OF CHANGE THEY PROMISED TO BRING IN THE POLITICAL, SOCIAL AND ECONOMIC ARRANGEMENTS OF THE COUNTRY. THE BLUE PRINT THEY OFFERED WAS INTENDED TO TAKE POLAND NOT ONLY THROUGH THE (PARTIALLY FIXED) ELECTION IN 1989, BUT UP TO THE NEXT ELECTIONS IN 1993 WHICH THE OPPOSITION, AT LEAST,

PAGE 1
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WERE DETERMINED SHOULD BE ENTIRELY FREE.

4. THE OVERWHELMING SUCCESS OF SOLDIARITY CITIZEN'S COMMITTEE CANDIDATES IN THE JUNE ELECTIONS (260 OUT OF 261 SEATS CONTESTED IN THE SEJM AND SENATE) PROVIDED THE FIRST CLEAR INDICATION THAT THE ROUDNDTABLE M MIGHT HAVE UNLEASHED FORCES WHICH ITS MAJOR PARTICIPANTS COULD NOT CONTROL. HOWEVER EARLY STATE COALITION PARTNERS, THE ZSL (PEASANTS) AND SD (DEMOCRATS), MANY OF WHOSE MPS HAD BEEN ELECTED BECAUSE OF SOLIDARITY'S SUPPORT. A HANDFUL OF PZPR MPS ALSO OWED THEIR ELECTION TO SOLIDARITY. THE OVERALL RESULT WAS A PARLIAMENT WHICH COULD NOT BE CONTROLLED IN THE TRADITIONAL FASHION BY EXTRA-PARLIAMENTARY CENTRAL COMMITTEES. IN THE EVENT, IT TOOK THE DELIBERATE SPOILING OF SEVEN SOLIDARITY/CITIZENS COMMITTEE BALLOTS AT THE LAST MINUTE TO SECURE JARUZELSKI'S VICTORY ON 19 JULY.

6. THROUGHOUT THIS TIME, THE 'AUTHORITATIVE' VIEW AMONG SENIOR SOLIDARITY AND CITIZEN COMMITTEE LEADERS WAS THAT THEIR MPS HAD BEEN ELECTED (IN ACCORDANCE WITH THE ROUND TABLE AGREEMENT) TO FORM AN OPPOSITION. THEY WOULD NOT ACCEPT PROPOSALS TO JOIN A 'GRAND COALITION' GOVERNMENT FOR FEAR OF LOSING THEIR IDENTITY AND POLICIES IN AN ADMINISTRATION MACHINE STILL DOMINATED BY THE PARTY NOMENKLATURA. WHILE OPPOSITION LEADERS INSISTED THAT THEY WOULD BE PREPARED TO FORM THE GOVERNMENT THEMSELVES, THEY ALSO SAID THAT THEY WERE NOT READY FOR THE TASK. IN THIS MOOD MICHNIK'S PROPOSAL AT THE BEGINNING OF JULY THAT THE PZPR SHOULD HAVE THE PRESIDENCY AND SOLIDARITY THE PRIME MINISTERSHIP WAS REJECTED BY, AMONG OTHERS, THE CITIZENS COMMITTEE FLOOR LEADER GEREMEK.

7. THE SECOND EXPOSURE OF THE ROUND TABLE AGREEMENTS TO THE CHANGING POLITICAL FORCES CAME IN THE MATTER OF WHO SHOULD BE THE NEW PRIME MINISTER. THE RELATIVELY COMFORTABLE MAJORITY (237:173:10) BY WHICH KISZCZAK'S NOMINATION WAS APPROVED BY THE SEJM ON 2 AUGUST SOON PROVED DECEPTIVE. THE SUPPORT HE HAD OBTAINED FROM ZSL AND SD MPS WAS NOT IN THE EVENT AVAILABLE TO THE EXTENT NECESSARY FOR HIM TO FORM A NEW GOVERNMENT OF THE OLD COALITION. ON THE SIDE OF THE OPPOSITION SOLIDARITY RESISTANCE TO A PZPR-LED 'GRAND COALITION' GOVERNMENT WAS REINFORCED BY DISENCHANTMENT AMONG THE MOVEMENT'S SUPPORTERS (MANY OF WHOM FOUND IT DIFFICULT TO SWALLOW THEIR REPRESENTATIVES CONNIVANCE AT JARUZELSKI'S ELECTION) AT THE THOUGHT THAT THE LEADING EXECUTIVE JOBS IN THE LAND SHOULD REMAIN IN THE HANDS OF PARTY STALWARTS CLOSELY IDENTIFIED WITH MARTIAL LAW (JARUZELSKI AND KISZCZAK, PLUS RAKOWSKI WHO HAD

REPLACED JARUZELSKI AS PZPR FIRST SECRETARY AT THE END OF JULY). THERE WAS ALSO A GROWING INSISTANCE BY SOLIDARITY SUPPORTERS THAT THEIR MPS HAD NOT BEEN ELECTED TO STAY ON THE SIDELINES AND WATCH THE OLD REGIME CONTINUE. STRIKES PROMPTED BY THE GOVERNMENT'S LOSS OF CONTROL OVER THE ECONOMY IN THE LAST WEEKS OF THE RAKOWSKI ADMINISTRATION, THE COLLAPSE OF THE FOOD MARKET IN JULY AND THE HUGE PRICE RISES IN AUGUST SPILLED OVER INTO DEMANDS FOR A SOLIDARITY-LED GOVERNMENT.

8. NOT FOR THE FIRST TIME WALESA PROVED TO BE AHEAD OF THE GAME WHEN HE LAUNCHED HIS PROPOSAL FOR A SOLIDARITY/ZSL/SD COALITION ON 7 AUGUST. THE PROPOSAL IRRITATED OPPOSITION MPS AND WAS GENERALLY BELIEVED TO BE A NONSTARTED AT THE TIME. AFTER ALL, KISZCZAK WAS CONDUCTING ORDERLY CONSULTATIONS ON THE FORMATION OF HIS GOVERNMENT AND ENJOYED THE SUPPORT OF THE ZSL AND SD LEADERSHIP. MEMBERS OF THE OLD COALITION VOICED SUPPORT FOR THE CONCEPT OF A GRAND COALITION, BUT IT WAS ASSUMED THAT, IN THE FACE OF SOLIDARITY INTRANSIGENCE, THERE WOULD BE NO ALTERNATIVE TO A CONTINUATION OF THE OLD COALITION, ALBEIT WITH A NUMBER OF NEW FACES INCLUDING PERHAPS ONE OR TWO MEMBERS OF SOLIDARITY SERVING IN AN INDIVIDUAL CAPACITY.

9. BUT WALESA'S OFFER SOON EXPOSED HOW TENOUS ZSL AND SD SUPPORT FOR KISZCZAK WAS. WHILE THE PZPR WAS ACCUSING THE OPPOSITION OF TRYING TO SEIZE POWER AND DIREGARDING PARLIAMENTARY PROCEDURES, AND THE ZSL AND SD PRESIDIA WERE CLINGINI TO THE CONCEPT OF A KISZCZAK ADMINISTRATION THE LATTER'S PARLIAMENTARY FLOOR GROUPS WERE BY 9/10 AUGUST RESPONDING WARMLY TO WALESA'S OVERTURE.

10. BY 14 AUGUST, ONLY ONE WEEK AFTER WALESA'S OFFER AND LESS THAN TWO AFTER THE SEJM'S CONFIRMATION OF HIS APPOINTMENT, KISZCZAK OFFERED TO STAND DOWN IN FAVOUR OF MALINOWSKI, THE ZSL LEADER. WHILE THERE WAS LITTLE PROSPECT THAT MALINOWSKI, WITH HIS LONG HISTORY OF ASSOCIATION WITH JAUZELSKI, WOULD BE A CREDITABLE CANDIDATE TO THE OPPOSITION (OR TO HIS OWN FLOOR GROUP FOR THAT MATTER) THIS LAST ATTEMPT TO SALVAGE THE OLD COALITION WAS IN RETROSPECT LESS A TACTICAL MANOUVRE THAN A REFLECTION OF KISZCZAK'S RECOGNITION THAT HE HAD COME TO THE END OF THE ROAD.

11. THE EARLY PART OF LAST WEEK (AT THE TIME OF KISZCZAK'S OFFER TO WITHDRAW) WAS PROBABLY THE CLOSEST DEVELOPMENTS HAD COME TO SPARKING OFF A FULL BLOWN CRISIS. LOSS OF POWER WAS STARING THE PZPR IN THE FACE. IT WAS AT THIS TIME THAT THE POLISH CARGE'S DEMARCHE OF 16 AUGUST TO SIR J FRETWELL (YOUR TELNO 339) WITH

ITS WARNING OF THE CONSEQUENCES OF WALESA'S OFFER AND OF AN OPPOSITION SEIZURE OF POWER FOR THE PROCESS OF REFORM IN POLAND AND BEYOND WAS BEING DRAFTED. BUT SUCH HAS BEEN THE PACE OF EVENTS THAT EVEN AS THE DEMARCHE WAS BEING MADE, THE FEARS GIVING RISE TO IT WERE BLOWING OVER. ALSO ON 16 AUGUST, THE ZSL AND SD ACCEPTED WALESA'S PROPOSAL. THE PZPR, WHICH CONTINUED (WITH SOME JUSTICE) TO ACCUSE THE OPPOSITION OF TRYING TO COMPRESS INTO A FEW WEEKS CHANGES INTENDED FOR IMPLEMENTATION OVER FOUR YEARS WAS IN LARGE MEASURE PACIFIED WHEN, ON 17 AUGUST, WALESA, MALINOWSKI AND JOZWIAK (THE SD LEADER) PRESENTED JARUZELSKI WITH A PROPOSAL FOR A 'COALITION GOVERNMENT OF NATIONAL RESPONSIBILITY' WHICH WOULD BE OPEN TO ALL PRO-REFORM FORCES (INCLUDING THE PZPR). FOR GOOD MEASURE THEY PRESENTED THIS AS BEING IN ACCORDANCE WITH THE ROUND TABLE AGREEMENTS.

12. WALESA'S STATEMENT OF 16 AUGUST THAT JARUZELSKI'S NOMINATIONS (NO DOUBT FROM THE PZPR) FOR THE POSTS OF INTERIOR AND DEFENCE MINISTERS WOULD BE ACCEPTED, AND SOLIDARITY'S CONFIRMATION THAT A GOVERNMENT LED BY THEM WOULD HAVE NO NEGATIVE IMPACT ON POLAND'S ROLE IN THE WARSAW PACT AND HER RELATIONS WITH THE SOVIET UNION, HAD ALREADY PROVIDED AN ELEMENT OF REASSURANCE TO THE PZPR AND, JUST AS IMPORTANT, TO THE SOVIET UNION. WHEREAS ON 11 AUGUST, THE SOVIET FOREIGN MINISTRY HAD WARNED AGAINST USING THE FORMATION OF NEW POLISH GOVERNMENT TO DESTABILISE THE COUNTRY AND STRIKE AT POLAND'S OBLIGATIONS TO HER ALLIES, ON 16 AUGUST IT WAS SAYING THAT THE SOVIET UNION HAD NO INTENTION OF INTERFERING IN POLAND'S AFFAIRS AND DESCRIBING WALESA'S REMARK THAT POLAND'S MEMBERSHIP TO THE WARSAW PACT SHOULD NOT BE FORGOTTEN AS 'WISE'.

13. A DAZZLING SERIES OF CONSULTATIONS INVOLVING JARUZELSKI, WALESA, RAKOWSKI, MALINOWSKI, JOZWIAK, THE LEADERS OF THE VARIOUS PARLIAMENTARY FLOOR GROUPS AND, NOT LEAST, THE PRIMATE AND THE SOVIET AMBASSADOR FINALLY LED ON 19 AUGUST TO JARUZELSKI'S NOMINATION OF MAZOWIECKI. THE FINAL REASSURANCE THAT JARUZELSKI NEEDED WAS PROVIDED BY THE PZPR CENTRAL COMMITTEE'S DECISION AT ITS 14TH PLENUM THE SAME DAY THAT THE PARTY WOULD BE PREPARED TO TAKE PART IN THE NEW GOVERNMENT PROVIDED THAT ITS REPRESENTATION REFLECTED ITS 'POLITICAL AND STATE POTENTIAL'. THE CURRENT DISCUSSIONS BETWEEN SOLIDARITY AND THE PZPR ARE ESSENTIALLY ABOUT WHAT THIS MEANS.

14. THE GATHERING WIND OF CHANGE HAS PROVEN TOO STRONG IN RECENT WEEKS FOR A PARTY BEREFT OF IDEAS FOR SOLVING POLAND'S PROBLEMS AND OF CREDIBILITY. THE SAME WIND HAS CARRIED SOLIDARITY TO THE

FORMATION OF THE GOVERNMENT. THOUGH WALESA IS STANDING ASIDE TO LET MAZOWIECKI HEAD THE GOVERNMENT, IT IS STILL BY HIM THAT THE ESSENTIAL DEAL WITH THE PZPR HAS TO BE STRUCK. THE AUTHORITY WHICH HE WIELDS IN THE COUNTRY HAS PROBABLY NEVER STOOD HIGHER AND THE PZPR CANNOT EXPECT TO IMPOSE UNREALISTIC CONDITIONS ON HIM. AT THE SAME TIME, AS INDICATED IN MY TELNO 511, ALTHOUGH THE OPPOSITION HAS THE TIDE OF POPULAR SENTIMENT FLOWING FOR IT, THE PARTY STILL RETAINS CONTROL OVER IMPORTANT LEVERS OF STATE POWER. THE BALANCE WHICH IS STRUCK IN THE NEXT FEW DAYS BETWEEN SOLIDARITY AND THE PZPR (AS WELL AS THE ZSL AND SD WHO CONTROL THE PARLIAMENTARY BALANCE OF POWER) WILL DECIDE WHETHER POLAND HAS A GOVERNMENT WHICH, ON THE ONE HAND, ENJOYS THE POPULAR SUPPORT WHICH ALONE CAN CREATE THE CONDITIONS FOR THE IMPLEMENTATION OF TOUGH ECONOMIC MEASURES, AND ON THE OTHER, IS SAFE FROM ATTEMPTS AT DESTABILISATION FROM TRADITIONAL POLITICAL FORCES.

15. TRUE TO THE POLISH TRADITION SINCE THE ROUND TABLE, MAZOWIECKI IS FINDING THAT TACKLING THE COUNTRY'S ECONOMIC PROBLEMS MUST TAKE SECOND PLACE, AT LEAST IN THE SHORT RUN, TO POLITICAL CONSIDERATIONS. THE PRICE FOR THIS IS THAT THE ECONOMIC PROBLEMS, AND THE SOCIAL COST OF RESOLVING THEM, CONTINUE TO RISE. IT IS ENCOURAGING THAT MAZOWIECKI HAS PUT AN AGREEMENT WITH THE IMF AT THE TOP OF HIS AGENDA. HSI EARLY STATEMENTS INDICATE A READINESS TO GET TO GRIPS WITH THE PROBLEMS. HE WILL HAVE TO MAKE HUGE CALLS ON THE PATIENCE AND HARD WORK OF HIS COUNTRYMEN AND ON THE SKILL AND DETERMINATION OF COLLEAGUES, MANY OF THEM WITH NO PREVIOUS EXECUTIVE RESPONSIBILITY. THE WEST HAS A CLEAR INTEREST IN THE SUCCESS OF AN ENTERPRISE WHICH COULD HAVE A DECISIVE INFLUENCE ON DEVELOPMENTS ELSEWHERE IN EASTERN EUROPE. IT WOULD BE WRONG TO ABANDON THE STRICT CONDITIONS ON DEBT AND CREDITS SIMPLY BECAUSE THERE IS A SOLIDARITY GOVERNMENT. BUT I HOPE THAT, WITHIN THE FRAMEWORK ESTABLISHED AT THE G7 SUMMIT, THE UK AND ITS WESTERN ALLIES WILL DEMONSTRATE THEIR SUPPORT FOR MAZOWIECKI'S GOVERNMENT IN PRACTICAL TERMS.

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PAGE 6
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Foreign and Commonwealth Office

London SW1A 2AH

22 August 1989

*Dom Morris*New Polish Prime Minister

/ As you will have seen, General Jaruzelski has asked Tadeusz Mazowiecki of Solidarity to be Prime Minister. Mrs Thatcher met him in Gdansk last November. I enclose a personality note.

/ We recommend that the Prime Minister send a message of congratulation, for delivery after the appointment has been confirmed in Parliament on 23 or 24 August. I
/ enclose a draft. It is warmer in tone than the message the Prime Minister sent to General Kiszczak on 4 August (copy also attached).

*Yours ever**R N Peirce*

(R N Peirce)
Private Secretary

Dominic Morris Esq
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Prime Minister

DEPARTMENT:

TEL. NO:

Reference

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

TO:

Copies to:

Mr Tadeusz Mazowiecki

PRIVACY MARKING

..... In Confidence

CAVEAT

SUBJECT:

Please accept my warm congratulations on your appointment as Prime Minister of the Polish People's Republic. I recall with much pleasure our meeting during my visit to Gdansk last November.

You face three ~~big~~ challenges at a crucial moment in Poland's history
~~I wish you every success:~~ First, ^{to} ~~in~~ forming a government that truly reflects the will of the Polish people; Second, ~~in your historic task of taking~~ Poland along the path of democracy; Third, ~~to~~ ^{to} implementing the difficult decisions necessary to restore Poland's economic health. *The chance I wish you every success in your task.*

May I take this chance to reaffirm our readiness to help Poland achieve democracy and economic recovery.

S/2awr

Enclosures flag(s)

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MAZOWIECKI, TADEUSZ

Journalist and Catholic activist.

Born 1927. 1953-58 editor-in-chief of the Catholic weekly in Wroclaw. 1958-80 editor-in-chief of "Wiez". After the election of the Polish Pope in 1978 he was denied a passport to attend the ceremony in Rome. Head of the team of experts of Solidarity from 1980 and editor-in-chief of the weekly "Solidarnosc" from January 1981.

Interned after the introduction of martial law but released in July 1982. Refused a passport to accompany Mrs Walesa to collect her husband's Nobel Prize in December 1983. Met Mr Rifkind in November 1984 and Sir Geoffrey Howe in April 1985. One of the main advisers to the Solidarity National Leadership. Played a major role in the Round Table talks, Spring 1989. Editor-in-chief of the Solidarity weekly from April 1989.

He speaks a little French and some German.

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10 DOWNING STREET
LONDON SW1A 2AA

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THE PRIME MINISTER

4 August 1989

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PS/Mr. Waldegrave

Mr. Rafter

EEED

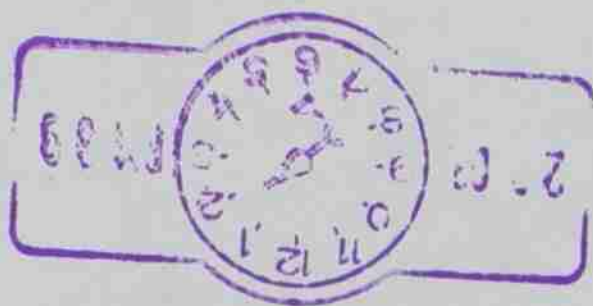
U 4/8

Please accept my congratulations on the occasion of your election as Prime Minister of the Polish People's Republic.

I wish you success in implementing the difficult decisions necessary to restore Poland's economic health. May I take this chance to reaffirm our readiness to play a constructive role in support of democracy and a market economy in Poland.

(sgd) MT

General Czeslaw Kiszczak





PRIME MINISTER

D/A

Message passed by
James to Lord Bethell

By - 22/8.

Lord Bethell telephoned yesterday afternoon. He is visiting Poland on Friday for a week and expects to see Lech Walesa and Tadeusz Mazowiecki. He asked if we had any messages for which we wanted to use him as postman. I would propose to telephone Lord Bethell today, to say that we are grateful for his offer and that, while there are no specific messages to come from us, we would be very grateful to hear back from him any news or impressions that he has on the fast moving situation in Poland when he returns late next week.

Agree?

Yes and congratulations to Solidarity
on their enormous achievements - the eyes
of the world are on them. So much depends on
their success.

[Handwritten signature]

[Handwritten initials]

DOMINIC MORRIS

22 August 1989



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 August 1989

UK REPRESENTATION AT THE COMMEMORATION OF THE 50th ANNIVERSARY
OF THE OUTBREAK OF WORLD WAR II

Thank you for your letter of 9 August in which you enclose a draft for the Prime Minister to send to General Kiszczak. The Prime Minister has approved an amended version which may now issue. I should be grateful if this could be advanced by telegram to Warsaw and the original sent by diplomatic bag.

I am copying this letter to Brian Hawtin (Ministry of Defence).

Paul Gray

Richard Gozney Esq
Foreign and Commonwealth Office



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

10 August 1989

Dear Prime Minister,

I am responding to the invitation from your predecessor, Mr Rakowski, inviting us to send a delegation to Poland for the ceremonies commemorating the 50th anniversary of the outbreak of World War II. I entirely share your view of the historical importance of this occasion and I would therefore particularly wish Mr Archibald Hamilton, Minister of State for the Armed Forces, to be there as my representative.

I am glad that the United Kingdom will also be represented by a group from the three armed services. I know that many private groups and individuals will also be travelling to Poland to be with you on this historic occasion.

Yours sincerely

Raymond Hamilton

His Excellency General Czeslaw Kiszczak

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Foreign and Commonwealth Office

London SW1A 2AH

9 August 1989

Jean Canine,

UK Representation at the Commemorations of the
50th Anniversary of the Outbreak of World War II

/ Mr Rakowski has recently sent the enclosed message to the Prime Minister inviting her to send an official delegation to represent the Government at the commemorations at the end of this month. As you know we had been planning to mark the anniversary with an historical seminar, an exchange of ships' visits, and by sending a military wreath-laying party to Poland (Lyn Parker's letter of 16 December 1988 and Charles Powell's reply of 17 December).

Although the ship visits have now taken place and the plans for the seminar are proceeding, we have not been able to make practical arrangements for military representation because of the failure of the Poles to give us a clear idea of their plans. Mr Rakowski's letter now allows us to move a stage further. It is clear that the Poles would be disappointed if we failed to send a senior figure in addition to our wreath-laying party. The Russians, French and Americans have also been invited. The Germans have not, but have not sought to dissuade us from going. The French seem inclined to send a junior Minister responsible for Veterans' affairs but have not yet taken a firm decision. However it would be surprising if they were not represented at a senior level. The Americans do not wish to be represented officially (although they are not opposed to unofficial representation). They have doubts about official UK and French involvement since they fear that this might upset the Germans. We believe that these fears are exaggerated. HMA Bonn has recommended that we decide the level of representation on the basis of our own desiderata, and then inform the Germans.

/ In view of the warm state of our relations with Poland and the Prime Minister's links with Jaruzelski, it would go amiss in Poland if we were not represented at a sufficiently senior level. We therefore recommend that the Government should be represented by the Minister of State for the Armed Forces. We understand that he is able to go. I enclose a draft reply to the Polish Prime Minister (now General Kiszczak) for your consideration.

/There

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There will be substantial unofficial British participation in the various events included in the commemoration. In particular Robert Maxwell is arranging to send a group of veterans under the leadership of Field Marshall Brammall, as well as a military band.

I am copying this letter to Mr Hamilton's Private Secretary, Margaret Aldred,

Yours sincerely,
Richard Gozney

(R H T Gozney)
Private Secretary

Miss Caroline Slocock
10 Downing Street

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DSR 1 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:
The Prime Minister
DEPARTMENT:

TEL. NO:

Reference
P17AAX

BUILDING:

ROOM NO:

Your Reference

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

TO:
HE General Czeslaw Kiszczak
Prime Minister of Poland

Copies to:

PRIVACY MARKING

..... In Confidence

CAVEAT

SUBJECT:

*I am responding to the invitation from
He was good of your predecessor,
Mr Rakowski, to invite us*

Thank you for inviting us to

I have the pleasure to reply to Mr Rakowski's
for us - inviting us
message inviting me to send an official delegation to
Poland for the ceremonies commemorating the 50th
anniversary of the outbreak of World War 2. I *agree*
entirely share *this your* predecessor's view of the
historical importance of this occasion and I *would* have
particularly with Archibald
therefore *decided* to send Mr A Hamilton, Minister of
State for the Armed Forces, *to be there* as my representative.

I am *very* glad that the United Kingdom will also be
represented by a group from the three armed services.
I know that
Many private groups and individuals will also be
travelling to Poland to be with you on this historic
occasion.

Enclosures flag(s)

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MDHIAN 3167

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FM WARSAW
TO IMMEDIATE FCO
TELNO 418
OF131550Z JULY 89
AND TO IMMEDIATE MODUK (SEC NATO UK/P)
INFO IMMEDIATE WASHINGTON, PARIS
INFO ROUTINE MOSCOW, BONN, EAST BERLIN

MIPT : COMMEMORATION OF 50TH ANNIVERSARY OF THE OUTBREAK OF
WORLD WAR II

1. FOLLOWING IS THE TEXT OF RAKOWSKI'S LETTER TO THE PRIME
MINISTER:
BEGINS

DEAR PRIME MINISTER,

SEPTEMBER 1, 1989 WILL MARK THE 50TH ANNIVERSARY OF THE OUTBREAK OF
THE SECOND WORLD WAR. POLAND BECAME THE FIRST VICTIM OF THE NAZI
AGGRESSION, AND WAS ALSO THE FIRST TO TAKE UP ARMS AGAINST THIS
AGGRESSION. POLISH SOLDIERS FOUGHT FROM THE FIRST SHOTS AT WESTER-
PLATTE TO THE CAPITULATION OF BERLIN, ON ALL FRONTS, SIDE BY SIDE
WITH ALL ALLIED ARMIES - FOR OUR AND YOUR FREEDOM.

THE SACRIFICE OF BLOOD MADE BY 6 MILLION PEOPLE WHO DIED IN ACTION
OR WERE MURDERED DURING THE NAZI OCCUPATION, THE ENORMOUS DESTRUCTION
AND DEVASTATION OF THE NATIONAL WEALTH, AND THE STILL VIVID MEMORY
OF IMMEASURABLE HUMAN TRAGEDIES AND SUFFERINGS GIVE THE POLISH NATION
A PARTICULAR RIGHT TO RECALL THAT SHAMEFUL PERIOD IN THE MOST RECENT
HISTORY OF OUR CIVILIZATION. AT THE SAME TIME, WE WOULD LIKE THIS
ANNIVERSARY TO BE THE TIME FOR THE ENTIRE INTERNATIONAL
COMMUNITY TO MEDITATE AND RELECT ABOUT THE TRAGIC EXPERIENCE OF THAT
CRUEL WAR AND ITS IMPLICATIONS FOR THE FUTURE, FOR THE PEACEFUL
DEVELOPMENT OF ALL STATES AND NATIONS AND FOR THE SECURE AND
DIGNIFIED EXISTENCE OF EVERY HUMAN BEING.

IN THIS SPIRIT, I AM SENDING YOU ON BEHALF OF THE GOVERNMENT OF
THE POLISH PEOPLE'S REPUBLIC AND INVITATION TO SEND A GOVERNMENT
DELEGATION TO TAKE PART IN THE CELEBRATION OF THIS ANNIVERSARY WHICH
WILL TAKE PLACE IN POLAND ON AUGUST 31 AND SEPTEMBER 1, AND WHICH
WILL BE ORGANIZED BY ALL SOCIAL FORCES, PARTIES AND POLITICAL
ORGANIZATIONS, ASSOCIATIONS AS WELL AS SOCIAL AND EX-SERVICEMEN

PAGE 1
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ORGANIZATIONS (GIVING IT AN INTERNATIONAL EVENT).

I WOULD LIKE TO INFORM YOU THAT INVITATIONS TO TAKE PART IN THIS SIGNIFICANT CELEBRATION HAVE ALSO BEEN FORWARDED BY THE POLISH PEOPLE'S REPUBLIC AUTHORITIES TO THE PRIME MINISTERS OF FRANCE AND THE SOVIET UNION AND TO THE PRESIDENT OF THE UNITED STATES OF AMERICA.

I AM CERTAIN, THAT IN THE GROWING ATMOSPHERE OF DETENTE AND MUTUAL TRUST IN INTERNATIONAL RELATIONS, A JOINT PARTICIPATION BY THE REPRESENTATIVES OF THE INVITED GOVERNMENTS IN THE CELEBRATION COMMEMORATING SEPTEMBER 1939 WILL BE REGARDED AS A MANIFESTATION OF INTERDEPENDENCE AND THE JOINT RESPONSIBILITY OF OUR STATES FOR THE SECURE AND PEACEFUL DEVELOPMENT OF THE NATIONS OF EUROPE AND THE WORLD.

I AVAIL MYSELF OF THIS OPPORTUNITY TO CONVEY TO YOU THE ASSURANCE OF MY HIGHEST CONSIDERATION.

ENDS.

WETHERELL

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MR PALMER, SEC NATO/UK(P),MOD

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PAGE 2
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Foreign and Commonwealth Office

London SW1A 2AH

9 August 1989

NBPM

Bruc

15/8

~~Dear Caroline~~

Letter form General Jaruzelski

/ I enclose a letter, with translation, from General Jaruzelski to the Prime Minister, thanking her for her letter of congratulation on his election as President.

The letter goes beyond the minimum format of a formal acknowledgement, but does not call for a reply.

John Sweeney
Richard Sweeney

(R H T Gozney)
Private Secretary

Miss Caroline Slocock
10 Downing Street

(Unofficial translation)

President
of the
Polish People's Republic

Honourable Mme Prime Minister,

Please accept my sincere thanks for the congratulations which you were so kind to send me in connection with the election for the office of President of the Polish People's Republic. They made me genuinely pleased.

I am happy to see developments in Poland confirming the policy which we have discussed already twice, particularly in the course of our recent talks at Chequers.

In order to be successful the reforms upon which Poland has embarked must depend, above all, on the creative energy of the Polish people, supported by understanding and sympathetic assistance offered by friends.

I do hope that through development of all-round co-operation Great Britain may wish to make a contribution in this sphere, which will certainly be promoted by the continuation of our fruitful dialogue.

Please accept the expressions of my highest consideration,

(-) Wojciech Jaruzelski

Her Excellency
Mme Margaret Thatcher
Prime Minister of the
United Kingdom of Great Britain
and Northern Ireland
LONDON

Prezydent
Polskiej Rzeczypospolitej Ludowej

Szanowna Pani Premier,

serdecznie dziękuję za gratulacje, jakie zechciała mi Pani przesłać z okazji wyboru na urząd Prezydenta Polskiej Rzeczypospolitej Ludowej. Sprawili mi szczerą satysfakcję.

Rad jestem, że bieg wydarzeń w Polsce potwierdza linię, o której dwukrotnie już wymieniliśmy poglądy, w tym zwłaszcza podczas niedawnych rozmów w Chequers.

Powodzenie rozpoczętych w Polsce reform zależy w głównej mierze od twórczego wysiłku narodu polskiego, wspartego zrozumieniem i życzliwą pomocą jego przyjaciół.

Wyrażam nadzieję, że Wielka Brytania poprzez rozwój wszechstronnej współpracy zechce wnieść na tym polu swój wkład, do czego z pewnością przyczyni się kontynuacja naszego owocnego dialogu.

Łączę wyrazy szacunku.



Warszawa, 3 sierpnia 1989 roku

Jej Ekscelencja
Pani Margaret Thatcher
Premier Zjednoczonego Królestwa
Wielkiej Brytanii i Północnej Irlandii

L O N D Y N



*filed
also*

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

4 August 1989

Dear Prime Minister,

Please accept my congratulations on the occasion of your election as Prime Minister of the Polish People's Republic.

I wish you success in implementing the difficult decisions necessary to restore Poland's economic health. May I take this chance to reaffirm our readiness to play a constructive role in support of democracy and a market economy in Poland.

Yours sincerely

Margaret Thatcher

General Czeslaw Kiszczak

KW



Foreign and Commonwealth Office

London SW1A 2AH

3 August 1989

Dear Caroline,

Prime Minister Kiszczak: Message of Congratulations

General Kiszczak has been elected Prime Minister of Poland, replacing Mr Rakowski. (Mr Rakowski has become Party Secretary, following the elevation of General Jaruzelski to the Presidency.)

The election was somewhat controversial; General Kiszczak, as former Interior Minister, is unpopular with some Solidarity leaders. Solidarity MPs voted against him but have acquiesced in the result of the election, given the few possible candidates, the importance of getting a new Prime Minister into place and given the respect for Kiszczak which they developed during the so-called "Round Table" talks on the future of Poland.

/ The Foreign Secretary recommends that the Prime Minister should send a message of congratulations, carefully worded.
/ I enclose a draft.

Yours sincerely

Richard Gozney

(R H T Gozney)
Private Secretary

Caroline Slocock
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

Prime Minister
DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

TO:

Copies to:

Czesław
General *N* Kiszczak



SW2 A2B

SUBJECT:

PRIVACY MARKING

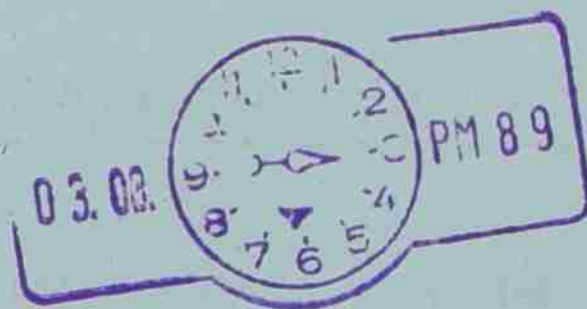
..... In Confidence

Please accept my congratulations on the occasion of your election as Prime Minister of the Polish People's Republic.

CAVEAT

I wish you success in implementing the difficult decisions necessary to restore Poland's economic health. May I take this chance to reaffirm our readiness to play a constructive role in support of democracy and a market economy in Poland.

Enclosures flag(s)





MRM ATP

PRIME MINISTER

PERSONAL MESSAGE 10 DOWNING STREET

SERIAL No. T.140: A/89 LONDON SW1A 2AA

SUBJECT cc M. A. S. P. E. R.
OPS

for
DTI
HMT+2

THE PRIME MINISTER

31 July 1989

Dear Mr. President,

Thank you for your letter of 30 June. I waited until after the Economic Summit in Paris before replying.

You will by now have seen the Summit communiqué. I am very pleased that we were able to agree to help meet your urgent need for food during Poland's transition to a market system in the agricultural sector. A first step was the Community's approval on 24 July of an immediate supply of free food.

The Summit asked the EC Commission to coordinate both international food assistance and Western economic cooperation which extends beyond food aid. Meetings which begin on 1 August will coordinate national efforts to support reform in Poland through practical help. The British fund of £25 million which I told you about at Chequers on 10 June, was the first offer of this kind. I know that President Bush's imaginative programme of help will also be very important for Poland. I hope we shall see further national efforts of this kind.

The United Kingdom pressed for the liberalisation of discriminatory quantitative restrictions under the Trade and Cooperation Agreement between Poland and the European Community. This was concluded on 26 July and I am glad that

✓

the United Kingdom was able to help. The agreement will provide a framework for long-term cooperation.

The British Government will also do all it can to encourage trade and investment in Poland, although the decisions can only be taken by UK companies themselves. I know that the recent investment mission to Poland led by the Minister for Trade proved highly successful.

Finally, I welcome the emphasis which your letter placed on the need for an agreement with the IMF. As you recognise, only the Polish people themselves can bring about economic recovery. Your new economic plan for 1990 to 1992 shows a recognition that an IMF programme will inevitably involve heavy costs for the Polish people. I can assure you, as I did on 10 June, that the United Kingdom will take a flexible and sympathetic role in IMF discussion.

When we met in June, I undertook to urge other major Western leaders to join in a collective effort to help the reform process in Poland. I hope you will agree that the decisions of the Paris Summit are a strong affirmation of the West's commitment to supporting the economic and political reforms in your country.

Warm regards,

Yours sincerely

Nayana Lalita

His Excellency General Wojciech Jaruzelski



DEPARTMENT/SERIES <i>PRM 19</i>	Date and sign
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Foreign and Commonwealth Office

London SW1A 2AH

28 July 1989

Dear Charles,

gap
Poland

On 30 June, President Jaruzelski wrote to the Prime Minister, and to the other participants in the Economic Summit, urging the G7 to take a series of measures to support the process of economic reform in Poland.

Jaruzelski's requests went far beyond what any of the Seven were prepared to offer, particularly on new credits and a billion dollars worth of food. The Summit agreed to meet the request for urgent food supplies, and also to concert support for the reform process under the aegis of the European Commission. The Prime Minister was a prominent advocate of both.

The Summit now being behind us and the work on implementing its conclusions just beginning to get under way, the present is a good moment for the Prime Minister to reply to General Jaruzelski. I enclose a draft.

I am copying this letter to Alex Allan and Nigel Wicks (HM Treasury) and Neil Thornton (Department of Trade and Industry).

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

DSR 11 (Revised Sept 85)	DRAFT: minute/letter/teleletter/despatch/note		TYPE: Draft/Final 1 +
	FROM:		Reference
	Prime Minister DEPARTMENT:	TEL. NO:	W12AAC
	BUILDING:	ROOM NO:	Your Reference
SECURITY CLASSIFICATION	TO: President Jaruzelski		
Top Secret	Copies to:		
Secret	<i>HC General Wojcicki</i> <i>To VM</i>		
Confidential	SUBJECT: <i>mem AIP</i>		
Restricted	<p>Thank you for your letter of 30 June. I waited until after the Economic Summit in Paris before replying.</p> <p>You will by now have seen the Summit communiqué. I am very pleased that we were able to agree to help meet your urgent need for food during Poland's transition to a market system in the agricultural sector. A first step was the Community's approval on 24 July of an immediate supply of free food.</p> <p>The Summit asked the EC Commission to coordinate both international food assistance and Western economic cooperation which extends beyond food aid. Meetings which begin on 1 August will coordinate national efforts to support reform in Poland through practical help. The British fund of £25 million which I told you about at Chequers on 10 June, was the first offer of this kind. I know that President Bush's imaginative programme of help will also be very important for Poland. I hope we shall</p>		
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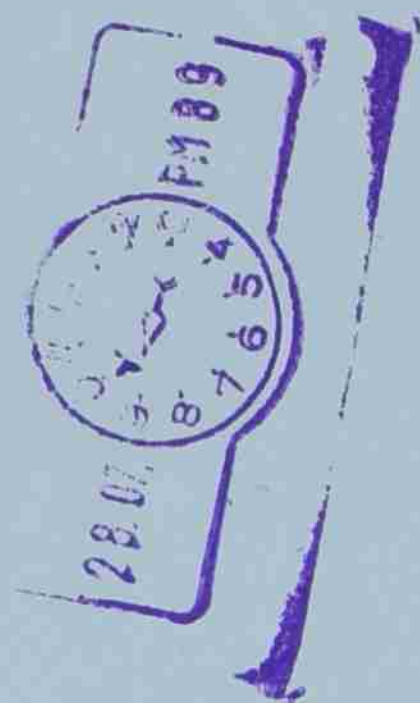
see further national efforts of this kind.

The UK pressed for the liberalisation of discriminatory quantitative restrictions under the Trade and Cooperation Agreement between Poland and the EC. This was concluded on 26 July and I am glad that the UK was able to help. The agreement will provide a framework for long-term cooperation.

The British Government will also do all it can to encourage trade and investment in Poland, although the decisions can only be taken by UK companies themselves. I know that the recent Ministerial-led investment mission to Poland led by the Minister for Trade proved highly successful.

Finally, I welcome the emphasis which your letter placed on the need for an agreement with the IMF. As you recognise, only the Polish people themselves can bring about economic recovery. Your new economic plan for 1990 to 1992 shows a recognition that an IMF programme will inevitably involve heavy costs for the Polish people. I can assure you, as I did on 10 June, that the UK will take a flexible and sympathetic role in IMF discussion.

When we met in June, I undertook to urge other major Western leaders to join in a collective effort to help the reform process in Poland. I hope you will agree that the decisions of the Paris Summit are a strong affirmation of the West's commitment to supporting the economic and political reforms in your country.



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FRAME EXTERNAL

EC/POLAND NEGOTIATIONS: 4TH ROUND

SUMMARY

1. AGREEMENT ALMOST CERTAIN TO BE INITIALLED TOMORROW. SPAIN MAINTAIN RESERVE ON FROZEN STRAWBERRIES BUT COME UNDER STRONG PRESSURE FROM COMMISSION TO GIVE WAY. OTHER POINTS STILL TO BE SETTLED ARE MANDATE FOR JOINT COMMITTEE IN 1994 (ARTICLE 10), ANNEX VI (POLAND'S UNILATERAL COMMITMENTS), AND POLAND'S UNILATERAL DECLARATION ON RENEGOTIATION OF THEIR GATT PROTOCOL OF ACCESSION. OUTCOME SATISFACTORY FOR UK.

DETAIL

2. TWO PLENARY SESSIONS WERE HELD TODAY. IT WAS EVIDENT FROM THE START THAT THE POLES WANT TO CONCLUDE THE NEGOTIATIONS THIS WEEK. THE COMMISSION ARE IN SIMILAR MOOD.

ARTICLE 6

3. AS AGREED IN THE GROUP, BENAVIDES (COMMISSION) OFFERED TO DROP 'POSSIBLE' ON CONDITION THAT THE TWO PARAGRAPHS WERE JOINED. OLECHOWSKI (POLISH NEGOTIATOR) AGREED ON CONDITION THAT A SATISFACTORY SOLUTION WAS FOUND TO ARTICLES 9 AND 10.

ARTICLES 9-10

4. BENAVIDES PUT FORWARD THE TEXT SET OUT IN THEIR 17 JULY NOTE (IN EFFECT, THIS WOULD ENABLE MEMBER STATES TO MAINTAIN EMBARGOES ON HARDCORE PRODUCTS UNTIL THE END OF THE AGREEMENT). OLECHOWSKI SAID THAT HE HAD AGREED EARLIER IN THE NEGOTIATIONS TO THE PRINCIPLE OF A HARDCORE BEING RETAINED ON THE UNDERSTANDING THAT SUCH A LIST OF PRODUCTS WOULD BE KEPT TO THE MINIMUM. LEAVING TEXTILES ASIDE, ANNEX III ALREADY CONTAINED 730 MEASURES. HE THEREFORE NOW WANTED THE COMMUNITY TO CONSIDER THREE POSSIBLE ALTERNATIVES: (A) THAT ALL DISCRIMINATORY QRS SHOULD BE ABOLISHED BY END 1994: (B)

THAT THE AGREEMENT STATE EXPLICITLY THAT ALL DISCRIMINATORY QRS WILL BE ABOLISHED BY THE END OF 1998: OR (C) THAT ARTICLE 10 BE MODIFIED IN A MANNER WHICH COMMITTED THE COMMUNITY TO DECIDE A DATE FOR ABOLITION OF THE HARDCORE PRODUCTS AT THE JOINT COMMITTEE SESSION IN 1994.

5. BENAVIDES MADE CLEAR THAT (A) WAS NOT POSSIBLE. SIMILARLY, HE ARGUED THAT (B) WOULD REQUIRE A CHANGE TO THE COUNCIL MANDATE. MOREOVER, SUCH A FORMULA HAD ALREADY BEEN CONSIDERED AND REJECTED BY POLAND BECAUSE THEY WOULD NOT ACCEPT SUPERSAFEGUARD PROVISIONS. HE THEREFORE SAW NO ADVANTAGE IN OPENING UP DISCUSSION ON THIS POINT AGAIN. BENAVIDES ACKNOWLEDGED HOWEVER, THAT POLAND HAD A LEGITIMATE CONCERN ABOUT THE FATE OF THE HARD CORE PRODUCTS. HE WAS, THEREFORE, PREPARED TO LOOK CONSTRUCTIVELY AT WORDING BASED ON OPTION (C).

ARTICLE 12

6. IT WAS AGREED TO REPALCE ''EQUILIBREE'' BY ''HARMONIEUX''.

ARTICLES 14 AND 15

7. AS AGREED, BENAVIDES PUT FORWARD THE TEXT OF ARTICLE 15.9 DISCUSSED AT THE LAST WORKING GROUP (PARAGRAPH 6 OF OUR TELNO 2381). OLECHOWSKI SAID IT WAS ACCEPTABLE AND THAT THE WORDING ALSO ALLOWED HIM TO AGREE ARTICLE 14 (PRICE CLAUSE).

ARTICLE 18

8. 18.1, 6TH TIRET : BENAVIDES PROPOSED THAT ''DE CONTRIBUER'' SHOULD BE REPLACED BY ''D'ENCOURAGER''. OLECHOWSKI PRESSED INSTEAD FOR ''DE SOUTENIR'' WHICH BENAVIDES EVENTUALLY ACCEPTED.

9. 18.2, 11TH TIRET : BENAVIDES MAINTAINED THAT THE AGREEMENT COULD NOT CONTAIN A REFERENCE TO ''SYSTEMS OF CERTIFICATION'' FOR REASONS OF COMMUNITY COMPETENCE. IF POLAND WISHED TO PURSUE THIS MATTER, THEY SHOULD DO SO BILATERALLY WITH MEMBER STATES.

10. 18.3, 2ND TIRET : OLECHOWSKI SAID HE WAS PREPARED TO AGREE TO THE SENTENCE REFERRING TO ''LE TRANSFERT DES BENEFICES ET LE REPATRIEMENT DES CAPITAUX'' ON CONDITION THAT THE STRESS WAS REMOVED BY REPLACING ''EN PARTICULIER'' WITH ''Y INCLUS''. BENAVIDES AGREED.

11. 18.3 7TH TIRET : BENAVIDES PUT FORWARD THE TEXT ON RESEARCH DISCUSSED AT THE LAST WORKING GROUP. HE MADE CLEAR THAT POLAND COULD NOT (NOT) HAVE AUTOMATIC RIGHT OF ACCESS TO EC PROGRAMMES INVOLVING THIRD COUNTRIES. INSTEAD, EACH REQEUST WOULD NEED TO BE EXAMINED ON ITS MERITS, KEY FACTORS WOULD BE THE POLISH SIDE'S

ABILITY TO CONTRIBUTE FINANCIALLY AND TO PROVIDE THE NECESSARY EXPERTISE TO MAKE ANY SUCH COLLABORATION, ETC VIABLE. AT POLISH REQUEST, BENAVIDES AGREED TO ADD ''DEVELOPMENT'' AFTER RESEARCH.

12. 18.3, 8TH TIRET : UNDER STRONG COMMISSION PRESSURE, OLECHOWSKI DROPPED HIS INSISTENCE ON INCLUDING A REFERENCE TO EC HELP IN CREATING SPECIAL ECONOMIC ZONES IN POLAND.

ARTICLE 23

13. BENAVIDES CONFIRMED THAT THERE COULD BE NO REFERENCE IN THE AGREEMENT TO POLAND'S UNILATERAL DECLARATION ON RENEGOTIATING ITS PROTOCOL OF ACCESSION TO GATT. IT WAS AGREED THAT BOTH SIDES WOULD LOOK AT THE ALTERNATIVES BEFORE THE NEXT DAY'S PLENARY.

ANNEX VI (RELATING TO ARTICLE 16)

14. WHEN IT WAS CLEAR THAT OLECHOWSKI REMAINED CONCERNED THAT THE WORDING MIGHT IMPLY SPECIAL TREATMENT FOR THE EC, BENAVIDES PROPOSED THAT THE ENTIRE ANNEX SHOULD BE RE-CAST ALONG THE LINES OF THE ANNEX TO ARTICLE 10 OF THE EC/HUNGARY AGREEMENT (WHICH REFERS CONSISTENTLY TO NON-DISCRIMINATORY TREATMENT). BENAVIDES EXPLAINED THAT THE EXCEPTIONS WOULD BE THE TWO TIRETS DEALING WITH COUNTERTRADE AND INTELLECTUAL PROPERTY.

FROZEN STRAWBERRIES

15. IN EC CONSULTATIONS PRIOR TO THE PLENARY SESSIONS, SPAIN MAINTAINED ITS RESERVE ON THE POLISH REQUEST ON FROZEN STRAWBERRIES. BENAVIDES SAID HE RECOGNISED SPAIN'S DIFFICULTIES BUT INSISTED THAT THEY GO BACK TO MADRID FOR FURTHER INSTRUCTIONS. IN THE PLENARY SESSION, BENAVIDES SIMPLY ANNOUNCED THAT THE EC CONTINUED TO HAVE DIFFICULTY WITH THIS CONCESSION BUT WOULD SEEK TO RESOLVE THE MATTER TOMORROW.

16. IN CONCLUSION BENAVIDES SAID THAT GOOD PROGRESS HAD BEEN MADE AND THAT A TEXT SHOULD BE INITIALLED TOMORROW. THERE REMAINED FOUR POINTS TO BE RESOLVED: ARTICLE 10: STRAWBERRIES, THE WORDING OF ANNEX VI AND THE POLISH GATT DECLARATION. IN HIS VIEW, THE OUTSTANDING POINTS WERE MAINLY TECHNICAL. OLECHOWSKI AGREED.

17. AFTER THE PLENARY, MEMBER STATES MET BRIEFLY TO DISCUSS THE COMMUNITY'S RESPONSE TO POLAND'S UNILATERAL DECLARATION ON ITS PROTOCOL OF ACCESSION TO GATT WHICH CALLS EXPLICITLY FOR EC SUPPORT. (BY FAX TO DTI AND FCO). THERE WAS GENERAL CONSENSUS THAT THE COMMUNITY SHOULD, AT MOST, SIMPLY TAKE NOTE OF THE DECLARATION. SEVERAL DELEGATIONS WERE, HOWEVER, CONCERNED THAT EVEN TAKING NOTE

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OF THE DECLARATION (EG IN EOL) MIGHT GIVE IT SOME FORM OF
LEGITIMACY. IT WAS POINTED OUT THAT THERE WAS NO PROVISION IN THE
GATT FOR RENEGOTIATING A PROTOCOL OF ACCESSION: THIS FACT MIGHT ALSO
NEED TO BE RECOGNISED IN SOME WAY. THE COMMISSION LEGAL SERVICES
AGREED TO CONSULT THE GATT EXPERTS IN DG I BEFORE TOMORROW'S
COORDINATION MEETING.

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MIFT 432 : ELECTION OF JARUZELSKI AS PRESIDENT

SUMMARY

1. BOTH SOLIDARITY AND THE PZPR CAN VIEW RESULT WITH SATISFACTION. SOME EVIDENCE EMERGING OF A PRE-ELECTION DEAL. JARUZELSKI NOW FACES URGENT AND DIFFICULT TASK OF CHOOSING A PRIME MINISTER TO FORM A NEW GOVERNMENT.

DETAIL

2. THIS NARROW VICTORY BY JARUZELSKI WAS A REASONABLE OUTCOME FOR THE SOLIDARITY LEADERSHIP IN A NO-WIN SITUATION. THE SOLIDARITY FLOOR GROUP WERE ABLE TO VOTE AGAINST HIM EN BLOC WHILE STILL DELIVERING THE PRESIDENCY, TACITLY PROMISED AT THE ROUND TABLE. GEREMEK IN HIS SPEECH ON THE CANDIDACY, REPEATED WALESZA'S EARLIER STATEMENT THAT POLAND'S INTERNAL AND INTERNATIONAL SITUATION MADE A COALITION CANDIDATE THE ONLY POSSIBILITY, BUT REGRETTED THAT JARUZELSKI WAS THE ONLY CANDIDATE. IT WAS IMPOSSIBLE HE SAID TO FORGET THE EXPERIENCES OF THE 1980S: THE BIRTH OF SOLIDARITY AND MARTIAL LAW.

2. GIVEN THE STRENGTH OF GRASS ROOTS SOLIDARITY FEELING AGAINST JARUZELSKI AND THE CONFUSION OVER CANDIDACY, THE PZPR COULD LIKEWISE REALISTICALLY NOT HAVE GOT A BETTER RESULT. JARUZELSKI WAS AFTER ALL ELECTED AT THE FIRST ATTEMPT, AN OUTCOME WHICH SEEMED, AS THE PROCEDURAL WRANGLES CONTINUED, SERIOUSLY IN QUESTION. WHILE HE HAS FAILED TO BE ELECTED AS PRESIDENT OF ALL POLES, AFTER HIS TEMPORARY WITHDRAWAL THIS CEASED TO BE AN ACHIEVABLE OBJECTIVE. ORZECZOWSKI'S SPEECH IN INTRODUCING HIS CANDIDATURE RAN ON ENTIRELY PREDICTABLE LINES AND MADE NO APOLOGIES FOR ANY OF JARUZELSKI'S SHORTCOMINGS.

3. THE SURPRISING SPEECHES ON JARUZELSKI'S CANDIDATURE CAME FROM THE ZSL AND SD, BOTH OF WHOM EXPRESSED CLEAR RESERVATIONS. BENTKOWSKI FOR THE ZSL SAID THAT HIS PARTY WAS NOT UNANIMOUS IN ITS

SUPPORT SINCE NOT ALL ITS MEMBERS BELIEVED THAT A GOVERNMENT FORMED BY JARUZELSKI WOULD SERVE 'THE PEASANT'S' INTERESTS. THE SD EXPRESSED RESERVATIONS ABOUT JARUZELSKI'S RECORD IN THE YEARS 1968-80 (THOUGH SPECIFICALLY NOT FOR THE DECISION TO IMPOSE MARTIAL LAW, RATHER FOR THE ECONOMIC CONSEQUENCES). FROM THE MATHEMATICS, IT SEEMS HIGHLY LIKELY THAT SOME MEMBERS OF BOTH MINORITY PARTIES VOTED AGAINST JARUZELSKI. THIS WILL BE MADE CLEAR WHEN THE VOTING IS PUBLISHED.

4. THERE WAS CLEARLY A GOOD DEAL OF HORSETRADING BEFORE THE SITTING. ACCORDING TO STELMACHOWSKI, THE PZPR OFFERED SECRET VOTING IN RETURN FOR SOLIDARITY DROPPING THE IDEA OF QUESTIONING THE CANDIDATE. SOLIDARITY RADICALS TORPEDOED THIS AND IN THE EVENT LOST ON BOTH ISSUES IN VOTES DURING THE DEBATE. LESS CLEAR IS THE QUESTION OF WHETHER THE VOTE ITSELF WAS FIXED OR MASSAGED BEFORE HAND. FOUR SOLIDARITY MEMBERS SENT APOLOGIES TO THE SPEAKER SAYING THEY REFUSED TO TAKE PART IN AN ELECTION WHERE THERE WAS ONLY ONE CANDIDATE. HAD THEY VOTED AGAINST JARUZELSKI HE WOULD, CETERIS PARIBUS, NOT HAVE SUCCEEDED AT THE FIRST ROUND. THERE IS A GOOD DEAL OF SUSPICION THAT THEY MAY HAVE BEEN ASKED TO STAY AWAY BY THE SOLIDARITY LEADERSHIP TO MAXIMISE JARUZELSKI'S CHANCES. ONE OF THE FLOOR GROUP MEMBERS RESIGNED THE WHIP TODAY ALLEGING JUST THAT. BUT IN VIEW OF THE APPARENT OPACITY OF ZSL AND SD VOTING UNITY EVEN TO THEIR OWN LEADERSHIP, IT SEEMS MOST UNLIKELY THAT THE PZPR COULD HAVE CALCULATED THE RESULT, AND FIXED IT, TO SUCH A NICETY. IF IT EMERGES THAT SOLIDARITY DID COLLABORATE IN STACKING THE VOTING ODDS, THE SENSE OF DISAPPOINTMENT AMONGST ITS SUPPORTERS THAT JARUZELSKI WAS ELECTED AT THE FIRST ATTEMPT MAY TURN INTO ONE OF BETRAYAL.

5. THE TIMETABLE IS NOW UNCLEAR. JARUZELSKI WILL BE UNDER GREAT PRESSURE TO NOMINATE A PRIME MINISTER SOON WHO WILL THEN HAVE THE DIFFICULT TASK OF FORMING A GOVERNMENT. NO NEW NAMES FOR THE POST HAVE EMERGED. BAKA AT THE HEAD OF 'A GOVERNMENT OF EXPERTS' IS STILL THE MOST WIDELY TOUTED. (THERE ARE RUMOURS THAT RAKOWSKI IS ILL.) WHOEVER JARUZELSKI NOMINATES IS LIKELY AT LEAST TO WANT TO GO THROUGH THE MOTIONS OF OFFERING POSTS TO SOLIDARITY AND THIS WILL TAKE TIME: SOLIDARITY WILL BE IN NO HURRY TO EXTRICATE THE AUTHORITIES FROM THEIR PREDICAMENT.

WETHERELL

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PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T134/89



10 DOWNING STREET

LONDON SW1A 2AA

SUBJECT: MASTER
OR.

THE PRIME MINISTER

20 July 1989

file this
as from
Press Office

Dear Mr. President.

I send you warm congratulations on your election as President of the Polish People's Republic. It marks another step in the process of political reform, to which you have demonstrated your commitment.

I wish you every success in the undoubtedly difficult tasks which still lie ahead of you, particularly in the area of economic reform. You will, I hope, have been encouraged by the conclusions of the Economic Summit in Paris. I reaffirm Britain's readiness to help as you move further along the road of political and economic reform.

I found our talks during your recent visit very useful and hope we shall have the opportunity to continue them in due course.

With every good wish,

Yours sincerely
Margaret Thatcher

His Excellency General Wojciech Jaruzelski.



Foreign and Commonwealth Office

London SW1A 2AH

20 July 1989

Dear Charles,

President Jaruzelski: Message of Congratulations

General Jaruzelski was elected President of Poland on 19 July. The Prime Minister will wish to send him a message of congratulation. I attach a draft.

The Queen will send a message of congratulation on standard lines to General Jaruzelski.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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DRAFT MESSAGE FROM THE PRIME MINISTER TO GENERAL JARUZELSKI
ON HIS ELECTION AS PRESIDENT

I send you ^{warm} sincere congratulations on your election as President of the Polish People's Republic.

When we met six weeks ago, you talked of Poland's historic experiment. The election of a President marks another stage in the fulfilment of the Round Table accords and in the process of political reform, a process to which you have demonstrated your own commitment. I believe that the holding of fully democratic elections during your term of office as President would be a crowning achievement for you personally, and for the Polish people. I wish you success in managing Poland's transition to a market economy, paving the way for a prosperous future. May I take this chance to reaffirm our readiness to help you as you move further along the path of political and economic reform.

4/ I recall with pleasure your recent visit and hope we shall have the opportunity for further talks in due course.

With every good wish

Barbarian's readiness
to help Poland as
you move further
along the road of
political & economic
reform.

20 JUL 1989



EUROPEAN COMMUNITY HELP FOR POLAND

1. M. Delors raised over dinner on 14 July the question of what the European Community as such could do to help Poland. He has asked his officials to look at this, and prepare him a note by lunch time today, 15 July, covering three areas:-

- (a) trade;
- (b) agriculture (ie food aid);
- (c) finance, especially use of the European Investment Bank (EIB).

2. On trade, the Community has concluded a generous agreement with Hungary and is close to a similar agreement with Poland. Negotiations should be completed by the end of July. No further action is required.

3. On food aid Jaruzelski has asked for help from the Summit participants, especially on beef. (The Prime Minister raised this at the Madrid European Council.) The problem is that beef stocks are expected to be very low (about 20,000 tonnes) by the end of this year. Stocks of cereals are more plentiful. But the main difficulty affecting both sales from stocks and purchase on the world market for subsidised sales for Poland would be the budgetary cost to the Community. The Commission are exploring this aspect urgently.

4. On EIB lending to Poland, we are the main opponent of this, on the grounds that it would be hard to draw the line. France, Germany and Italy are more prepared to see the EIB active in Poland. The Commission are looking at the possibility of using small amounts of EIB money in an ad hoc way to finance specific projects in Poland which would be of benefit to the EC as well as the Poles. But they recognise that this would require the approval of the EIB Governors (ie Finance Ministers).

5. There is an obscure suggestion that local counter-part finance for EIB projects might be drawn from a fund of Zlotys created from the sales of subsidised EC food to the Polish population. But this is being explored further by the Commission and may come to nothing.

PREZES RADY MINISTRÓW
POLSKIEJ RZECZYPOSPOLITEJ
LUDOWEJ

Warszawa, 1989-07- 72

Szanowna Pani Premier,

1 września 1989 roku przypada 50 rocznica wybuchu II Wojny Światowej. Polska pierwsza stała się ofiarą agresji hitlerowskich Niemiec, pierwsza też stawiała tej agresji zbrojny opór. Żołnierz polski toczył walkę od pierwszych salw na Westerplatte do kapitulacji Berlina, na wszystkich frontach, ramię przy ramieniu ze wszystkimi sojusznicznymi armiami - za wolność naszą i Waszą.

Danina krwi, złożona z 6 milionów istnień ludzkich, poległych w walce i pomordowanych w czasie hitlerowskiej okupacji, ogrom zniszczeń i dewastacji majątku narodowego, ciągle żywa pamięć bezmiaru ludzkich tragedii i cierpień daje narodowi polskiemu szczególne prawo przypomnienia tego haniebnego okresu w najnowszej historii naszej cywilizacji. Pragnęlibyśmy zarazem, aby rocznica ta stała się dla całej społeczności międzynarodowej okazją do zadumy i refleksji, jakie z tragicznych doświadczeń tej okrutnej wojny płyną dla przyszłości, dla pokojowego rozwoju wszystkich państw i narodów, bezpiecznego i godnego bytu każdej istoty ludzkiej.

W tym duchu, w imieniu Rządu Polskiej Rzeczypospolitej Ludowej kieruję na ręce Pani Premier zaproszenie dla delegacji rządowej do udziału w uroczystych obchodach tej rocznicy, jakie w dniach 31 sierpnia i 1 września bieżącego roku - przy udziale wszystkich sił społecznych, partii i stronnictw politycznych, stowarzyszeń i organizacji społecznych i kombatanckich - zamierzamy zorganizować w Polsce (nadając im międzynarodowy charakter).

Pragnę poinformować Panią Premier, że zaproszenie do udziału w tych doniosłych uroczystościach władze Polskiej Rzeczypospolitej Ludowej kierują jednocześnie do Premierów Francji i Związku Radzieckiego oraz do Prezydenta Stanów Zjednoczonych Ameryki.

Jestem przekonany, że w utrwalającym się w stosunkach międzynarodowych klimacie odprężenia i wzajemnego zaufania, wspólny udział przedstawicieli zaproszonych Rządów w obchodach upamiętniających Wrzesień 1939 roku stanowić będzie manifestację poczucia współzależności i współodpowiedzialności naszych państw za bezpieczny i pokojowy rozwój narodów Europy i świata.

Korzystam z okazji, aby przekazać Pani Premier wyrazy najwyższego szacunku.

Szanowna Pani
Margaret THATCHER
Premier Wielkiej Brytanii
L o n d y n





Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

CONFIDENTIAL

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

Dec beffon,
EC/POLAND

PROFESSOR GEREMEK'S REQUEST FOR EMERGENCY FOOD SUPPLIES

Since learning of Professor Geremek's request to the Prime Minister for her support for the EC to make available food supplies, especially beef, to Poland as a temporary measure to alleviate developing food shortages, I have been looking into the issues which would have a bearing on a positive response by the Community.

Intervention stocks have, as a result of continuing CAP reform, been considerably reduced in recent years. According to latest estimates, beef stocks - the commodity particularly requested by the Poles - now stand at only 130,000 tonnes, compared to over 700,000 tonnes in October 1985. Demand in the remainder of 1989 from processors and the free food schemes may draw a further 90,000 tonnes or more from the stocks.

We understand that, when M. Legras (Director-General DG VI) was recently approached by the Poles about a special sale of 50,000 tonnes of beef, he told them that stocks were insufficient for a special sale to be considered, and that the Beef Management Committee had recently expressed its opposition to any further special export sales this year.

Member States, including ourselves, have been concerned about difficulties the processors have been experiencing in obtaining sufficient supplies of beef for manufacturing. Such processors,

Richie
One result of the
success of our policies
of reducing surpluses.
But I am sure
that something would
be found if the
was efficient political
impetus.
11 July 1989
C 802/17

SEE
telex
at
pap

including our own, who do not enjoy the benefit of import protection under the CAP, need continued access to intervention beef at reasonable prices to stay in business. If the Community were, therefore, to respond to the Poles' request for beef, I think that we should have to press the Commission to ensure that adequate supplies were maintained for the processors in the Community, if necessary by facilitating additional concessionary imports. In practice, there would be resistance to this from other Member States who do not have a processing industry like ours.

Apart from beef, supplies of most other CAP commodities are very limited, as, for example, is the case for dairy products. There are stocks of cereals which could be available though this would involve increased EAGGF expenditure given the relatively high current market prices, and the low prices we could expect the Poles to offer.

If we are to respond to the Poles, I believe that we should have to take this up at a political level in the Commission in order to persuade them to come forward with a proposal for a subsidised special sale. The alternative would be the provision of Community aid funds to Poland to purchase food supplies on the open market. This is, of course, a matter for Chris Patten to advise on.

I am copying this letter to the Prime Minister, Members of OD(E) and to Chris Patten.

Yours sincerely,



JOHN MACGREGOR

12 JUL 1989

Poland

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 July, 1989.

POLAND

I enclose a copy of a letter to the Prime Minister from General Jaruzelski about Poland's economic prospects which we have received today. As you will see, it relates in particular to the discussion of possible help to Poland at the Economic Summit. I should be grateful for advice and a draft reply.

I am copying this letter to Alex Allen and Nick Wicks (HM Treasury) and Neil Thornton (Department of Trade and Industry).

(C.D. Powell)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

Warsaw, 30 June, 1989.

Dear Madame Prime Minister,

In the spirit of mutual understanding and significant improvement recently achieved in the relations and co-operation between Poland and the United Kingdom I wish to turn to you, Madame Prime Minister, in matters of paramount importance for Poland.

As you know, the reforming of the system by which the Polish state and its economy operate has reached a breakthrough point, decisive for the country's future.

We have embarked with determination upon a path of thorough changes permitting the vitality and energy of all social forces to be utilised. Practical steps toward implementing the policy of dialogue, national consensus and reforming the system have gained momentum. The opposition has widely joined the new bicameral parliament. The reforms being carried out provide the state with the foundation for a new democratic form of government safeguarded by law, and the economy with a new model of activity subjected to market forces. All political forces participating in the Round Table wish to continue this policy line. They are convinced that the reforms should come through evolution. Such is the imperative of the nation's *raison d'Etat*, but also of the sense of shared responsibility for the stability of East-West relations and developments on the European continent.

A threat is spelled by the condition of our economy. An aggravating economic crisis fraught with all the attendant consequences is a realistic perspective. It is through radically reforming the State and its economic system that we are trying to overcome that crisis. The immediate goal is to stop and reverse the negative trends, particularly the inflation-generated wage and price

Her Excellency
The Rt. Hon. Margaret Thatcher, MP,
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland.

LONDON.

increase. The gravity of the situation compels us to concentrate a great deal of attention on this matter. We are putting into practice the economic policy defining ways and means for a programme of adjustment during 1990-1992. Successful implementation of this policy will provide a starting point for what we want to accomplish, in consultation with the International Monetary Fund, in a long-term perspective.

In Poland, the social and economic reforms may succeed only if we overcome in a relative short time the present economic predicament, if we make rapid, significant progress in restoring economic stability. External economic assistance for Poland is of cardinal importance for the attainment of this goal. This view is endorsed by the Government and opposition alike. And time is the factor of extreme importance.

Poland needs assistance to make rapid structural changes related to modernisation and full-scope re-orientation of its economy toward the market model, thereby enabling it to become part of world economy.

Transition from the command to market economy provokes severe social tension. A major obstacle is encountered in creating the food market, heavily subsidised until recently. To avert such tension it is necessary to have adequate resources preventing a severe decline in food consumption and stimulating the growth of domestic agriculture and foodstuffs industry.

I should like to strongly emphasise how very much aware we are of our principal duty to bring about economic recovery by our own devices, that we ourselves will have to pay the necessary price. Thus, external assistance is not meant to replace the necessary reforms and market adjustments, on the contrary - it is meant to nurture them.

Declarations made by Western governments, and particularly the talks which we had, Madame Prime Minister, during our recent meetings in Warsaw and at Chequers, reassure me that there is a will to extend genuine, effective assistance to Poland's economy.

I am aware that the scope and form of such assistance will be

discussed at the summit meeting of the seven industrial powers in Paris on 14-16 July. It would be appropriate and useful, I believe, that Poland's needs and expectations in this respect were known for the purpose of such discussion. They are listed below. I have requested the President of France, Monsieur Mitterrand, to present and recommend them to the leaders of States and Governments participating in the Paris meeting. To you, Madame Prime Minister, I address my request for supporting our proposals.

1. It is necessary to receive external assistance for the project being launched to introduce market system in the whole of the foodstuffs economy. The process requires adequate resources to make up for temporary short supply expected to occur at the initial stage of abolishing monopolies in this economic sector and its switching to market operation. Measures of support for such reform could cover, i.a., supplies of subsidised foodstuffs and provision of guaranteed credits for purchasing them. We estimate our requirements in this aspect during two years at one milliard US dollars.

2. Severe deformation of Poland's economic structure and the high debt call for reaching rapid agreement with the International Monetary Fund on an economic programme enabling Poland to receive until 1992 credits worth ca. two milliard US dollars. Credit support for the adjustment programme should become available immediately after the programme is agreed. Successful implementation of the programme - through restoring internal economic equilibrium - would ensure stability in current trade with foreign partners.

3. An agreement with the International Monetary Fund would be paralleled by the rescheduling of the guaranteed debt owed to the Paris Club member-states. We expect that the terms of rescheduling will embrace rate reductions and concessions applied to the countries with the highest debt. The outstanding payments (including those overdue) would be rescheduled as promptly as possible, while those falling due during the years of the programme (1990-1992) - after the programme is put in operation.

4. Measures of reducing the payment of the non-guaranteed part of the debt and its service rates and of partially converting it into

other forms of obligation should become integrally linked to the whole issue of settling Poland's debt. We assume that steps in this direction will be actively supported by international financial institutions and governments of creditor countries.

5. Appropriate functioning of Poland's economy and debt servicing also require increased export potential. The following steps would be conducive to it:

- opening World Bank credits to partially finance the already existing export-orientated investment projects to the value of ca. 300 million US dollars;
- speedy preparation and launching by the World Bank of the structural adjustment loan (SAL) worth ca. 500 million US dollars, augmenting the strength of the export-generating economic sector;
- providing access to government guaranteed credits for the funding of export-generating investment projects and modernisation;
- improved access to markets, i.a., by granting Poland customs preferences under GSP.

6. Economic recovery presupposes thorough changes in the industrial structure and form of ownership. A support for such changes would come from:

- implementation of a number of World Bank sectoral projects (mining, telecommunications, banking);
- active incentives for investors to commit capital for projects in Poland, i.a., by involving government experts to identify investment opportunities and by offering government guarantees for the capital invested in Poland. Legal conditions have already been laid down to transform Polish state-owned business enterprises into joint stock companies with unlimited share of foreign capital participation;
- co-operation in financing the development and modernisation of food storage and processing. Such a programme could be co-ordinated by the World Bank and/or the European Investment Bank. We estimate the amount of funds required (during a three year period) at 0.5 milliard US dollars;

- participation in the raising of target-orientated funds to promote the growth of private farming (e.g. the Water Supply Foundation);
- assistance in the training of management staff and expert consultancy to design new economic strategies and tools.

I cherish the hope that you will kindly consider, Madame Prime Minister, the content of this message and support the proposals contained in it.

I have very much appreciation for your understanding of Poland's present economic difficulties. I rest assured that your personal commitment will lead toward concrete steps being promptly taken to alleviate these difficulties.

With the assurance of my highest consideration and best regards,

(-) Wojciech Jaruzelski

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AND TO PRIORITY WARSAW
AND TO ROUTINE BONN, PARIS, ROME

IMF: POLAND

SUMMARY

1. POLES HAVE PUT FORWARD A DRAFT ECONOMIC PROGRAM WHICH THE FUND BELIEVE PROVIDES A GOOD BASIS FOR DISCUSSION. BUT THERE IS STILL SOME DISTANCE BETWEEN THE TWO SIDES ON KEY ISSUES, PARTICULARLY REAL WAGE GROWTH. NEGOTIATIONS CANNOT BEGIN IN EARNEST UNTIL NEW GOVERNMENT IS IN PLACE. FUND THINK THAT EARLIEST A STAND-BY ARRANGEMENT (SBA) COULD BE BROUGHT TO THE BOARD WOULD BE NOVEMBER, EVEN ON THE MOST OPTIMISTIC SCENARIO.

DETAIL

2. WE HAVE SPOKEN TO PRUST (MISSION CHIEF) FOLLOWING TODAY'S FINANCIAL TIMES ARTICLE. PRUST SAID THAT HE DID NOT HAVE MAJOR PROBLEMS WITH THE TEXT OF THE ARTICLE (WHICH MADE IT CLEAR THAT FURTHER DETAILED DISCUSSIONS WOULD BE NEEDED BEFORE AGREEMENT ON A PROGRAM COULD BE REACHED).

3. SAWICKI HAD BEEN IN WASHINGTON ON 29-30 JUNE AND HAD HANDED OVER A DOCUMENT (PREPARED BY MINISTRY OF FINANCE OFFICIALS) WHICH OUTLINED A PROPOSED SET OF BUDGETARY, CREDIT AND EXCHANGE RATE POLICIES FOR 1989 AND 1990. PRUST SAID THAT THIS DOCUMENT WAS AN IMPROVEMENT ON EARLIER PLANS PRODUCED BY POLISH OFFICIALS IN THAT IT CONTAINED QUANTIFIED POLICY PROPOSALS RATHER THAN STATEMENTS OF GENERAL INTENTION. HOWEVER, IT WAS NOT ENTIRELY CLEAR WHAT STATUS THE DOCUMENTS HAD. IT WAS CERTAINLY NOT A GOVERNMENT-APPROVED PLAN.

3. IN GENERAL, PRUST THOUGHT THAT THE DOCUMENT REPRESENTED A SIGNIFICANT BREAK-THROUGH. IN PARTICULAR, THE POLES NOW APPEARED TO RECOGNISE THAT A 'DRASTIC TIGHTENING' OF BUDGETARY AND CREDIT POLICIES WAS NECESSARY TO CURB INFLATION AND TO REDUCE EXCESS DEMAND. NEVERTHELESS, WHILE THE POLICY

PRESCRIPTIONS CONTAINED IN THE DOCUMENT WERE A 'BIG STEP FORWARD' AND TOOK THE POLES CLOSER TO THE FUND'S POSITION, PRUST EMPHASISED THAT THERE WERE STILL MANY UNCERTAINTIES AND IMPORTANT DIFFERENCES OF VIEW.

4. TURNING TO SPECIFICS, PRUST COMMENTED ON THE FOLLOWING AREAS:

(I) BUDGETARY POLICY: THE DOCUMENT PROPOSED A SIGNIFICANT CUT IN THE BUDGET DEFICIT TO BE ACHIEVED THROUGH SHARP PRICE INCREASES (AND CUTS IN CONSUMER SUBSIDIES). IN PARTICULAR, THE DOCUMENT SUGGESTED THAT FOOD PRICES SHOULD BE INCREASED FROM 1 JULY (NB: THIS HAD ALREADY SLIPPED). PRUST CALCULATED THAT IF THE PROPOSED PRICE INCREASES WERE ACTUALLY IMPLEMENTED THE OVERALL PRICE LEVEL WOULD RISE BY ROUGHLY 25 PER CENT. IN CURRENT CIRCUMSTANCES, THIS INFLATIONARY SHOCK WOULD BE MOST UNWELCOME. PRUST HAD THEREFORE ADVISED SAWICKI TO LOOK FOR OTHER POSSIBLE WAYS OF REDUCING THE DEFICIT (E.G. REMOVING TAX EXEMPTIONS AND REDUCING PUBLIC SECTOR WAGE INCREASES). IN ADDITION, PRUST THOUGHT THAT THE PROPOSED CUT IN THE DEFICIT - EVEN IF IT COULD BE ACHIEVED - WOULD NOT BE SUFFICIENT. FURTHER CUTS BEYOND THOSE PROPOSED BY SAWICKI WOULD BE NECESSARY.

(II) CREDIT POLICY: PRUST SAID THAT THIS WAS PERHAPS THE WEAKEST PART OF THE DOCUMENT. THE POLES WERE PROPOSING TO INCREASE INTEREST RATES GRADUALLY OVER THE COURSE OF 1989 AND THEN TO INCREASE THEM SHARPLY AT THE BEGINNING OF 1990. (AT PRESENT A ONE-YEAR SAVINGS DEPOSIT EARNS 44 PER CENT PER ANNUM, AGAINST AN INFLATION RATE OF 9 PER CENT PER MONTH.) PRUST HAD TOLD SAWICKI THAT IT WOULD BE MUCH MORE APPROPRIATE TO FRONT-LOAD THE NECESSARY INTEREST RATE INCREASE, PARTICULARLY IF FURTHER PRICE LIBERALISATION MEASURES WERE TO BE INTRODUCED (SEE (I) ABOVE). PRUST SAID THAT HE HAD MADE LITTLE PROGRESS WITH SAWICKI ON POSSIBLE TARGETS FOR CREDIT TO THE NON-GOVERNMENT SECTOR.

(III) WAGES: PRUST SAID THAT THE DOCUMENT CONTAINED A BIZARRE PROJECTION FOR REAL WAGES AND CONSUMPTION WHICH MIGHT HAVE RESULTED FROM A COMPUTER ERROR (EXCLAMATION). IN PARTICULAR, THE DOCUMENT ENVISAGED THAT REAL WAGES WOULD RISE BY 7 PER CENT IN 1989 WHILE REAL CONSUMPTION

WOULD FALL. IF THIS WERE WHAT THE POLES WERE PROPOSING, PRUST STRESSED THAT IT WOULD NOT BE ACCEPTABLE TO THE FUND. REAL WAGES (AND INCOMES) WOULD NEED TO BE REDUCED. THE ONLY QUESTION WAS BY HOW MUCH. IN ADDITION, THE FUND WOULD NOT BE INSISTING ON A FALL IN REAL CONSUMPTION. TO DO SO MIGHT ONLY INCREASE THE LEVEL OF EXCESS DEMAND. PRUST SAID THAT THE WAGE ISSUE WOULD CERTAINLY NOT BE RESOLVED UNTIL A NEW GOVERNMENT WAS FIRMLY IN PLACE.

(IV) EXTERNAL SECTOR: THE CURRENT ACCOUNT DEFICIT WOULD DETERIORATE IN 1989 TO PERHAPS DOLLARS 1.2 BILLION, BUT BY 1992 THE CONVERTIBLE CURRENCY CURRENT ACCOUNT SHOULD BE IN BALANCE. PRUST HAD REPEATED HIS EARLIER VIEW THAT BALANCE COULD BE ACHIEVED EARLIER, BUT HAD ACCEPTED THAT THIS WOULD DEPEND ON WHAT POLICIES WERE ADOPTED OVER THE NEXT YEAR OR TWO.

(V) EXTERNAL FINANCING: THE FINANCING GAP IN 1989 WOULD ESSENTIALLY BE FILLED BY THE BUILD UP OF ARREARS TO THE PARIS CLUB. THE BANKS WERE EXPECTED TO SIGN UP TO THE RECENT STEERING COMMITTEE/POLISH AGREEMENT WHICH WILL ENSURE THAT THEY WILL BE PAID ALL INTEREST THIS YEAR AND NEXT IN RETURN FOR RESCHEDULING SMALL AMOUNTS OF PRINCIPAL. AS FOR 1990 THE POLES HAD PENCILLED IN AN INCREASE IN CAPITAL INFLOWS TO DOLLARS 1.4 BILLION (FROM DOLLARS 0.3 BILLION IN 1989). THIS WOULD COMPRISE INFLOWS FROM THE IFIS TOGETHER WITH THE HOPED-FOR NEW CREDITS FROM THE PARIS CLUB. PRUST SAID THAT THE PARIS CLUB WOULD PROBABLY BE ASKED TO RESCHEDULE ALL ARREARS AND PRINCIPAL, TOGETHER WITH 75 PER CENT OR SO OF INTEREST FALLING DUE IN 1990.

(VI) STRUCTURAL POLICIES: PRUST CONFIRMED THAT THE POLES WERE CONTEMPLATING THE MEASURES MENTIONED IN TODAY'S FT ARTICLE.

5. PRUST SAID THAT THE POLES HAD ASKED IF THE STAFF WOULD BE AVAILABLE TO RETURN TO WARSAW IN AUGUST IF A NEW GOVERNMENT WERE THEN IN PLACE. PRUST HAD CONFIRMED THE STAFF'S WILLINGNESS TO DO THIS. HOWEVER, HE NOTED THAT THE ARTICLE IV MISSION WOULD IN ANY CASE TAKE PLACE IN SEPTEMBER. PRUST SAID THAT IF A NEW GOVERNMENT WERE IN PLACE BY THE LATE SUMMER, AND IF THIS GOVERNMENT WERE PREPARED TO FACE UP

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- ALMOST IMMEDIATELY - TO SOME TOUGH DECISIONS (PARTICULARLY ON WAGE GROWTH, THE BUDGET DEFICIT, AND INTEREST RATES) AND IF THE EXTERNAL FINANCING OF THE PROGRAM COULD BE SECURED FAIRLY RAPIDLY, IT MIGHT BE POSSIBLE TO BRING A SBA TO THE BOARD IN NOVEMBER. HOWEVER, MORE LIKELY, THE ARTICLE IV BOARD IN NOVEMBER COULD BE USED TO TAKE A STEER FROM DIRECTORS ON THE WAY FORWARD. FOR EXAMPLE, WOULD THE ESTABLISHMENT OF A TRACK RECORD BE NECESSARY?

6. FCO PLEASE PASS TO MOUNTFIELD, BOTTRILL AND WALSH (HMT), WARE (BOE), RICHARDSON (ERD), BREACH (ECGD) AND SHORT (CABINET OFFICE).

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The Polish Ambassador

London, 7th July, 1989.

CM 7A.

Dear Madame Prime Minister,

I have the pleasure to forward to you, Madame Prime Minister, a letter from the Chairman of the Council of State of the Polish People's Republic, General Wojciech Jaruzelski, together with an unofficial translation.

Please accept, Madame Prime Minister, the assurance of my highest consideration.

Yours sincerely
Zbigniew Gertych
Dr. Zbigniew Gertych

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland,
10 Downing Street,
London, SW1.

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Subject cc MASTER

OPS

Warszawa, dnia 1989.06.30



filed on Poland RELS Pt 10

PRZEWODNICZĄCY RADY PAŃSTWA
POLSKIEJ RZECZYPOSPOLITEJ LUDOWEJ

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T121/a/89

Szanowna Pani Premier,

W duchu wzajemnego zrozumienia i osiągniętego w ostatnim okresie znacznego postępu w stosunkach i współpracy pomiędzy Polską a Wielką Brytanią pragnę zwrócić się do Pani, Pani Premier, w sprawach dla nas najwyższej wagi.

Jak Pani wiadomo, reformowanie systemu funkcjonowania polskiego państwa i jego gospodarki znalazło się obecnie w momencie przełomowym, rozstrzygającym o przyszłości kraju.

Zdecydowanie weszliśmy na drogę głębokich przeobrażeń pozwalających na spożytkowanie żywotności i energii wszystkich sił społecznych. Następuje przyspieszenie praktycznej realizacji polityki dialogu, porozumienia narodowego, systemowych zmian. Opozycja szeroko weszła do nowego dwuizbowego parlamentu. Wprowadzane reformy tworzą podstawę nowego prawnie gwarantowanego ładu demokratycznego w państwie oraz nowego modelu gospodarczego, opartego o prawa rynkowe. Wola wszystkich sił politycznych biorących udział w "okrągłym stole" jest kontynuować tę programową linię. Są one przekonane, iż reformy powinny dokonać się na drodze ewolucyjnej. Wymaga tego nie tylko narodowa racja stanu, lecz także poczucie współodpowiedzialności za stabilność stosunków Wschód-Zachód i rozwój sytuacji na kontynencie europejskim.

Zagrożeniem jest stan naszej gospodarki. Realna jest groźba pogłębienia się gospodarczego kryzysu ze wszystkimi tego konsekwencjami. Kryzys ten usiłujemy przezwyciężyć

Jej Ekscelencja
Pani Margaret Thatcher
Premier Zjednoczonego Królestwa
Wielkiej Brytanii i Północnej Irlandii

L o n d y n

właśnie przez radykalną reformę struktur państwowych i systemu gospodarczego. Doraźnym celem jest zahamowanie i odwrócenie negatywnych tendencji, zwłaszcza inflacyjnego wzrostu dochodów i cen. Dramatyczna sytuacja zmusza nas do poświęcenia głównej uwagi tej sprawie. Wdrażamy do praktyki założenia programu gospodarczego określającego kierunki i przedsięwzięcia polityki dostosowawczej na lata 1990-92. Skuteczna realizacja tych założeń stanowić będzie punkt wyjścia do tego co, w uzgodnieniu z Międzynarodowym Funduszem Walutowym, zamierzamy osiągnąć w dłuższej perspektywie.

Polskie reformy społeczno-polityczne i gospodarcze będą miały szanse powodzenia tylko wówczas jeśli uda się nam w stosunkowo krótkim czasie przezwyciężyć obecną trudną sytuację gospodarczą, jeśli będziemy mogli szybko uzyskać istotny postęp w przywracaniu wewnętrznej ekonomicznej równowagi. Gospodarcze wsparcie Polski z zewnątrz ma dla osiągnięcia tego celu kardynalne znaczenie. Jest to zgodne stanowisko władzy i opozycji. Niezmiernie istotne znaczenie ma tutaj czynnik czasu.

Pomoc Polsce jest niezbędna dla dokonania szybkich zmian strukturalnych związanych z modernizacją i pełnym oparciem gospodarki na prawach rynku, a przez to włączenie jej w nurt gospodarki światowej.

Przejście z gospodarki nakazowej na rynkową wywołuje silne napięcia społeczne. Najtrudniejszym problemem jest urynkowienie gospodarki żywnościowej, dotychczas głęboko dotowanej. Zapobieżenie tym napięciom wymaga dysponowania odpowiednimi rezerwami, potrzebnymi dla uniknięcia drastycznego spadku spożycia żywności oraz pobudzenia produkcji własnego rolnictwa i przemysłu spożywczego.

Chcę jednocześnie z całą mocą stwierdzić, iż mamy pełną świadomość, że przede wszystkim my sami musimy uzdrowić gospodarkę i ponieść związane z tym koszty. Zewnętrzne wsparcie nie ma więc zastąpić koniecznych reform i dostosowań rynkowych, lecz je wzmocnić.

Deklaracje rządów zachodnich, a w szczególności rozmowy z Panią, Pani Premier, w czasie naszych niedawnych spotkań w Warszawie i Chequers utwierdzają mnie w przekonaniu, iż chcą one udzielić polskiej gospodarce rzeczywistej, skutecznej pomocy.

Wiem, iż zakres i formy tej pomocy mają być przedmiotem obrad szczytu siedmiu najwyżej uprzemysłowionych państw w Paryżu, 14-16 bm. Wydaje mi się słuszne i pożyteczne, aby w czasie dyskusji w tym punkcie znane były polskie potrzeby i oczekiwania. Są one zestawione poniżej. Zwróciłem się do Prezydenta Francji F. Mitterranda o ich przedstawienie i zarekomendowanie szefom państw i rządów uczestniczących w paryskim spotkaniu. Do Pani, Pani Premier, zwracam się z prośbą o poparcie naszych postulatów.

1. Niezbędne jest zewnętrzne wsparcie dla uruchamianego przedsięwzięcia, które doprowadzić ma do oparcia całej gospodarki żywnościowej na zasadach rynkowych. Jego przeprowadzenie wymaga odpowiednich rezerw na pokrycie niedoborów, które wystąpią w początkowym okresie demonopolizacji tego sektora gospodarki, przechodzenia w nim na mechanizmy rynkowe. Wsparcie tej reformy mogłoby obejmować m.in. dostawy dotowanych artykułów żywnościowych oraz otwarcie gwarancji kredytowych na ich zakupy. Szacujemy, iż potrzeby w tym zakresie w okresie dwóch lat mogą wynieść 1 mld USD.

2. Głębokie zniekształcenia w strukturze gospodarczej i wysokie zadłużenie Polski wymagają szybkiego uzgodnienia z Międzynarodowym Funduszem Walutowym programu gospodarczego, który w okresie do 1992 roku pozwoliłby na zasilenie gospodarki kredytami o wartości około 2 mld USD. Wsparcie kredytowe programu dostosowawczego powinno nastąpić natychmiast po jego uzgodnieniu. Skuteczna realizacja programu - poprzez przywrócenie wewnętrznej równowagi gospodarczej - zapewniłaby osiągnięcie równowagi obrotów bieżących z zagranicą.

3. Porozumieniu z Międzynarodowym Funduszem Walutowym towarzyszyłaby restrukturyzacja zadłużenia gwarantowanego wobec państw zgrupowanych w Klubie Paryskim. Zakładamy, iż warunki tej restrukturyzacji uwzględnią ulgi i koncesje

stosowane wobec państw szczególnie zadłużonych. Restrukturyzacja bieżących zobowiązań (łącznie z zaległościami) dokonana zostałaby jak najszybciej, a zobowiązań zapadających w latach programu (1990-92) po jego wprowadzeniu.

4. Operacje redukcji niegwarantowanego długu i kosztów jego obsługi oraz zamiana części tego długu na inne formy zobowiązań powinny stanowić integralną część problemu rozwiązywania zadłużenia Polski. Zakładamy, iż działania w tej mierze będą aktywnie wspierane przez międzynarodowe instytucje finansowe oraz rządy państw wierzycielskich.

5. Prawidłowe funkcjonowanie gospodarki oraz obsługa zadłużenia wymagają także zwiększenia zdolności eksportowych Polski. Wyjście naprzeciw w tej mierze stanowiłyby następujące kroki:

- uruchomienie kredytów Banku Światowego na częściowe sfinansowanie przygotowanych już proeksportowych projektów inwestycyjnych o wartości około 300 mln USD,

- szybkie opracowanie i uruchomienie przez Bank Światowy pożyczki strukturalnego dostosowania (SAL) o wartości około 500 mln USD, wspomagającej umocnienie proeksportowego sektora gospodarki,

- otwarcie dostępu do rządowych gwarancji kredytowych na finansowanie inwestycji proeksportowych i modernizacyjnych,

- poprawa dostępu do rynków m.in. poprzez przyznanie Polsce preferencji celnych w ramach GSP.

6. Gospodarcza odnowa zakłada dokonanie gruntownych zmian w strukturze produkcji oraz stosunkach własnościowych. Ich wsparcie mogłoby wyrazić się poprzez:

- realizację szeregu sektorowych projektów Banku Światowego (górnictwo, telekomunikacja, bankowość),

- aktywne zachęcanie inwestorów do ich kapitałowego angażowania się w Polsce m.in. poprzez identyfikację przez

ekspertów rządowych możliwości inwestycyjnych i objęcie inwestycji w Polsce gwarancjami rządowymi. Stworzono już prawne warunki do przekształcania przedsiębiorstw państwowych w spółki z udziałem kapitału zagranicznego bez ograniczenia wielkości jego udziału,

- współudział w finansowaniu rozwoju i modernizacji przechowalnictwa i przetwórstwa żywności. Program ten mógłby być koordynowany przez Bank Światowy i/lub Europejski Bank Inwestycyjny. Wielkość potrzebnych środków na ten cel (do wykorzystania w okresie 3 lat) określamy na około 0,5 mld USD,

- udział w tworzeniu celowych funduszy przeznaczonych na rozwój prywatnego sektora w rolnictwie (np. Fundacja Wodna),

- pomoc w szkoleniu kadr menadżerskich oraz specjalistyczne doradztwo przy projektowaniu nowych rozwiązań i instrumentów gospodarczych.

Żywię nadzieję, iż zechce Pani wnikliwie rozważyć treści tego pisma i poprzeć zawarte w nim postulaty.

Wysoko cenię Pani zrozumienie dla obecnej trudnej sytuacji gospodarczej Polski. Jestem przekonany, iż w rezultacie Pani osobistego zaangażowania podjęte zostaną konkretne kroki przyczyniające się do jej szybkiego złagodzenia.

Z wyrazami szacunku i najlepszymi życzeniami

A handwritten signature in dark ink, appearing to be 'Jan', followed by a horizontal line.



DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
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Extract details: <i>Telegram Powell to Scowcroft dated 4 July 1989 (2 copies)</i>	
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Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.

This should be an indication of what the extract is,

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Do not enter details of why the extract is sensitive.

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Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.



SECRET

fric DS
bc: PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 July 1989

5a

POLISH DEBT AND ECONOMY:
MESSAGE FROM SCOWCROFT

Thank you for your letter of 3 July covering a draft reply to General Scowcroft's message to me about Polish debt. I have sent it off and enclose a copy for your records.

I am copying this letter and enclosure to Alex Allan (HM Treasury).

C. D. POWELL

Richard Gozney, Esq.
Foreign and Commonwealth Office

SECRET

SECRET

FOLLOWING FOR GENERAL SCOWCROFT FROM CHARLES POWELL, NUMBER
10 DOWNING STREET

POLAND

Thank you for your message about planning for the President's forthcoming trip to Poland.

The delinking of World Bank loans from an IMF agreement was one of the options we considered before General Jaruzelski's visit to the United Kingdom in June. We took the view at that time that all three of the World Bank loans for Poland currently under consideration comprised policy-based lending providing free foreign exchange to support structural reforms, and that this should only be provided within a macroeconomic framework which has been approved by the IMF. The World Bank itself has generally taken the view that in Poland's case there can be no question of going ahead with non-project loans unless a satisfactory macroeconomic framework is in place.

Nothing has happened since General Jaruzelski's visit to change our view; while it is clearly important to respond to welcome political developments in Poland, we do not believe we should do anything to reduce pressure on the Poles to come to terms with the IMF.

Caley

Ja.02831

MR POWELL

cc Sir R Butler

COP 4/7

UNCERTAINTY OVER THE ELECTION OF THE POLISH PRESIDENT

1. General Jaruzelski announced to the PZPR Central Committee on 30 June that he did not intend to stand for President. In a statesmanlike address, broadcast on Polish TV, he said that having taken "social realities" into account, he was aware that public opinion associated him more often with martial law than with reform. The key issue for Poland, was integration and national agreement. He was therefore asking the Central committee to nominate General Kiszczak instead.

2. Jaruzelski took this step because his election as President was in serious doubt. Solidarity had said that they would not vote for him; and it was far from certain that all the PZPR Parliamentary Group members and coalition Party members would support him either. It is still not clear whether we should take Jaruzelski's move at face value; or whether it was, rather, a tactic to persuade his Party and coalition partners, and some Solidarity members, to accept that there was no viable alternative and to lend him their support. (Jaruzelski has used the threat of resignation to achieve his ends in the past, eg at the PZPR Central Committee plenum in December 1988.) At all events, the nomination of Kiszczak has already run into difficulties and the Party Central Committee have asked Jaruzelski to reconsider his decision. Jaruzelski could not, however, have been certain that the tactic (- if such it was) would work. So he may have calculated that the move stood at least some chance of success; and that if it failed, then he would at least have paved the way for a dignified retreat.

3. General Kiszczak, (Minister of the Interior) is one of two Politburo members who have been in contact with the opposition

since the mid-1980s. He led the Government's team at the Round Table talks, where he gained the respect of a number of Solidarity leaders; he is seen by them as a man of his word. Walesa appears to be supporting his candidature among Solidarity members. However, both Solidarity's parliamentary Citizens' Committee, and the PZPR's coalition partners, have said that they will decide for whom to vote only on the eve of the elections. This puts the PZPR in a very difficult position. Because of its narrow majority in the National Assembly, it needs to be certain of the support of virtually all the members its own Parliamentary Party and the coalition Parties. The various groups will continue to discuss their responses throughout the week. The National Assembly was expected to meet and to vote for the President later this week, but this could be postponed. (The arrival on 9 July of President Bush complicates matters.) The outcome is extremely hard to predict.

Christopher MacRae.

A C D S MacRAE
Chief of the Assessments Staff

4 July 1989





Prime Minister

This is certainly the
right reply to
General Scowcroft. I

Foreign and Commonwealth Office

London SW1A 2AH

SECRET

3 July 1989

4 a

don't myself see any
reason to shade it,
Dear Charles, although of course we have ourselves

Polish Debt and Economy: Message from Scowcroft

Thank you for your letter of 1 July.

Support for World Bank loans in advance of an IMF agreement was one of the options considered in the paper put to Ministers before the Jaruzelski visit (the Foreign Secretary's letter of 29 May to the Prime Minister). As explained in the options paper, the ODA consider that the loans in question amount to policy-based lending, or free foreign exchange to support structural reforms. It has long been our policy not to provide such support unless a macroeconomic framework is in place which would command the support of the IMF.

We see no particular reason to change our policy now. Our overriding interest is to see Poland embark on a sustainable economic strategy in conjunction with the IMF. We do not wish to reduce the pressure on them to come to terms with the IMF by agreeing fresh injections of money at this stage.

I enclose a draft message to Brent Scowcroft.

This advice has not been seen by the Foreign Secretary because there has not been time to clear it with him in Hong Kong.

I am copying this letter to Alex Allan in the Treasury.

Yours ever,
Richard Gozney
(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

SECRET

DSR 11 (Revised Sept 85)

SECRET

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:
MR POWELL

Reference

POKAAZ

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

b

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

..... In Confidence

CAVEAT

TO:

Copies to:

MR SCOWCROFT

SUBJECT:

DASWG

Spurd m

Thank you for your message about planning for the President's forthcoming trip to Poland.

The delinking of World Bank loans from an IMF agreement was one of the options we considered before General Jaruzelski's visit to the UK in June. We took the view at that time that all three of the World Bank loans for Poland currently under consideration comprised policy-based lending providing free foreign exchange to support structural reforms, and that this should only be provided within a macroeconomic framework which has been approved by the IMF. The World Bank itself has generally taken *the view* that in Poland's case there can be no question of going ahead with non-project loans unless a satisfactory macroeconomic framework is in place. *P* Nothing has happened since *General Jaruzelski's visit* ~~then~~ to change our view; while it is clearly important to respond to welcome political developments in Poland, we do not believe we should do anything to reduce pressure on the Poles to come to terms with the IMF.

Enclosures flag(s)





the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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

**Department of
Trade and Industry**

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PB5BJL
Your ref
Date 3 July 1989

Dear Charles,

Thank you for sending Neil Thornton a copy of your letter of 21 June to Richard Gozney, Foreign and Commonwealth Office, about the Prime Minister's meeting with Professor Geremek of Solidarity.

You asked for advice which could be passed on to Professor Geremek on dealing with redundancies in the coal and steel industries. I have attached a note and booklet on BSC Industry and a note on the Iron and Steel Employees Readaptation Benefits Scheme (ISERBS) scheme. I have also included notes on measures to deal with redundancies in the shipbuilding sector, since this is probably also relevant to the Polish situation. (The Sunderland package is, of course, in abeyance at the moment but the idea will still be of interest to Professor Geremek).

I understand that the Department of Energy will be supplying information on coal industry measures.

You might also like to pass on information I have enclosed on the help available to firms in the Assisted Areas. Most of our UK coal, steel and shipbuilding redundancy areas are covered by Assisted Areas. Firms in these areas can benefit from Regional Selective Assistance, Regional Enterprise Grants and the Consultancy Initiative, as described in the enclosed extracts from the booklet "the Enterprise Initiative".

Finally, you will be interested to know that nationalisation of the mining industry was raised at a meeting the UK side had with the Polish Deputy Industry Minister during the recent UK/Polish Joint commission in Warsaw.





the department for Enterprise

The Poles informed the UK side that they would be issuing invitations to the Chairman of British Coal and British Steel to visit Poland for discussion of their respective sectors. the Chairman of British Coal has accepted in principle and possible dates for a visit are being discussed. The invitation to British Steel should arrive with them shortly.

Yours,


GARETH JONES
Private Secretary



POLAND: LERIANAS PRO

36

1910

1910

North East Shipbuilders Ltd (NESL): Package of Measures to
Promote Alternative Employment and Enterprise in Sunderland

The closure of NESL, involving the loss of around 2,000 jobs, was announced by the Chancellor of the Duchy of Lancaster last December. At the same time, the Chancellor announced a package of measures worth £45 million designed to assist those affected by the closure and to assist alternative employment in the town.

Since then, a number of groups have shown keen interest in buying some of the NESL yards and employing some of the former workers. The package of measures is therefore being held in abeyance whilst negotiations with interested parties take place.

Summary of Measures:

- Enterprise Zone for Sunderland
- An enhanced factory building programme in Sunderland by English Estates (valued at about £7.5 million)
- A new Enterprise Agency to be set up, wholly funded by the DTI to the tune of £10.5 million over the next 3 years. This company will be given the following remit:
 - i) Offer counselling services to the redundant NESL employees on new employment and enterprise opportunities
 - ii) retraining of redundant BS workers
 - iii) wider "enterprise" measures to help stimulate new employment and enterprise in Sunderland. The measures will be targetted at a wider audience than just the redundant BS workers.

DTI
June 1989

Booklet not copied

British Shipbuilders Lump Sum Redundancy Scheme

Until December 1986, British Shipbuilders (BS) operated a statutory Shipbuilding Redundancy Payment Scheme (SRPS). The SRPS consisted of two elements:

- a) a lump sum, whose size depended partly on age and partly on length of service
- b) for those over 40 at the time of redundancy, a weekly support payment, related to length of service for up to two years.

The SRPS has been replaced by a Lump Sum scheme, which is calculated on the following basis:

- (a) an amount equivalent to three weeks' pay for each year of service, up to a maximum of 20 years' service.
- (b) an age-related amount.

The Corporation has costed the scheme to show how it would compare with a continuation of the SRPS Scheme. BS has also made comparisons of how much a sample of employees with varying age/service profiles would get under an SRPS look-alike scheme and under the lump sum scheme.

Under a Scheme resembling SRPS, the average cost per case would be £10,300, whereas under the proposed lump sum scheme, the average cost per case would drop to £9,000. This is a potential saving 4%, of which 1.5% is a saving on administration costs.

Most individual BS workers however gain under a lump sum scheme, in particular the younger (aged under 40) workers. An employee of 33 might have received a lump sum of £1,700 under SRPS; under the lump sum scheme, this figure goes up to £2,500. Employees over 40 tend to get less in case terms from the lump sum scheme than from an SRPS-like scheme. However, the married over-40s are in fact better off on the lump sum scheme, because the lump sum is not taxable, as were the weekly SRPS support payments.

BRITISH SHIPBUILDERS ENTERPRISE LTD

British Shipbuilders Enterprise Ltd (BSEL) was set up in response to an announcement in May 1986 that 3500 BS employees were to be made redundant over the course of the following 18 months or so.

BSEL's basic objective was to establish job opportunities for the BS employees affected by the redundancy programme. Their activities to this end have included:

- counselling employees to establish their concerns and requirements and, where appropriate, referring them to other agencies for practical help;
- selecting individuals for retraining (according to identified needs in the areas concerned), and providing income support during retraining;
- provision of loan finance for new business start-ups (up to £10,000 per individual) and business expansion involving the employment of redundant BS workers (up to £50,000 per business).

BSEL was wound up on 31 December 1987, having completed its remit as above. By that stage, of those actively seeking new work (14% of redundant workers had opted for early retirement):

1131 (38%) had been on (or were on) retraining courses;

1604 (53%) were in new jobs. (This figure would be expected to have risen since 31 December, as further people completed BSEL-sponsored training courses. But details of numbers currently in new jobs not known;)

100 new businesses had been established by redundant BS workers with BSEL help. Continuing help for such enterprise is being sought in the areas concerned through the establishment of joint venture funds with local enterprise agencies;

(500 of the total redundant workforce opted not to use BSEL services; an element of these may therefore have found new work in their own right but are not included in the above figures.)

BSEL was funded wholly by DTI (£5m), although the MSC contributed £1.4m towards the cost of the training courses.

EM6
18 April 1988
SJSAAF

BRITISH STEEL (INDUSTRY) LTD

1. The British Steel Corporation established BSC (Industry) Ltd (now BS(I) Ltd following privatisation of the British Steel Corporation) in 1975.

The company was given the task of planning, co-ordinating and developing all BSC's activities aimed at attracting new jobs to steel closure areas. In recent years BS(I) has concentrated its efforts on small firms, providing assistance by selling or leasing unwanted BS land for development, buying and leasing-back equipment, supplementing Government and European retraining aid, developing managed workshop facilities, assisting market research and providing short-term unsecured loans.

2. BS (Industry) has increasingly sought to provide assistance through Local Enterprise Agencies, normally involving a combination of local authorities, large firms, clearing banks and Development Agencies, with the exact mix depending on local circumstances. BS (Industry)'s contribution is mainly in the form of seconding staff for an agreed period of time and in providing workshops. It is also adding to these roles by seeking out and developing innovative businesses and the people who have the enterprising qualities to make them successful.

3. BS (Industry) operates in 19 "Opportunity Areas" and claimed at March 1987 to have helped over 2,608 companies creating some 65,249 jobs. In addition, it has developed nine small workshop complexes.

4. As anticipated, BS (Industry) became self-supporting in 1984/85. BSC's financial contribution to BS (Industry) in the previous three years totalled some £27 million.

IRON AND STEEL EMPLOYEES READAPTATION BENEFITS SCHEME
(ISERBS)

ISERBS is a statutory scheme jointly financed by the Department of Trade and Industry and the European Coal and Steel Community (ECSC). Under the scheme, benefits are paid to steel workers who lose their jobs as a result of permanent capacity reductions in the UK iron and steel industry.

2. Depending on their age and circumstances, displaced workers may be eligible for a variety of benefits. In summary, these are:

- a) a weekly payment during up to 52 weeks' unemployment following redundancy (104 weeks for those aged 55 or over);
- b) the alternative option for those aged 55 or over of taking a lump sum paid into a pension scheme;
- c) weekly benefit whilst undergoing up to 52 weeks of approved vocational training;
- d) 'make-up' pay, ie income payments to compensate workers who take up low-paid employment or self-employment following redundancy.

3. Since the scheme's inception in 1974, just under 109,000 former steelworkers have received ISERBS benefit. Total expenditure on scheme benefits has been just over £413m. The ECSC has contributed approximately 40% of the cost of benefits paid.



File DA
DAIACA

10 DOWNING STREET

LONDON SW1A 2AA

3 July 1989

From the Private Secretary

POLAND: SOLIDARITY

I enclose a copy of a letter from Gareth Jones (DTI) responding to Professor Geremek's request for advice on dealing with redundancies in the coal and steel industries.

The material enclosed with the letter will no doubt be of interest to Solidarity, as will the further material now received from the Department of Energy and also enclosed. You might ask our Ambassador in Warsaw to pass them on as a first contribution. But I think Professor Geremek envisaged something more than reading material, and was thinking in terms of visits by experts. Clearly the proposed visit of the Chairman of British Coal and the Chairman of British Steel are very important in starting this process. But you will want to consider with the Departments what further advice and consultancy we can provide.

I am copying this letter to Gareth Jones (Department of Trade and Industry) and to Stephen Haddrill (Department of Energy).

(C.D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

DJ



me from
ack

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 July 1989

Dear Stephen.

PRESIDENT BUSH'S VISIT TO POLAND

I enclose a copy of a message I have received from General Scowcroft about the President's visit to Poland. As you will see, he says that the Americans expect to be pressed by the Poles to delink two project loans for Poland by the World Bank from the conclusion of an IMF standby. He asks for a very early indication of HMG's views. I should be grateful for advice and a draft reply, which I will need to put to the Prime Minister.

I am copying this letter and enclosure to Alex Allan (H.M. Treasury), Neil Thornton (Department of Trade and Industry) and Myles Wickstead (Overseas Development Agency).

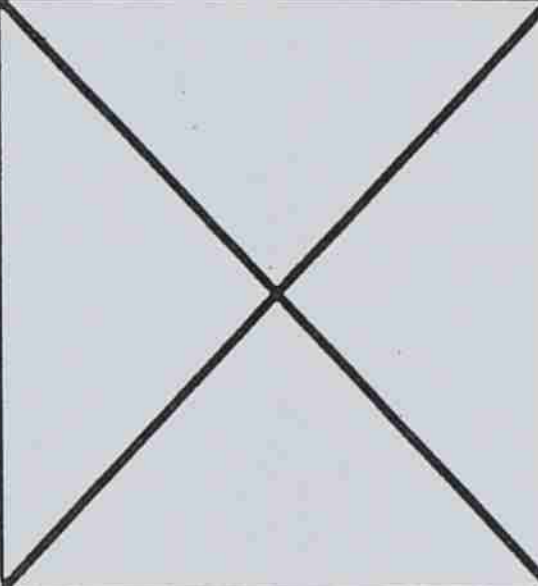
Yours sincerely,
C. D. Powell

C. D. POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

for

The National Archives

DEPARTMENT/SERIES <i>PPM 19</i>	Date and sign
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R3/7

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 238 2149

Charles Powell Esq
10 Downing Street
LONDON
SW1A 2AA

30th June 1989

Dear Charles,

PRIME MINISTER'S MEETING WITH PROFESSOR GEREMEK

File with CP
In your letter of 21 June you sought advice on British experience in coping with redundancies in the coal industry. I enclose a note which I hope will meet your needs.

Tim

Stephen

S HADDRILL
Principal Private Secretary



COPING WITH REDUNDANCIES IN THE BRITISH COAL INDUSTRY

1. The British coal industry has experienced substantial contraction over the past 30 years as a result of both competition from other fuels and changing technology. The necessary redundancies have been achieved entirely on a voluntary basis, through the operation of schemes for payments to workers leaving the industry. There have been two such schemes: the Redundant Mineworkers' Payments Scheme (RMPS) from 1967 to 1987; and British Coal's scheme from 1987 onwards. In addition, British Coal Enterprise helps create jobs in coal mining areas.

REDUNDANT MINEWORKERS' PAYMENTS SCHEME

2. This was a Government Scheme introduced in 1967 and terminated in 1987. Payments to mineworkers leaving the industry have varied over the years. The 1986/87 payments were:

- mineworkers aged 21-49 received a lump sum based on £1,000 for each year of service;
- mineworkers aged 50 and over received a lump sum together with weekly benefits of up to 90% of net pay before redundancy.

Expenditure on RMPS benefits over the 10 years up to 1987 amounted to over £2 billion.



BRITISH COAL REDUNDANCY SCHEME

3. Since 1987 British Coal has operated its own redundancy arrangements. The current terms involve lump sum payments based on period of service as follows: for each year of service between ages 16 and 34, £500; for each year between 35 and 65, £750; together with an additional £7,500 to those with over 15 years service. For example, a mineworker aged 51 with 25 years service would get £33,000. No weekly benefits are paid other than pension when that is due.

4. The Government reimburses British Coal over 70% of the cost of redundancies through the payment of Restructuring Grant. Provision for the payment of £750m has been made for the years 1987/88-1989/90.

5. Since the RMPS was introduced in 1967, the number of mineworkers has fallen from 340,000 to around 75,000, and annual deep-mined output from 166 million tonnes to 103 mt.

BRITISH COAL ENTERPRISE

6. British Coal Enterprise Limited, a subsidiary company of the British Coal Corporation, was set up in 1984 to help create new business opportunities and provide alternative jobs in traditional coal mining areas. The Government provided the company initially with £5m. This has been increased in stages to the present level of £60m. The bulk of these funds are used to make loans to new businesses. As the loans are repaid, further advances can be made to new projects.



7. British Coal Enterprise provides assistance in the following ways:

- loans to new businesses or firms wanting to relocate to coalfield areas, together with advice and guidance;
- support for local Enterprise Agencies;
- provision of land and premises, including in particular workshops for small new enterprises with supporting services and advice;
- identification of special training needs.

8. So far some £54m has been committed by British Coal Enterprise to projects involving a total funding of over £400m - the bulk of the investment being attracted from other sources such as banks, local government and central government grants. This funding has helped to create over 33,000 jobs.

9. British Coal Enterprise have invested a further £6.5m in workshops, helping to create an additional 6,500 job opportunities.



10. British Coal Enterprise also operate a Job and Career Change Scheme whose aim is to find direct alternative employment for mineworkers as they leave the coal industry. This is achieved through the establishment of "Job Shops" at closing collieries, by means of which local job vacancies are identified and redundant employees matched to these vacancies. Where this cannot be immediately achieved, British Coal Enterprise offer re-training relevant to local employment opportunities.

11. British Coal Enterprise are willing to offer advice to mining industries in other countries based on their experience of creating jobs in British mining areas.

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MDADAN 4942

ADVANCE COPY

CONFIDENTIAL

FM WARSAW

TO DESKBY 301600Z FCO

TELNO 388

OF 301455Z JUNE 89

AND TO PRIORITY IMF/IBRD WASHINGTON, DTI, ECGD, HM TREASURY

AND TO PRIORITY BANK OF ENGLAND

AND TO ROUTINE EAST EUROPEAN POSTS, MOSCOW, ACTOR, UKDEL NATO

AND TO ROUTINE UKREP BRUSSELS

POLAND : WESTERN RESPONSE TO DETERIORATING ECONOMIC SITUATION

SUMMARY

1. GEREMEK CONFIRMS SOLIDARITY CONCERN ABOUT PRICE RISES AND SHORTAGES. RENEWS PLEA FOR EC FOOD AID.

DETAIL

2. GEREMEK CONFIRMED TO ME TODAY THE OPPOSITION'S CONCERN OVER THE DETERIORATING ECONOMIC SITUATION. THOUGH HE DID NOT EXPECT ANY SERIOUS PUBLIC UNEREST UNTIL THE AUTUMN (WHEN THERE MAY BE A FURTHER BOUT OF INCREASES AND WAGE RISES), HE MADE CLEAR THAT THE SITUATION WAS SUCH THAT IT WOULD BE IMPOSSIBLE FOR SOCIAL REASONS TO LOOK TO THE POLISH PEOPLE FOR IMMEDIATE SACRIFICES IN THE CONTEXT OF AN IMF PROGAMME. HE ACCEPTED HOWEVER, THE NEED TO PRESENT A PROGRAMME TO THE IMF AS SOON AS POSSIBLE AFTER THE NEW GOVERNMENT IS FORMED AND THE OPPOSITION CAN BE SATISFIED, THROUGH MEMBERSHIP OF THE APPROPRIATE PARLIAMENTARY COMMITTEE, THAT ITS PROPOSALS DESERVES BACKING.

3. GEREMEK DREW PARTICULAR ATTENTION TO THE CRITICAL SITUATION OVER FOOD SHORTAGES. HE REPEATED HIS REQUEST TO THE PRIME MINISTER FOR THE EC TO MAKE AVAILABLE SURPLUS FOOD (ESPECIALLY BEEF) AS A TEMPORARY MEASURE. THIS WOULD BE IMPORTANT, NOT ONLY IN MATERIAL TERMS, BUT ALSO SYMOBICALLY AS A TOKEN OF WESTERN SUPPORT AS POLAND WORKS OUT ITS ECONOMIC REFORM STRATEGY.

4. GEREMEK HINTED THAT BUSH MIGHT ANNOUNCE MEASURES OF EMERGENCY FOOD AID DURING HIS VISIT ON 9 JULY. I AM AWARE THAT THE PRIME MINISTER TOLD GEREMEK THAT THE QUESTION OF THE AVAILABLILITY OF THE SURPLUS FOOD WOULD NEED TO BE CONSIDERED WITHIN THE EC. I HOPE THAT IT WILL BE POSSIBLE TO DO SOMETHING IN THIS AREA. IF SO, I HOPE THAT WE CAN ENSURE EARLY PUBLICITY FOR OUR ADVOCACY.

CONFIDENTIAL

063120
MDADAN 4940

ADVANCE COPY

CONFIDENTIAL

FM WARSAW

TO DESKBY 301600Z FCO

TELNO 387

OF 301530Z JUN 89

INFO ROUTINE MOSCOW, EAST EUROPEAN POSTS, WASHINGTON, UKDELNATO

INFO ROUTINE PARIS, ACTOR, UKREP BRUSSELS

MY TELNO 385: PRESIDENTIAL ELECTION

SUMMARY

POLITICAL FERMENT INCREASES CENTRAL COMMITTEE NOW IN SESSION TO DISCUSS PRESIDENTIAL ELECTION. PARALLEL CONTACTS WITH OPPOSITION. PROSPECTS FOR JARUZELSKI RECEDE. KISZCZAK PROPOSED TO OPPOSITION AS ALTERNATIVE.

DETAIL

2. THE ISSUE OF THE NEW PRESIDENT IS ATTRACTING EVER MORE URGENT ATTENTION BOTH WITHIN THE PARTY AND BETWEEN THE PARTY AND OPPOSITION. THE CENTRAL COMMITTEE IS NOW IN SEMI- PERMANENT SESSION(THE 13 TH PLENUM HAS IN EFFECT BEGUN). GEREMEK HAS TOLD ME THAT CONTACTS BETWEEN SENIOR REPRESENTATIVE OF THE PARTY AND OPPOSITION ARE TAKING PLACE IN PARALLEL.

3. GEREMEK HAS CONFIRMED THAT OPPOSITION MPS WILL NOT BE WILLING TO VOTE FOR JARUZELSKI AT THE NATIONAL ASSEMBLY. HE INSISTED THAT JARUZELSKI WOULD HAVE TO RELY ON COALITION SUPPORT, WHICH HE JUDGED JARUZELSKI WOULD GET IF NOMINATED BY HIS PARTY. THIS SUGGESTS THAT THE OPPOSITION WILL NOT BE PREPARED TO HELP JARUZELSKI BY STAYING AWAY FROM THE CHAMBER.

4. THE QUESTIONS FOR JARUZELSKI AND HIS PARTY ARE THEREFORE: FIRST, WHETHER HE CAN OBTAIN THE NOMINATION OF HIS CENTRAL COMMITTEE: AND SECOND, WHETHER HE OR THEY IS PREPARED TO BE ELECTED ON A PURELY PARTISAN BASIS. THE ANSWER TO THE SECOND QUESTION, AND PERHAPS (AS A RESULT) TO THE FIRST ALSO NOW SEEMS TO BE IN THE NEGATIVE.

5. GEREMEK TOLD ME PRIVATELY THAT HE HAD BEEN APPROACHED BY PARTY REPRESENTATIVES TO SAY THAT THE PZPR WOULD BE PREPARED TO NOMINATE KISZCZAK AS ITS PRESIDENTIAL CANDIDATE IF THE OPPOSITION WAS PREPARED TO SUPPORT HIM. WALESA IS TRAVELLING FROM GDANSK

TODAY TO DISCUSS THE PROPOSAL FURTHER. IT IS , IN GEREMEK' S VIEW, ON THE CARDS THAT BY THE EVENING OF 1 JULY AGREEMENT WILL HAVE BEEN REACHED TO NOMINATE KISZCZAK. THIS WOULD CLEAR THE DECKS FOR THE INAUGURAL MEETINGS OF THE NEW SEJM AND SENATE ON 3 JULY FOLLOWED BY A MEETING OF THE NATIONAL ASSEMBLY FORMALLY TO ELECT THE PRESIDENT LATER THAT WEEK. THIS ASSUMES AGREEMENT CAN BE REACHED ON THE WORDING OF THE OATH: THE OPPOSITION ARE NOT PREPARED TO ACCEPT REFERENCES TO A CONSTITUTION WHICH PROVIDES FOR THE LEADING ROLE OF THE PARTY.

6. GEREMEK READILY ADMITTED THAT THIS WOULD BE ROUGH JUSTICE ON JARUZELSKI. HIS ELECTION AS PRESIDENT HAD BEEN PART OF THE ROUND TABLE PACKAGE EVEN IF NOT FORMALLY REFLECTED IN THE DOCUMENTS. INDEED THE OFFICE ,WITH ITS STRONG MILITARY CHARACTER HAD T, TO A LARGE EXTENT, BEEN DESIGNED FOR HIM. GEREMEK ADMITTED THAT JARUZELSKI HAD PERSONALLY TAKEN THE KEY DECISIONS PAVING THE WAY FOR THE ROUND TABLE AND THE LEGALISATION OF SOLIDARITY. BUT ALTHOUGH OPPOSITION MEMBERS INVOLVED IN THE ROUND TABLE WERE AWARE OF THIS, THE POPULATION AT LARGE WAS NOT. FOR THEM, JARUZELSKI REMAINED THE PERSONIFICATION OF MARTIAL LAW. THE FACT THAT HE DID NOT PLAY A DIRECT PART IN THE ROUND TABLE PROCESS MADE IT THAT MUCH MORE DIFFICULT FOR THE PUBLIC TO ASSOCIATE HIM WITH THE REFORM PROGRESS. GIVEN THE NATURE OF THE PRESIDENTIAL OFFICE, THE ONLY ALTERNATIVE TO JARUZELSKI WAS ANOTHER GENERAL, AND THE OBVIOUS CANDIDATE WAS KISZCZAK.

BARRETT

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NNNN

**PRIME MINISTER'S
PERSONAL MESSAGE**

Warsaw, 30 June, 1989.

SERIAL No. 121(1)(a)/89

Subject filed in Poland: Relations Pt 10

cc MASTER

OPS

Dear Madame Prime Minister,

In the spirit of mutual understanding and significant improvement recently achieved in the relations and co-operation between Poland and the United Kingdom I wish to turn to you, Madame Prime Minister, in matters of paramount importance for Poland.

As you know, the reforming of the system by which the Polish state and its economy operate has reached a breakthrough point, decisive for the country's future.

We have embarked with determination upon a path of thorough changes permitting the vitality and energy of all social forces to be utilised. Practical steps toward implementing the policy of dialogue, national consensus and reforming the system have gained momentum. The opposition has widely joined the new bicameral parliament. The reforms being carried out provide the state with the foundation for a new democratic form of government safeguarded by law, and the economy with a new model of activity subjected to market forces. All political forces participating in the Round Table wish to continue this policy line. They are convinced that the reforms should come through evolution. Such is the imperative of the nation's *raison d'Etat*, but also of the sense of shared responsibility for the stability of East-West relations and developments on the European continent.

A threat is spelled by the condition of our economy. An aggravating economic crisis fraught with all the attendant consequences is a realistic perspective. It is through radically reforming the State and its economic system that we are trying to overcome that crisis. The immediate goal is to stop and reverse the negative trends, particularly the inflation-generated wage and price

Her Excellency
The Rt. Hon. Margaret Thatcher, MP,
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland.

LONDON.

increase. The gravity of the situation compels us to concentrate a great deal of attention on this matter. We are putting into practice the economic policy defining ways and means for a programme of adjustment during 1990-1992. Successful implementation of this policy will provide a starting point for what we want to accomplish, in consultation with the International Monetary Fund, in a long-term perspective.

In Poland, the social and economic reforms may succeed only if we overcome in a relative short time the present economic predicament, if we make rapid, significant progress in restoring economic stability. External economic assistance for Poland is of cardinal importance for the attainment of this goal. This view is endorsed by the Government and opposition alike. And time is the factor of extreme importance.

Poland needs assistance to make rapid structural changes related to modernisation and full-scope re-orientation of its economy toward the market model, thereby enabling it to become part of world economy.

Transition from the command to market economy provokes severe social tension. A major obstacle is encountered in creating the food market, heavily subsidised until recently. To avert such tension it is necessary to have adequate resources preventing a severe decline in food consumption and stimulating the growth of domestic agriculture and foodstuffs industry.

I should like to strongly emphasise how very much aware we are of our principal duty to bring about economic recovery by our own devices, that we ourselves will have to pay the necessary price. Thus, external assistance is not meant to replace the necessary reforms and market adjustments, on the contrary - it is meant to nurture them.

Declarations made by Western governments, and particularly the talks which we had, Madame Prime Minister, during our recent meetings in Warsaw and at Chequers, reassure me that there is a will to extend genuine, effective assistance to Poland's economy.

I am aware that the scope and form of such assistance will be

discussed at the summit meeting of the seven industrial powers in Paris on 14-16 July. It would be appropriate and useful, I believe, that Poland's needs and expectations in this respect were known for the purpose of such discussion. They are listed below. I have requested the President of France, Monsieur Mitterrand, to present and recommend them to the leaders of States and Governments participating in the Paris meeting. To you, Madame Prime Minister, I address my request for supporting our proposals.

1. It is necessary to receive external assistance for the project being launched to introduce market system in the whole of the foodstuffs economy. The process requires adequate resources to make up for temporary short supply expected to occur at the initial stage of abolishing monopolies in this economic sector and its switching to market operation. Measures of support for such reform could cover, i.a., supplies of subsidised foodstuffs and provision of guaranteed credits for purchasing them. We estimate our requirements in this aspect during two years at one milliard US dollars.

2. Severe deformation of Poland's economic structure and the high debt call for reaching rapid agreement with the International Monetary Fund on an economic programme enabling Poland to receive until 1992 credits worth ca. two milliard US dollars. Credit support for the adjustment programme should become available immediately after the programme is agreed. Successful implementation of the programme - through restoring internal economic equilibrium - would ensure stability in current trade with foreign partners.

3. An agreement with the International Monetary Fund would be paralleled by the rescheduling of the guaranteed debt owed to the Paris Club member-states. We expect that the terms of rescheduling will embrace rate reductions and concessions applied to the countries with the highest debt. The outstanding payments (including those overdue) would be rescheduled as promptly as possible, while those falling due during the years of the programme (1990-1992) - after the programme is put in operation.

4. Measures of reducing the payment of the non-guaranteed part of the debt and its service rates and of partially converting it into

other forms of obligation should become integrally linked to the whole issue of settling Poland's debt. We assume that steps in this direction will be actively supported by international financial institutions and governments of creditor countries.

5. Appropriate functioning of Poland's economy and debt servicing also require increased export potential. The following steps would be conducive to it:

- opening World Bank credits to partially finance the already existing export-orientated investment projects to the value of ca. 300 million US dollars;
- speedy preparation and launching by the World Bank of the structural adjustment loan (SAL) worth ca. 500 million US dollars, augmenting the strength of the export-generating economic sector;
- providing access to government guaranteed credits for the funding of export-generating investment projects and modernisation;
- improved access to markets, i.a., by granting Poland customs preferences under GSP.

6. Economic recovery presupposes thorough changes in the industrial structure and form of ownership. A support for such changes would come from:

- implementation of a number of World Bank sectoral projects (mining, telecommunications, banking);
- active incentives for investors to commit capital for projects in Poland, i.a., by involving government experts to identify investment opportunities and by offering government guarantees for the capital invested in Poland. Legal conditions have already been laid down to transform Polish state-owned business enterprises into joint stock companies with unlimited share of foreign capital participation;
- co-operation in financing the development and modernisation of food storage and processing. Such a programme could be co-ordinated by the World Bank and/or the European Investment Bank. We estimate the amount of funds required (during a three year period) at 0.5 milliard US dollars;

- participation in the raising of target-orientated funds to promote the growth of private farming (e.g. the Water Supply Foundation);
- assistance in the training of management staff and expert consultancy to design new economic strategies and tools.

I cherish the hope that you will kindly consider, Madame Prime Minister, the content of this message and support the proposals contained in it.

I have very much appreciation for your understanding of Poland's present economic difficulties. I rest assured that your personal commitment will lead toward concrete steps being promptly taken to alleviate these difficulties.

With the assurance of my highest consideration and best regards,

(-) Wojciech Jaruzelski

106

SUBJECT cc MASTER



10 DOWNING STREET

LONDON SW1A 2AA

21 June 1989

*From the Private Secretary*PRIME MINISTER'S MEETING WITH PROFESSOR GEREMEK

The Prime Minister had a talk this afternoon with Professor Geremek of Solidarity.

The Prime Minister began by congratulating Professor Geremek on Solidarity's performance in the elections. She had been much struck by the dignified and magnanimous spirit in which General Jaruzelski had accepted the results. Professor Geremek agreed with this. Jaruzelski had been courageous enough to admit defeat quite openly. This had never happened before in a Communist country. The Professor continued that Solidarity were very grateful for the Prime Minister's support. She had been the first foreign Head of Government to come to visit them in Gdansk and to express public support in Poland for the movement and its aims. He brought her warm greetings from her many Solidarity friends in Gdansk.

The Prime Minister said that she thought Solidarity were wise not to accept the offer of a coalition. The most important task now was to get the Polish economy moving. Professor Geremek said that it would indeed be very difficult if Solidarity were asked to form a Government. He knew this was one of the options under consideration. Jaruzelski would remain as President and keep control of the Army in the Interior Ministry, while Solidarity would be given responsibility for the remainder of government. This would give the appearance of legitimising the present regime. He hoped very much the idea would not be pursued, because it would be quite difficult for Solidarity to refuse. Their preferred course was steadily to build up expertise. The next step should be free elections for local government, so that Solidarity representatives could get experience at that level.

Professor Geremek continued that Solidarity's aim was to achieve a democratic society in Poland step by step. But the scale of Poland's economic difficulties represented a grave threat to this process. There were likely to be significant price increases of basic commodities from next month and this could lead to social unrest. It was this

CONFIDENTIAL

- 2 -

which worried him much more than the activities of hard liners in the Polish Communist Party or the Soviet Union. Poland would only achieve democracy on the basis of economic reform and that in turn would require the involvement of foreign capital. There were a number of ideas for foreign assistance, in particular those devised by George Suros. Solidarity needed to be able to show its members that there was hope for improvement in the economic situation. He remembered the Prime Minister's words in Warsaw and hoped that the United Kingdom would come forward with such help. He handed over a working paper setting out what Solidarity believed that Poland needed.

The Prime Minister described the offer which she had made to General Jaruzelski. Professor Geremek said this was very generous. There was a need for rapid help so that people could see there was hope ahead. A particular area in which Solidarity would welcome assistance would be British expertise in coping with redundancies in the coal and steel sectors and finding alternative forms of work. The Prime Minister said that we would be very ready to provide advice based on our experience. Professor Geremek continued that he hoped the European Community would feel able to give assistance not so much to the Polish Government but direct for the support of reform, by creating a fund to help cope with the consequences of adjustment in Poland's basic industries. This would in effect be humanitarian aid. The Prime Minister said that she thought these matters might well be aired at the European Council in Madrid.

Professor Geremek said that he had a final request. The food situation was likely to become very difficult in Poland in the autumn. It would be very helpful if the European Community could make available surplus food as a temporary measure. The greatest need was for meat. He believed it would be a problem for the current year only. The Prime Minister said that this again was something which would need to be considered in the EC.

The Prime Minister would like us to respond rapidly to the request for advice in dealing with redundancies in the coal and steel industries. I should be grateful if the Departments concerned could let me have advice on this. We also need to consider whether we should take a lead in raising the question of further assistance to Poland at the European Council.

I am copying this letter and enclosure to Alex Allan (H.M. Treasury), Neil Thornton (Department of Trade and Industry), Stephen Haddrill (Department of Energy), Shirley Stagg (Ministry of Agriculture, Fisheries and Food) and to Trevor Woolley (Cabinet Office).

CHARLES POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

INTERNATIONAL ASSISTANCE PROGRAM FOR POLAND

A. Purpose

Poland is pioneering the transformation of totalitarian communism into democracy. It is also initiating the transformation of a centrally planned economy into a market economy. The changes in Poland may serve as an example for other countries. If successful, these peaceful reforms will alter the existing situation within the socialist bloc and will furthermore have a decisive impact on the future shape of East Central Europe.

The success of the reforms initiated in Poland by NSZZ Solidarnosc would be a great step forward in overcoming the division of Europe into two opposing camps consisting on the one hand of the democratic and developed countries and on the other of those countries that are politically and economically backward. The systemic changes taking place in Poland are bringing our country closer to the West and are also instrumental in eliminating division of Europe and increasing international security. We are convinced that the most important means for improving the living standard of the working people of Poland lies in linking economic reform within the country with Poland's greater participation in the world economy. This issue has been of central importance for the Union since it first demanded economic reforms in Poland in August of 1980, demands that culminated in the Round Table Agreement of 1989. If these reforms are not carried out, the result will be deepening economic crisis with ensuing political destabilization and a return to dictatorship.

A program of economic assistance coupled with domestic economic reforms could restore economic growth in Poland and enable it to become a major trading partner. The economic reconstruction of Poland also lies in the interests of its creditors and is furthermore indispensable if the country is to pay its debts.

The current political and economic situation motivates us to appeal to Western governments and institutions for **International Assistance Program** for Poland.

B. Forms of Assistance

Poland should be included in the group of "heavily indebted countries" (according to the IMF/World Bank definition) and should participate in the Brady Plan.

1. International Monetary Fund

A three-year Extended Arrangement to support economic stabilization, exchange rate unification, commercial bank debt reduction, privatization of industry, and restoration of balance of payments viability.

Drawings of 600 million SDRs (90 percent of quota) per year, and additional drawing of 40 percent of quota to support debt reduction operations under the Brady Plan.

The total for 3 years would be approximately 2.1 billion SDR, that is \$2.7 billion at the current SDR/\$ exchange rate.

2. World Bank

A three-year program of:

- a) structural adjustment loans (SALs), aiming at the marketization and modernization of, for example:
 - Polish exports,
 - the banking system: allowing the operation of private domestic and foreign banks which would be able, on a commercial basis, to take deposits and make loans in both zlotys and convertible currencies,
 - reduction of the energy intensity of the economy,
- b) sectoral adjustment loans (SECALs) for example for:
 - the agricultural and food processing sector,
 - the telecommunications infrastructure.
- c) the alleviation of possible unemployment by means of retraining programs for workers,
- d) IFC loans covering:
 - private sector loans,
 - cooperative sector loans,
 - capital shares of the IFC in joint ventures of Polish state owned enterprises with foreign parties.

Total borrowing would be approximately \$3 billion over a period of 3 years.

A MIGA program of non-commercial risk insurance for foreign direct investors.

3. Paris Club

A three-year rescheduling of official debt, co-terminous with the IMF's Extended Arrangement, consisting in 100 percent rescheduling of:

- a) all principal and interest falling due on pre-cutoff date debt,
- b) all principal and interest falling due on previously rescheduled debt,
- c) all arrears on pre-cutoff date debt and previously rescheduled debt.

Commitment of individual Paris Club creditors to establish and maintain export credit cover.

Establishment of a program to recycle interest and principal payments into local zloty expenditures for social investment via independent foundations for health, water supply, agriculture, education, environmental protection and others. These expenditures should be compensated by cuts in other government expenditures so as not to increase inflationary pressure.

4. Commercial Banks

Under the Brady Plan, reduction of the value of Polish debt with the help of secondary market and debt for equity swaps and debt for nature swaps.

During the period of negotiations over Brady Plan debt reduction, interim financing will be needed from the banks. During the next 12 months, interim financing should cover interest falling due of approximately \$860 million.

Poland will also require the maintenance of the existing \$1 billion revolving trade credit facility with the banks.

5. Bilateral Lending and Grants Programs

The Assistance Program is also expected to include a number of bilateral arrangements:

- a) Interim grants of surplus supplies of food commodities from the

European Community (e.g. meat, butter, grains, etc.) so as to facilitate marketization of the agricultural sector in Poland.

- b) New government and government-guaranteed credits.
- c) Co-financing and parallel financing from G-7 countries in conjunction with the IMF Extended Arrangement and with the World Bank lending program.
- d) Financial sustainment of, for example:
 - the Water Foundation for private agriculture,
 - private vocational schools for the agricultural sector,
 - state-run hospitals returned to the Church,
 - other independent foundations.

Total bilateral lending and grants would be \$4.3 billion over the next three years that will complement the lending of the international financial institutions.

6. Other Forms of Assistance

- a) Assistance from the European Community:
 - access to the Generalized System of Preferences (GSP),
 - sectoral preferences,
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 - on the job training in Community firms for Polish entrepreneurs, managers, and engineers,
 - employment permits for Polish enterprises to hire Polish workers when operating in the Community.
- b) Liberalization of access to Western markets.
- c) Restoration of normal credit access for Polish enterprises involved in exports and imports.
- d) The Overseas Private Investment Corporation (OPIC) to operate in Poland.

7. Summary

NSZZ Solidarnosc expects from the West an assistance package consisting of the following:

- a) \$2.7 billion from the IMF,
 - b) \$3 billion from the World Bank,
 - c) \$4.3 billion of new bilateral credits,
- for a total of \$10 billion.

C. Conditions for Assistance

Financial assistance should be extended in such a manner as to preclude the possibility of its being squandered as in the past, and so as to strengthen the process of marketization of the economy and its integration into the world economy.

1. For this program to be implemented, the suspension of all debt repayments to the Soviet Union until 1994 would have to be renegotiated.
2. The granting and acceptance of any and all new credits must be approved by the Senate.
3. Assistance should be conditional on the authorities of the People's Republic of Poland being required to limit inflation and to balance the economy, particularly as regards:
 - a) balancing the state budget over the next two years,
 - b) discontinuing, as of next year, the financing of state expenditures by way of increasing the money base,
 - c) and end to the granting of automatic credit to economic units,
 - d) elimination, as of next year, of excess investment demand.

If unemployment occurs during the implementation of the anti-inflation program, it will be necessary to introduce measures envisaged in the Round Table Agreement, and particularly the program of retraining of workers which would need to be supported by IMF and World Bank funds, as envisaged in point B.4 above.

4. Conditionality relating to economic reforms should include above all programs agreed to at the Round Table, particularly:

- a) elimination of administrative allocation and rationing of goods, services, and financial resources,
- b) expansion of the autonomy of state owned enterprises,
- c) elimination of unprofitable enterprises,
- d) formation of an anti-monopoly agency independent of the government by the end of 1990, and the introduction of stricter anti-monopoly laws,
- e) creation of a securities stock exchange at the beginning of 1991,
- f) the initiation in 1989 of a program setting out the speed and extent of the privatization of state property (including the means of production), in accordance with the Round Table Agreement,
- g) the achievement, over a period of time, of at first internal and subsequently full convertibility of the zloty.

5. Monitoring of the implementation of this program on the Polish side, and of the fulfillment of conditionality associated with it, will be vested in the Senate of the People's Republic of Poland as the democratically elected representative body of the nation which is legally entitled to supervise external relations.

Gdansk, .. June 1989



Foreign and Commonwealth Office

London SW1A 2AH

20 June 1989

Prime Minister

A main purpose of this
is optical to balance your
meeting with Jaruzelski

Jean Charles,

Poland: Call of Professor Geremek

C DP
20/6

Professor Geremek is here as an FCO sponsored visitor. His programme is attached. The Prime Minister has agreed to see him at 1445 on Wednesday 21 June. He is calling on the Secretary of State earlier the same day.

A professor of French medieval history, Geremek has been a senior adviser to Walesa since Solidarity began in 1980. He is now effectively Walesa's number 2, and led the Solidarity side at the Round Table talks. He has been elected (with 72% of the vote) to the Sejm (lower house) for Suwalki, in North-East Poland. He is likely to become leader of the opposition in the Sejm. He was present at the Prime Minister's meeting with Mr Walesa in Gdansk.

On the internal situation, the Prime Minister could ask:

- about likely opposition tactics in Parliament. The Senate is likely to be filled entirely with Solidarity deputies; and the authorities will have difficulty in maintaining the necessary two-thirds majority in the Sejm to overturn a Senate veto of legislation;
- about the Opposition's line on economic reform. Can they support economic austerity measures (price rises, factory closures etc) without antagonizing the workforce?

The Prime Minister could brief Professor Geremek on her offer of economic assistance to Poland. A copy of the Speaking Note she handed to General Jaruzelski is attached. She could ask Geremek's views on the "know-how" fund. How would he advise the Polish government to ask us to spend the money?

/Professor



Professor Geremek was in Washington recently to propose to the US the formation of an informal Western consortium to support Poland and Hungary through debt rescheduling; and to support private enterprise in these countries. Solidarity also made an appeal to the West when Mitterrand was in Gdansk last week. (This sought US\$10 billion worth of assistance from a combination of the IMF, World Bank and bilateral credits - see Warsaw telno 368, copy enclosed). Professor Geremek may press hard for more economic help, on these lines. If this is raised, the Prime Minister could refer back to the package she put to Jaruzelski.

President Mitterrand, when in Warsaw last week, unveiled a French plan for Poland. This is on similar lines to our offer.

Finally, the Prime Minister could say she looks forward to meeting Mr Walesa here later this year (he has accepted an invitation).

I am copying this letter to Alex Allen (HM Treasury).

Yours ever,

Richard Sorey

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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- for a total of \$10 billion.

C. Conditions for Assistance

Financial assistance should be extended in such a manner as to preclude the possibility of its being squandered as in the past, and so as to strengthen the process of marketization of the economy and its integration into the world economy.

1. For this program to be implemented, the suspension of all debt repayments to the Soviet Union until 1994 would have to be renegotiated.
2. The granting and acceptance of any and all new credits must be approved by the Senate.
3. Assistance should be conditional on the authorities of the People's Republic of Poland being required to limit inflation and to balance the economy, particularly as regards:
 - a) balancing the state budget over the next two years,
 - b) discontinuing, as of next year, the financing of state expenditures by way of increasing the money base,
 - c) and end to the granting of automatic credit to economic units,
 - d) elimination, as of next year, of excess investment demand.

If unemployment occurs during the implementation of the anti-inflation program, it will be necessary to introduce measures envisaged in the Round Table Agreement, and particularly the program of retraining of workers which would need to be supported by IMF and World Bank funds, as envisaged in point B.4 above.

4. Conditionality relating to economic reforms should include above all programs agreed to at the Round Table, particularly:

- a) elimination of administrative allocation and rationing of goods, services, and financial resources,
- b) expansion of the autonomy of state owned enterprises,
- c) elimination of unprofitable enterprises,
- d) formation of an anti-monopoly agency independent of the government by the end of 1990, and the introduction of stricter anti-monopoly laws,
- e) creation of a securities stock exchange at the beginning of 1991,
- f) the initiation in 1989 of a program setting out the speed and extent of the privatization of state property (including the means of production), in accordance with the Round Table Agreement,
- g) the achievement, over a period of time, of at first internal and subsequently full convertibility of the zloty.

5. Monitoring of the implementation of this program on the Polish side, and of the fulfillment of conditionality associated with it, will be vested in the Senate of the People's Republic of Poland as the democratically elected representative body of the nation which is legally entitled to supervise external relations.

Gdansk, .. June 1989

From: THE PRIVATE SECRETARY

cc/K



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

14 June 1989

CDP
14/6

Dear Charles,

WARSAW

with CDP?

The Home Secretary has seen Richard Gozney's letter of 9 June and has asked me to explain the background. The letter gives only half the story.

There is considerable pressure for economic migration from Poland, both temporary - people coming to the West as visitors and then working illegally; and permanent - visitors who claim political asylum on arrival. In Germany, for example, which issues visas to Poles largely on the nod, over 1.5 million visa applications (up 100% over last year) are expected this year from Poles, as compared with some 70,000 applications to come to the United Kingdom. Germany also expects to receive over 30,000 asylum applications from Polish visitors, almost all of whom will eventually be allowed to stay in Germany.

Germany's political and geographical relationship with Poland is, of course, different from ours, but the figures show the size of the problem. At present, because we operate a strict visa regime, Britain is not the most attractive destination for would-be Polish economic migrants. We nevertheless regularly uncover sizeable numbers of Polish "visitors" working illegally in Britain. On 25 February, for example, 16 Poles were found working illegally in renovating the Berkeley Towers Hotel in Belgrave Road. All had come as visitors. On 5 March, of 30 members of a tour group, only eight returned to Poland. The 22 who remained all worked in the building trade.

A skilled visa officer can spot the dubious visitors, but it takes time and resources. We have offered two immigration officers to go to Poland to augment the team there. We have also offered to send a Chief Immigration Officer to advise on procedures in Warsaw. We are discussing the timing with the Foreign and Commonwealth Office. Our immigration officers are under pressure at the moment dealing with Turkish asylum applicants, but this should be relieved by the imposition of the visa regime on Turkey on 23 June.

In the Home Secretary's view this is the right way forward. To rubber stamp visa applications from Poles without making proper enquiries in dubious cases would run the risk of attracting a flood of applications once word got around that the United Kingdom was an easy option for economic migrants. This would only increase problems in Warsaw and lead to greater numbers of illegal Polish workers being stopped at our airports or discovered on building sites in London. The Home Secretary considers that, until we can get more staff in place in Washington, an increase in visa issuing times in Warsaw is a necessary price to pay to prevent this happening, and one that in the long run will place less strain on our relationship with Poland.

I am copying this letter to Richard Gozney (FCO).

Yours ever,

P R C Stor

P R C STORR

Charles Powell, Esq.

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filed
bc r/c

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 June 1989

VISIT OF PROFESSOR GEREMEK

Thank you for your letter of 12 June about the visit of Professor Geremek, the Solidarity adviser. The Prime Minister could see him briefly at 0930 on Wednesday 21 June.

C. D. POWELL

Stephen Wall, Esq.
Foreign and Commonwealth Office



10 DOWNING STREET

Amanda

Can I have a
time please?

(I tried!)

CDP

0930 Wed 21
June

~~1-15-16~~



Time Minister

Foreign and Commonwealth Office

London SW1A 2AH

Your diary is
very full. Agree
not to see him?

12 June 1989

Dear Charles,

CD 12/6

1 must see him
not

Poland: Visit by Professor Geremek, Senior Solidarity
Figure

Professor Geremek, an historian and a long-time Solidarity adviser, is visiting the UK at the FCO's invitation from 19-21 June. Over the last few months, Professor Geremek has effectively become Solidarity's number two. He has been elected to the Lower House (the Sejm), and will probably act as the Opposition Leader in the new Parliament.

Professor Geremek will call on the Foreign Secretary, amongst others. We also hope to fix a call on Mr Kaufman (Mr Kinnock will be out of the country). We will arrange meetings with the TUC (to discuss independent trade unions), the headquarters of the two major parties, and a lecture, possibly at Chatham House.

Although the Prime Minister is already heavily occupied on 19-21 June, she might wish to consider receiving Professor Geremek. A call would acknowledge Solidarity's success in the election and the major role it is likely to play in the political scene. After General Jaruzelski's visit, it would give the Prime Minister the chance to hear Solidarity's version of events, their plans for the future, and their views on Western policy. Professor Geremek will be available from the afternoon of 19 June to the morning of 21 June. Professor Geremek was present at the Prime Minister's meeting with Walesa in November.

We have also invited Walesa to visit Britain. But he will not come until the autumn at the earliest.

Yours,
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street



1911



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POLAND: JARUZELSKI'S TALKS WITH DELORS

SUMMARY

1. JARUZELSKI STRESSES PROGRESS BEING MADE IN POLISH REFORM EFFORT AND DETERMINATION TO CONTINUE. IMPRESSES DELORS THE URGENT NEED NOW FOR WESTERN RESPONSE. SAYS COMMUNITY CAN HELP THROUGH SWIFT PROGRESS IN NEGOTIATIONS ON AN AGREEMENT, INVESTMENT AND INVOLVEMENT OF EIB, AGRICULTURAL ASSISTANCE AND OPEN MARKETS. DELORS MAY REPORT TO 12 JUNE FAC.

DETAIL

2. JARUZELSKI SAW DELORS FOR ONE AND HALF HOURS THIS EVENING. WE HAVE OBTAINED A BRIEF READ OUT FROM DGI ON THE MAIN POINTS OF THE DISCUSSION.

3. JARUZELSKI HAD SAID POLAND WAS IN A PERIOD OF HISTORIC TRANSITION, WITH PROGRESS BEING MADE IN POLITICAL AND ECONOMIC REFORM. THE ROUND TABLE TALKS AND THE ELECTIONS HAD OPENED THE WAY TO PLURALISM IN POLAND. THE OPPOSITION HAD BEEN INTEGRATED INTO THE DECISION MAKING PROCESS AND MUST NOW SHARE RESPONSIBILITY FOR THE FUTURE MANAGEMENT OF THE COUNTRY. EFFORTS WERE ALSO BEING MADE TOWARDS ECONOMIC REFORMS, STATE MONOPOLIES WERE BEING ENDED AND AGRICULTURE WAS INCREASINGLY IN PRIVATE HANDS BUT THE ECONOMIC SITUATION WAS BAD. THE STANDARD OF LIVING WAS FALLING AND INFLATION INCREASING. THE FACTORIES WERE UNDER PRODUCTIVE AND THE AVAILABILITY OF GOODS WAS VERY POOR. ALL THIS WAS EXACERBATED BY POPULATION GROWTH. TRANSPORT AND INFRASTRUCTURE NEEDED OVERHAULING AND AGRICULTURE HAD TO BE RESTRUCTURED AND MODERNISED. POLITICAL DEVELOPMENTS HAD HELPED TO BUILD THE SOCIAL CONSENSUS NECESSARY TO FACE THE TRAUMA OF ECONOMIC REFORM. REFORM WOULD HURT AND WOULD LEAD TO SOCIAL PROBLEMS, BUT THE GOVERNMENT AND OPPOSITION SHARED THE SAME ECONOMIC OBJECTIVES AND HAD TO WORK TOGETHER.

4. JARUZELSKI HAD SAID THAT ECONOMIC RAPPROACHMENT WAS THE KEY TO A BETTER LONG TERM RELATIONSHIP BETWEEN EAST AND WEST EUROPE, AND HAD REFERRED TO THE DEVELOPMENT OF EC/CMEA RELATIONS. HE HAD STRESSED THAT POLAND COULD NOT ACHIEVE THE ECONOMIC REFORMS ON WHICH IT WAS DETERMINED WITHOUT HELP FROM THE WEST. THE WEST HAD TOLD THE POLISH REGIME TO DEAL WITH SOLIDARITY IF IT WANTED WESTERN ASSISTANCE: NOW IT WAS UP TO THE WEST TO RESPOND, AND TO DO SO URGENTLY. IF REFORM FAILED IN POLAND IT WOULD BE THE RESPONSIBILITY OF THE WEST, NOT THE REGIME.

5. GREAT IMPORTANCE WAS ATTACHED TO CO-OPERATION WITH THE EUROPEAN COMMUNITY. SWIFT PROGRESS WAS NEEDED IN THE NEGOTIATIONS ON THE TRADE AND CO-OPERATION AGREEMENT, AND JARUZELSKI UNDERSTOOD THAT THINGS WERE GOING WELL. POLAND NEEDED BETTER ACCESS TO THE COMMUNITY MARKET THROUGH THE REMOVAL OF RESTRICTIONS. POLAND COULD BE AN ATTRACTIVE COMMERCIAL PARTNER IF IT WAS ALLOWED TO BE. JARUZELSKI HAD WELCOMED THE SINGLE MARKET AS A POSITIVE DEVELOPMENT, ALTHOUGH IT WAS JEALOUS OF EUROPEAN INTEGRATION BUT UNDERSTOOD THAT IT WOULD NOT MEAN A CLOSED MARKET. HE HAD STRESSED THE NEED FOR ASSISTANCE IN AGRICULTURE, IN PARTICULAR HE HAD RAISED THE POSSIBILITY OF CREDITS FOR PURCHASING AGRICULTURAL PRODUCTS, AND THE NEED TO HELP INCREASE PRODUCTIVITY THROUGH PROVISION OF PESTICIDES, FERTILIZERS AND MECHANISATION.

6. DEBT WAS MENTIONED IN THE GENERAL CONTEXT OF ECONOMIC ASSISTANCE. JARUZELSKI HAD SAID POLAND WAS DETERMINED TO REPAY ITS DEBTS, BUT THE CURRENT ECONOMIC SITUATION DID NOT ALLOW IT. REPAYMENTS FAR OUTPACED THE NEW CREDITS WHICH WERE NEEDED TO RESTRUCTURE INDUSTRY. HE HAD COMMENTED THAT IN BRITAIN THE PRIME MINISTER COULD CLOSE UNPRODUCTIVE MINES BECAUSE THERE WAS MONEY TO BUY FOREIGN COAL MORE CHEAPLY. POLAND DID NOT HAVE THE RESOURCES TO TAKE ECONOMICALLY SOUND DECISIONS. EUROPE COULD HELP THROUGH INVESTMENT. HE HAD ASKED DELORS FOR HELP THROUGH THE EUROPEAN INVESTMENT BANK, SAYING THAT THIS WOULD BE A VALUABLE POLITICAL GESTURE.

7. DELORS HAD RESPONDED BY UNDERLINING THE COMMUNITY'S COMMITMENT TO GREATER CO-OPERATION WITH THE COUNTRIES OF EASTERN EUROPE. 1992 WOULD NOT BRING WITH IT AN ECONOMIC IRON CURTAIN. THE COMMUNITY WAS WATCHING POLAND'S TRANSITION CAREFULLY AND FULLY SUPPORTED THE REFORM PROCESS. THE COUNCIL HAD EXPRESSED ITS SYMPATHY FOR POLAND AND INTENDED TO BE FLEXIBLE IN NEGOTIATION. COMMERCIALLY THE POLES COULD HELP THEMSELVES BY WORKING TOWARDS AN EFFECTIVE

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PRICE SYSTEM. ANOTHER CRUCIAL AREA WAS BETTER BUSINESS MANAGEMENT. DELORS HAD SAID THAT THE COMMUNITY WAS WILLING TO OFFER EXTENSIVE ASSISTANCE HERE. ON DEBT, A GLOBAL SOLUTION WAS REQUIRED, INVOKING CREDITORS, DEBTORS, THE BANKS AND THE COMPETENT INTERNATIONAL BODIES.

8. VAN DE PAS (DELORS CABINET) HAS ALSO GIVEN US AN ACCOUNT OF THE DISCUSSIONS WHICH CONFIRMS THE ABOVE POINTS. IN ADDITION HE NOTED THAT DELORS HAD ASKED JARUZELSKI WHAT MESSAGE HE WOULD PUT IF HE HAD THE CHANCE TO ADDRESS THE COUNCIL. JARUZELSKI HAD RESPONDED BY SAYING THAT HE WOULD POINT OUT THAT WHILE THE POLES HAD MANY VIRTUES THEY LACKED ECONOMIC DISCIPLINE. POLAND WAS SERIOUS ABOUT REFORM BUT THE OPPOSITION AND THE WEST HAD TO BE REALISTIC ABOUT WHAT COULD BE ACHIEVED. WHAT WAS NEEDED NOW, HE AGAIN STRESSED, WAS A SERIOUS RESPONSE FROM THE WEST. VAN DE PAS ADDED THAT DELORS MIGHT GIVE AN ACCOUNT OF THESE TALKS AT THE FAC ON 12 JUNE.

9. RESIDENT CLERK. PLEASE ADVANCE TO PS/NO. 10

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MIPT (NOT TO ALL)

FRG RELATIONS WITH EASTERN EUROPE.

SUMMARY

1. TELTSCHIK REPORTS POLISH LEADERSHIP'S SURPRISE AT ELECTION RESULTS, POSZGAY'S VIEW OF SITUATION IN HUNGARY. TELTSCHIK REGARDS GDR AS POTENTIALLY EXPLOSIVE.

DETAIL

2. AFTER BRIEFING MY US AND FRENCH COLLEAGUES AND ME ON GORBACHEV'S VISIT (MIPT), KOHL'S DIPLOMATIC ADVISER SPOKE ABOUT POLAND, HUNGARY AND THE GDR.

POLAND

3. TELTSCHIK GAVE IMPRESSIONS OF HIS VISIT TO WARSAW ON 6-7 JUNE (MY TELNO 611). KUCZA HAD TOLD HIM PRIVATELY THAT THE ELECTION RESULTS HAD COME AS A TOTAL SURPRISE TO THE POLISH LEADERSHIP. HE HAD SOUNDED HURT THAT THE VOTERS HAD BLAMED THE PARTY FOR THE LAST 40 YEARS. KUCZA HAD SAID THAT RAKOWSKI WOULD HAVE TO BE REPLACED IF HE WAS NOT ELECTED IN THE SECOND ROUND ON 18 JUNE. THERE WAS ALSO DOUBT ABOUT WHETHER THE COMMUNIST PARTY WOULD HAVE THE NECESSARY MAJORITY IN THE SEJM AND SENATE COMBINED TO ELECT JARUZELSKI AS PRESIDENT, PARTICULARLY ON A SECRET VOTE. THE POLISH LEADERSHIP WAS WORRIED ABOUT THE OUTCOME ON 18 JUNE.

4. TELTSCHIK ARGUED THAT THE WEST NEEDED TO SUPPORT POLAND TO PREVENT THINGS GETTING OUT OF CONTROL, WHICH COULD ALSO AFFECT GORBACHEV. TROUBLE IN POLAND COULD SPREAD TO THE BALTIC REPUBLICS. TELTSCHIK ALSO APPEALED FOR CLOSE CONSULTATION AMONG WESTERN GOVERNMENTS: IN DISCUSSION OF CREDITS, KUCZA HAD TRIED TO PLAY THE FRG OFF AGAINST THE US AND FRANCE.

HUNGARY

5. TELTSCHIK COMMENTED THAT POSZGAY AND GROSZ WERE NOW ENGAGED IN A POWER STRUGGLE. POSZGAY HAD TOLD HIM IN BONN THAT THERE WAS ONLY A

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MDADAN 2

SHORT OPPORTUNITY, WHILE THE SOVIET REFORM PROCESS CONTINUED. POSZGAY HAD DESCRIBED THE LIMITS FOR HUNGARY AS NOT LEAVING THE WARSAW PACT AND AVOIDING CIVIL WAR. A MILLION PEOPLE WERE EXPECTED FOR IMRE NAGY'S FUNERAL, INCLUDING 40 JUMBO JETS OF EXILES FROM THE US. TELTSCHIK SAID THAT THE FRG WERE GIVING FINANCIAL SUPPORT TO HUNGARY, AGAINST ALL ECONOMIC SENSE.

GDR

6. TELTSCHIK'S PERSONAL VIEW WAS THAT THE GDR WAS POTENTIALLY THE MOST EXPLOSIVE COUNTRY. THE ECONOMIC AND SUPPLY SITUATION WAS WORSENING. NOBODY IN THE POLITBURO WANTED TO SUGGEST HIMSELF AS A SUCCESSOR TO HONECKER. HE AGREED WITH ME THAT THERE WAS NO UNREST AT PRESENT, BUT SAID IT COULD SUDDENLY BREAK OUT.

7. FCO PLEASE PASS TO NO. 10

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WARSAW TELNO 338: US/POLAND

SUMMARY

1. OUTCOME OF POLISH ELECTIONS AND GRACIOUS ACCEPTANCE OF THE RESULT BY THE POLISH GOVERNMENT WIDELY WELCOMED HERE. SOME PRELIMINARY THINKING AT OFFICIAL LEVEL ON HOW THE WEST SHOULD RESPOND: EXPECTATION THAT PRESIDENT BUSH WILL WANT TO UNVEIL IMAGINATIVE IDEAS WHEN HE VISITS POLAND.

DETAIL

2. THE OUTCOME OF THE ELECTIONS IN POLAND HAVE BEEN WELCOMED HERE. THE STATE DEPARTMENT SPOKESMAN MADE THE FOLLOWING STATEMENT ON 6 JUNE:

QUOTE AS THE PRESIDENT SAID IN HIS SPEECH IN MAINZ, THE PEOPLE OF POLAND HAVE WAITED OVER 40 YEARS FOR A FREELY ELECTED GOVERNMENT SINCE WORLD WAR II. WHILE POLAND'S DEMOCRATIC REFORM PROCESS IS STILL UNDERWAY, WE ARE PLEASED THAT THE FIRST STEPS TO FULFILL THAT LONG DEPRIVED PROMISE ARE FINALLY BEING TAKEN. THE US REGARDS SOLIDARITY'S APPARENT VICTORY AS A VICTORY FOR ALL POLES. YESTERDAY'S CONCESSION BY THE POLISH COMMUNIST PARTY WAS STATESMANLIKE AND COMMENDABLE. WE WELCOME THE REAFFIRMATION OF THE PARTY SPOKESMAN THAT THE POLISH GOVERNMENT WILL CONTINUE DEMOCRATIC AND ECONOMIC REFORMS. WE WELCOME LECH WALESA'S CALL FOR HARD WORK BY ALL SIDES TO FIND SOLUTIONS TO POLAND'S PRESSING ECONOMIC AND POLITICAL REFORMS. UNQUOTE →

3. THESE SENTIMENTS HAVE BEEN ECHOED IN THE PRESS. THE NEW YORK TIMES COMMENT IN AN EDITORIAL ON 7 JUNE IS TYPICAL: QUOTE WHAT'S HOPEFUL AND REMARKABLE IS THAT THE FAMILIAR OLD OBSTACLES TO CHANGE HAVE SHRUNK. NOBODY REALLY FEARS ANYMORE THAT MOSCOW WILL INTERVENE AGAINST LIBERALISING EXPERIMENTS. AND SOLIDARITY'S GROWING POLITICAL SOPHISTICATION BODES WELL FOR A FREER FUTURE IN ALL EASTERN EUROPE. UNQUOTE

4. STATE AND NSC CONTACTS TELL US THAT ALTHOUGH THE EXTENT OF SOLIDARITY'S VICTORY CAME AS NO GREAT SURPRISE, THE

PROMPT ACCEPTANCE OF THE RESULT BY THE GOVERNMENT WAS MORE THAN THE AMERICANS HAD DARED TO HOPE FOR. IT COMPARED VERY FAVOURABLY WITH EG PANAMA AND HAD MADE A GOOD IMPRESSION ON SENIOR POLICY MAKERS HERE. THE AMERICANS EXPECT SOLIDARITY TO MAINTAIN THEIR REFUSAL TO JOIN THE GOVERNMENT, BUT TO RESPECT THE 65/35 PER CENT SPLIT IN THE LOWER HOUSE. THEY NOTE THAT THE SITUATION REMAINS VERY FRAGILE AND THAT HARDLINERS EITHER IN THE PARTY OR IN THE LOWER RANKS OF SOLIDARITY, COULD STILL PUSH THINGS TOO FAR.

5. THERE IS ALREADY A GOOD DEAL OF THINKING UNDERWAY AT OFFICIAL LEVEL ABOUT HOW THE WEST SHOULD RESPOND TO THE SUCCESSFUL IMPLEMENTATION OF THIS PHASE OF THE ROUND-TABLE AGREEMENTS, AND SPECIFICALLY WHAT PRESIDENT BUSH SHOULD TAKE WITH HIM TO POLAND NEXT MONTH. OFFICIALS EXPECT THAT THE PRESIDENT WILL PRESS FOR THE BUREAUCRACY TO COME UP WITH IMAGINATIVE NEW IDEAS FOR HIM TO LAUNCH IN POLAND. THE SEARCH IS THEREFORE ON. THIS IS BEING CONDUCTED WITHIN THE LIMITS SET IN THE PRESIDENT'S SPEECH AT HAMTRAMCK (QUOTE WE WILL NOT ACT UNCONDITIONALLY. WE WILL NOT OFFER UNSOUND CREDITS. WE WILL NOT OFFER AID WITHOUT REQUIRING SOUND ECONOMIC PRACTICES IN RETURN UNQUOTE). ALL OUR CONTACTS EMPHASISE THAT THE US WILL NOT PRESS THE IMF TO SOFTEN CONDITIONALITY AS A POLITICAL GESTURE (INDEED, THE US TREASURY CONTINUES TO HAVE DIFFICULTY WITH THE IDEA OF AN IMF AGREEMENT WITH POLAND AT ALL). OUR CONTACTS SEE LITTLE SCOPE FOR A US INITIATIVE IN THE IMF AREA: IT IS NOW UP TO THE POLES TO MEET IMF CONDITIONS.

6. THE MEASURES ANNOUNCED IN THE HAMTRAMCK SPEECH WERE LARGELY COST FREE. CONGRESS IS ALREADY TAKING STEPS TO IMPLEMENT SOME OF THEM: A BILL TO GIVE OPIC AUTHORITY TO OPERATE IN POLAND AND HUNGARY HAS BEEN APPROVED BY THE HOUSE FOREIGN AFFAIRS COMMITTEE AND WILL NOW BE TAKEN UP ON THE FLOOR OF THE HOUSE. THIS BILL ALSO PROVIDES DOLLARS NINE MILLION OVER TWO YEARS FOR SCIENCE AND TECHNOLOGY PROGRAMMES, MEDICAL SUPPLIES AND EQUIPMENT AND ASSISTANCE FOR THE TRANSITION TOWARDS A MORE DEMOCRATIC GOVERNMENT. OUR CONTACTS ACKNOWLEDGE THE NEED TO GO BEYOND THE HAMTRAMCK MEASURES NOW THAT THE POLISH GOVERNMENT HAVE FULFILLED THE REQUIREMENTS ON POLITICAL REFORM SET OUT IN THAT SPEECH AND IN STATEMENTS BY OTHER WESTERN LEADERS. THEY RECOGNISE THAT ANY SUCH MEASURES ARE BOUND TO COST MONEY, AND US BUDGETARY CONSTRAINTS WILL REMAIN A REAL FACTOR.

7. THE SOLIDARITY LEADER, GEREMEK, WAS IN WASHINGTON RECENTLY AND IN DISCUSSION WITH EAGLEBURGER FLOATED THE IDEA OF A CONSORTIUM OF KEY WESTERN COUNTRIES. THIS WOULD MEET AT

POLITICAL LEVEL WITH THE AIM OF COORDINATING WESTERN PROGRAMMES TO HELP POLAND (AND HUNGARY), EG TO PROVIDE SOME OVERVIEW OF WORK IN THE IMF, THE PARIS CLUB AND THE WORLD BANK, TO DISCUSS THE PRECISE CONDITIONALITY FOR ANY NEW MONEY ETC. OTHER SOLIDARITY ACTIVISTS HAD MENTIONED AN IDEA OF A PRIVATE INDUSTRY BANK TO BE RUN BY SOLIDARITY BUT CAPITALISED BY THE WEST.

8. CONTACTS IN STATE TELL US THAT EAGLEBURGER AND OTHERS ARE REFLECTING ON THESE IDEAS. THEY REMAIN INCHOATE, AND THE ADMINISTRATION ARE A LONG WAY FROM ANY DECISIONS. BUT OFFICIALS ARE PREPARED TO CONSIDER A WIDE RANGE OF IDEAS IN TRYING TO COME UP WITH PROPOSALS THAT WILL ENCOURAGE ECONOMIC REFORM, PRIVATE INVESTMENT AND STRUCTURAL REFORM AND MAINTAIN CONDITIONALITY WITHOUT COSTING TOO MUCH.

9. OUR CONTACTS ADD THAT THE ADMINISTRATION WILL WANT TO CONSIDER ALL THIS WITH ALLIES ONCE THEIR OWN THINKING IS A BIT CLEARER. AS BEFORE THE HAMTRAMCK SPEECH, THEY ARE INCLINED TO DO SO THROUGH COORDINATED BILATERAL APPROACHES RATHER THAN EG IN THE NATO COUNCIL. THEY WOULD VERY MUCH WELCOME AN EARLY ACCOUNT OF JARUZELSKI'S TALKS IN LONDON.

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HOUSE OF COMMONS
LONDON SW1A 0AA

8th June, 1989

The Rt Hon. Mrs. Margaret Thatcher MP
10 Downing Street

Dear Mrs. Thatcher

Given the visit of the Polish Leader, General Jaruzelski this weekend, and although conscious that you will no doubt have received a number of representations from organisations interested in Poland, I thought the following might be helpful.

For some time, I have been interested in Polish affairs and had an adjournment debate on it last year and a very useful recent meeting with William Waldegrave at the Foreign Office.

Firstly, you will no doubt be forcibly making the point to General Jaruzelski that the sweeping success of Solidarity candidates in last weekend's elections is the strongest possible proof of the disenchantment of people in Poland with the Communist Government over which the General presides. Increasingly, it appears that no only economic progress but political stability in Poland, as throughout the rest of Eastern Europe, depends on still further political reforms which give ordinary people there the pluralist democratic system they so obviously desire.

An acid test of General Jaruzelski's attitude towards such reforms will be in how he resolves present discussions taking place with Solidarity on the practical workings of the new parliament. Although possibly not involving power-sharing in Government, at least these should give Parliament real powers of oversight, revision and initiation in legislative affairs. In other words, although General Jaruzelski may not have wished to countenance it during the Round Table talks, a parliament in which Solidarity candidates have won 160 of the 161 seats open to them in the Sejm and 92% of the Senate seats, and in which no candidate on the National List was successful, will constitute an important part of an embryonic pluralist political system. He therefore has a duty to ensure that it is allowed unfettered use of its powers irrespective of the constraints this may impose upon a Government still dominated by the Communist Party.

Continued

Secondly, the Round Table Agreement makes provision for the election of the President by Parliament. It is conceivable that given the election results, an opposition candidate could defeat General Jaruzelski for this post and he should be able to assure you of his peaceful acceptance of such an eventuality.

Thirdly, General Jaruzelski should now be prepared to bring forward political reforms allowing for contested elections both for the 65% of the Sejm not previously allowed this and also for the Presidency itself. Although such reforms may not, in the interest of political stability, be possible immediately, a timetable should at least be agreed by General Jaruzelski with the opposition parties for them.

Fourthly, I have always held, and William Waldegrave implicitly agrees with this, that any economic assistance on a bilateral basis by the United Kingdom, either in the form of direct grant aid or in the form of re-scheduling of Poland's 39 billion dollar external debt, should both be conditional upon further timetabled political reforms and, where possible, be directed at non-government organisations in Poland. This would encourage Polish entrepreneurs and avoid shoring-up the Communist nomenclatura system.

Fifthly, General Jaruzelski should agree that in order to encourage the widening democratic process in Poland, foreign Governments and their organisations should be allowed to provide organisational and financial assistance to new political groups there. The Americans have been successful in doing this on a covert basis and the Polish Government should now acquiesce in its happening openly.

Finally, you will have been made aware of the sentiments of many British Poles and the vast majority of their compatriots in Poland concerning the mortal remains of General Sikorski. Until a genuine and pluralist parliamentary democracy is established in Poland, it almost goes without saying that the British Government should resist requests by the Polish Government for their return to Poland.

I hope that this is helpful.

Best wishes.

yes etc,


Anthony Coombs MP

Jp 0803

MR POWELL

c Sir Robin Butler

Polish Elections

Although the official results of the first round of the elections on 4 June have not yet been announced, the unofficial results give a clear picture of the final outcome.

2 Solidarity, with only two months in which to prepare for the election, moved quickly and made good use of its limited resources. It made strenuous efforts to ensure that its voters understood the complicated voting system. (Voters were given between 2 and 7 ballot lists; for the Sejm (several lists); the Senate; and the Nationalist List of 35 prominent coalition figures, who stood unopposed, but required 50 per cent of the votes polled.) Solidarity had the backing of the Catholic Church - particularly important in rural areas. And it gained from the resounding negative vote given to the Party.

3. The authorities, on the other hand, were slow to start their campaign, were complacent in the early stages, then showed increasing signs of nervousness, as opinion polls and poor turn-outs at election rallies indicated that they would not do well.

4. The first round of elections was conducted almost entirely peacefully (some minor scuffles in one or two regions) - an important achievement in itself. The poll - 62 per cent - was lower than expected, the lowest number of votes cast in the rural areas. Apathy, and cynicism that the elections would bring any improvement in living standards, partly explain the low poll. Heavy rainfall in Eastern Poland may have been another factor.

5. There is no doubt that the final result will show a humiliating vote of no confidence in the Party. As 60 per cent of the seats in the Sejm were reserved for Party candidates, and 5 per cent for their coalition partners, the authorities can still count on a majority in the main legislative assembly. But in contrast to the 70-80 per cent majorities which opposition candidates received, many of the coalition candidates failed to get a 50 per cent majority and will have to go to the second round for a run-off vote. The Party's majority will have been reduced as none of the candidates on the National List has gained the necessary 50 per cent of the poll; according to present rules, their seats will remain vacant. The list includes a number of senior Government Ministers, including the Prime Minister, Rakowski, and the Minister of the Interior, Kiszczak. The latter can legally retain their Government positions, but their authority will obviously be seriously undermined. (Walesa and other Solidarity leaders had urged their supporters not to cross off all these names; partly because the list included some of the more reform-minded senior officials; and partly because Walesa believed that too humiliating a defeat for the Party would be counter-productive, and could set back the Round Table agreements.)

6. Solidarity has already won outright nearly all of the 100 seats in the Senate (new upper House), and has every prospect of winning the few remaining seats in the run-off elections on 18 June. This is also a disappointment to the Party, which had put up some of its non-Party supporters as candidates, and expected to gain a certain percentage of the seats.

7. The authorities have promptly conceded defeat - for which they deserve some credit - and have pledged to continue to pursue "democracy and reform" in the spirit of the Round Table agreements. They have now proposed that

Solidarity should enter a coalition Government, evidently judging that co-opting Solidarity to share responsibility for the difficulties ahead is their best way forward. Solidarity has rejected the offer, saying that it wants to co-operate on an issue-by-issue basis, but at the moment does not want to join the Government. Solidarity does not want to take direct responsibility for mistakes of the Party's making; nor does it want to risk deepening the divisions within its own ranks by close association with the Party. Walesa has called instead for renewed Round Table talks.

8. The dismal result, and the rout of the Party and its coalition partners on the National List and in the Senate, present the authorities with a serious crisis. While they still have an overall majority, their legitimacy and authority have been so severely damaged that they barely have a mandate to continue governing. They may replace some of the senior Government figures, although it will be difficult to find anyone more acceptable within their ranks. The opposition's success will have strengthened its hand in pressing for more radical change, including fully free elections in four years' time. And it may give Solidarity some influence over the composition of the new Government.

9. The voting showed above all contempt for the Party, and disillusionment with the system by which they been governed for the past several decades, on the part of the vast majority of Poles. Even the efforts of those in the Party who favoured reform were brushed aside, as the National List candidates were tarred with the same brush, and overwhelmingly voted down. The Solidarity leadership, which urged restraint during the campaign and has reacted with moderation to its success, has behaved with

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considerable maturity. The implications of this decisive
rejection of a Communist régime could be far-reaching in
the rest of Eastern Europe.



PERCY CRADOCK

8 June 1989

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FM WARSAW

TO DESKBY 061600Z FCO

TELNO 340

OF 061500Z JUNE 89

AND TO PRIORITY MOSCOW, EAST EUROPEAN POSTS, WASHINGTON, UKDEL NATO
AND TO PRIORITY PARIS (FOR CSCE DELEGATION), MADRID, ACTOR

MIPT : POLISH ELECTIONS : COMMENT

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MDHIAN 7899

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SPEAKING NOTE

Handled to General
Tarnowski by
Rie Minister at Chypers
on 10 June. Please file.
C.B.N.

UK OFFER OF FINANCIAL ASSISTANCE FOR POLAND

The UK is determined to give real and effective support to political and economic reform in Poland, in the form of the package of measures listed below.

- 1) recognising that an IMF programme will be an essential condition for economic help, the UK will play a sympathetic and helpful role in the IMF's discussion of Poland's problems. But the programme must be an effective one, even though it will inevitably impose some painful burdens on the Polish people;
- 2) the UK would be ready to play its part if Poland seeks a bridging loan from the Bank for International Settlements once an IMF programme was agreed;
- 3) exceptionally, the UK will support rescheduling in the Paris Club of Poland's payments of principal and interest due in 1989, over ten years with five years' grace, without the normal precondition that Poland complete negotiations with the IMF for a stand-by arrangement. The UK would, however, seek some assurances from the IMF about figures and the progress of negotiations;
- 4) no decision on new credit can be taken at this stage, but the question will be considered seriously when an IMF programme is in place;
- 5) the UK is ready to contribute £5 million a year for five years towards a 'know-how' Fund, to provide Poland with training and advice to support the progress towards democracy and a market economy;



- 6) a British Minister is ready to visit Poland to identify opportunities for investment by British firms. Such investment might be linked to eventual conversion of some foreign commercial debt via debt/equity swaps. The Minister of State for Trade, Mr Clark, is able to go in the week beginning 17 July, if this is convenient to the Polish side;
- 7) the UK will continue to take a lead within the European Community to secure liberalisation of discriminatory Quantitative Restrictions.

We shall tell other major Western leaders what this country is able to do and urge them to participate in a combined effort, which will involve Western countries and the international financial institutions, to extend appropriate assistance to the reform process in Poland.

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file
SUBJECT
cc MASTER
APL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 June 1989

Dear Stephen,

POLAND

The Prime Minister had a meeting this afternoon with the Foreign Secretary, the Chancellor of the Exchequer and the Minister for Trade to discuss the economic assistance which we might offer the Polish Government during General Jaruzelski's visit. It was noted that, although the Polish Government had carried out many of the political reforms which the Prime Minister had urged on them when she visited Warsaw in November 1988, virtually no progress had been made with economic reform. Our main objective must be to urge the Polish Government to agree an adjustment programme with the IMF. It would not be appropriate to extend any further credit on loans until such an agreement was in place.

On this basis, it was agreed that the Prime Minister should put the following points to General Jaruzelski when they met on 10 June:


- the essential condition for economic help was that Poland should agree a programme with the IMF. We would be sympathetic and helpful in IMF discussion of Poland's problems. But the programme would need to be an effective one, even though this would impose some painful burdens on the Polish people;
- we would not be able to extend fresh credit until a credible IMF programme was in place;
- if Poland were to seek a bridging loan from the BIS once an IMF programme was agreed, we would be ready to play our part;
- meanwhile we would support rescheduling of Poland's payments of principal and interest due in 1989, over ten years and with five years grace. Exceptionally, we would not require Poland to complete negotiations with the IMF for a stand-by arrangement as a condition for this. We would ask only that the figures should be investigated and confirmed by the IMF, and that the Fund should certify that negotiations for a stand-by arrangement had begun and that reasonable progress was being made. This should be presented as a major concession;

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- the Prime Minister could also tell General Jaruzelski that we would be ready to contribute £5 million a year over five years towards a 'know-how' Fund, to provide Poland with management training and advice on matters such as privatisation;
- we would offer a visit to Poland by the Minister of Trade to identify opportunities for investment by British firms. Such an investment would be a step towards eventual conversion of foreign debt via debt/equity swaps;
- we would commit ourselves to take a lead within the European Community to secure liberalisation of Quantitative Restrictions.

While these measures would probably not match Polish ambitions and expectations, they could be presented as clear evidence of our determination to give substantial support to political and economic reform in Poland. They would be on a par with the measures already announced by the Americans and with what other major European countries are likely to do.

I am copying this letter to Alex Allan (H M Treasury) and Neil Thornton (Department of Trade and Industry).

Yours sincerely,


C. D. POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office

1989-06-08

16:51

BANK OF ENGLAND ;GENERAL

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P.01

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LOCAL FAX NO. :

The Governor

Bank of England
London EC2R 8AH

8 June 1989

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1P 3AG

CM

Dear Nigel,

BRIDGING LOAN FOR POLAND

Thank you for your letter of 5 June. Whatever the eventual merits of some bridging finance for Poland, I agree that it is premature to contemplate supporting any such approach at this stage.

What Poland needs above all is to adopt a programme of measures which will restore its economic health and provide a basis for sustained growth. Such a programme will no doubt require finance from external sources, including the IMF and World Bank, and we share your fears that the likelihood of securing agreement on such a programme would be jeopardized by provision of a bridging loan at this early stage in anticipation of eventual IMF and World Bank money.

I should add that, on the figures available to us, we are somewhat doubtful that Poland actually has any need for bridging finance for the time being.

I am sending copies of this letter to the Prime Minister, the Foreign Secretary and the Secretary of State for Trade and Industry.

Yours ever,

Robin

*CH***FAX COVER SHEET**

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Robin

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C. B. A. G. /
CEBT

PRIME MINISTER

MEETING ON POLAND

You have a meeting tomorrow to discuss economic help to Poland. The basic papers are in the folder: the Foreign Secretary's minute, the Chancellor's minute, and the Chancellor's letter about a bridging loan.

The priority must be to get the Poles to accept an IMF programme and Paris Club rescheduling. There is really no scope before then for new credits or government to government loans.

The areas where we can help are:

- trade access. We can support liberalisation of Quantitative Restrictions by the EC. But of course we cannot deliver on our own. The feeling is that we should not extend GSP to the Poles;
- investment. We can organise an outward mission. But it's for firms to decide whether to invest;
- debt. We can negotiate an interim Paris Club arrangement for 1989 maturities. But anything more must depend on an IMF Programme and Paris Club rescheduling;
- know-how. The Foreign Secretary and the Chancellor agree on the setting up of a know-how fund with £5 million of seed capital, to carry forward UK efforts to transfer expertise to Poland. We can tell the Poles that this would be on a continuing basis for at least five years;
- bridging finance. The Poles have not yet formally asked for a bridging loan from BIS. The Bank of England's share would require an indemnity from the Government. The Chancellor would not want to consider this unless there is a firm prospect of IMF programme being in place.

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These do not add up to a great deal. But taken all together, they may be just enough to constitute a respectable package and make good your undertaking in November that political reform would call forth economic help. But willingness to consider a bridging loan looks to me a rather important part. Without it, the package may be too slip. You will want to explore with the Chancellor how far you can go with Jaruzelski to indicate willingness to help over a bridging loan.

C.D.P.

(C. D. POWELL)

7 June 1989

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FM WARSAW

TO DESKBY 061600Z FCO

TELNO 340

OF 061500Z JUNE 89

AND TO PRIORITY MOSCOW, EAST EUROPEAN POSTS, WASHINGTON, UKDEL NATO
AND TO PRIORITY PARIS (FOR CSCE DELEGATION), MADRID, ACTOR

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

5 June 1989

Rt Hon Robin Leigh-Pemberton Esq
Governor
Bank of England
Threadneedle Street
LONDON
EC2R 8AH

Dear Governor,

BRIDGING LOAN FOR POLAND

As your officials know, the FCO have been working on a package of potential economic assistance measures for Poland. I shall be discussing this with the Prime Minister, Geoffrey Howe and David Young on Thursday.

One element in all this, which I know interests the Polish authorities, is the possibility of a bridging loan from the BIS, in anticipation of eventual IMF and World Bank money.

This is of course a matter for you, but in the past you have sought a Treasury indemnity before agreeing to participate in such loans. In the present case, I think we should be more than usually cautious. The "take-out" for such a loan would of course be an IMF stand-by (and perhaps World Bank money). But once such a bridging loan is in place, there tends to be enormous pressure on the two international institutions to reach agreement on their programmes, so as to release the bridge. This in turn (as in the cases of Brazil and of Argentina) can lead to the adoption of inadequate programmes which then break-down. I am particularly anxious that Poland, as a new applicant to the Fund, should adopt a suitably rigorous programme with a reasonable chance of success. I do not want us to be forced to negotiate the terms of such a programme against an artificial timetable imposed by the need to repay a bridging loan. I am sure you will be able to take account of this in any discussions in Basle about a possible bridging loan from BIS sources.

I am sending copies of this letter to the Prime Minister, the Foreign Secretary and the Secretary of State for Trade & Industry.

Yours sincerely,

Duncan Sparkes

p.p.

NIGEL LAWSON

[Approved by the Chancellor
and signed in his absence]

Poland

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

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PRIME MINISTER

POLAND

The Foreign Secretary sent me a copy of his minute to you dated 29 May about economic assistance to Poland. It may help if I set out my own views on each of the policy options described in the paper, and on the proposals in Geoffrey's minute. I shall of course be glad to discuss them further before Jaruzelski's visit if you think that would be useful. *- meeting arranged for*

meeting arranged for
later this week.

IMF

I agree entirely that "an IMF programme is an essential precondition" for any further long-term action, including rescheduling. Our latest information from Washington is that this process will take some time, and that we shall be lucky if a Fund programme is in place before the end of the year. This is because the new Polish Government after the elections will need time to prepare its own economic programme, even with the promised help of IMF staff, to secure popular and Parliamentary support for it, and to negotiate the details with Fund management. Even then, I must record my own scepticism about the chances for success, unless the elections produce an unexpectedly wide ranging consensus on the way forward for Poland. It would be quite wrong to commit IMF resources until there was a reasonable expectation that the IMF's and our concerns for conditionality were being met: a weak programme is to the benefit of nobody. One option is for a shadow programme (ie without IMF finance) in the first place; the second is for a backloaded programme, so that we can observe Polish

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reform at work before committing too much Fund money. We shall be pursuing this with the Fund staff in Washington.

Bridging finance

The Poles have now told us that they will be making a request for bridging finance before the summer holidays, but not immediately. In the normal way, such an approach would be addressed to the Bank for International Settlements, which in turn would seek contributions 'from Central Banks'. The Bank of England would, I understand, require an indemnity from the Government before such a bridging loan could be offered. We need not take a decision on this at present. I have asked the Governor of the Bank of England to consult me in good time before any commitments are given; unless there is firm ground at the other end of the bridge in the form of IMF or IBRD disbursements, I am not at all sure that it would be wise for creditors to offer such a loan. A premature bridging loan by Western governments could undermine the IMF management's attempts to obtain adequate policy reforms by the Poles, as occurred in the cases of Brazil and Argentina last year.

Paris Club

The UK has been attempting to seek agreement, internationally, on a further interim Paris Club rescheduling operation for 1989, in advance of the (now rather postponed) IMF programme. Our object was to get ahead of the commercial banks, who are also renegotiating their existing agreement. William Waldegrave with my agreement told the Poles we would do so, taking credit for this UK initiative. Most other creditor governments, however, believe it would be more sensible to wait until an IMF programme is in place. This would indeed be the normal approach to such a problem, and I do not believe that we should press our argument further. I am, however, pleased to hear that the Chairman of the Paris Club has called in the commercial banks (represented, for this purpose, by Barclays) and has told them very firmly that in future they must carry a bigger share of the burden of



rescheduling. Hitherto, the banks have been continuing to take out full interest from Poland, while Government creditors have rescheduled both principal and interest indefinitely. This new stance is consistent with our general line on "fair burden sharing".

Export credit, Government loan or grant

I strongly agree with Geoffrey Howe's view that we should not offer the Poles new credits, either through ECGD, or by means of a direct grant or loan. To offer export credit would be quite inconsistent with our general approach towards risk taking by ECGD (on which I understand David Young has some useful new proposals to make shortly). The alternative, of a direct Government grant or loan, would only be acceptable if the cost could be found from within an existing public expenditure programme. I note that Geoffrey does not offer any contribution from his own budget, and I am sure he is right to reject this option.

Trade access

I also agree with Geoffrey that we should seek to liberalise Community Quantitative Restrictions on imports from Poland (which cannot hope to service its debts unless it can find new markets) but we should not agree to GSP terms; this is a treatment which we normally reserve for developing countries only.

Investment

The suggestions set out in the paper seem to me sensible. But we should be careful not to involve ECGD in more investment insurance in this particular market than seems justified on normal underwriting criteria.



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I note that although Geoffrey proposes that we should contribute £5 million a year towards his suggested new Fund, he does not offer to pay for this from his own budget. I know of no other Government department which is in any position to contribute, or indeed has the necessary powers. So if we are to do this at all, it must be carried on the FCO vote. I would, however, be prepared to consider the case for a call on the Reserve of £5 million in the current year. The funding of any future contributions, beyond that, must be a matter for negotiation between Geoffrey and John Major in the forthcoming public expenditure round. But I am content that we should tell Jaruzelski that we are willing to contribute for a number of years (up to five) at this level. The details of the scheme will need to be worked out carefully, and I would be grateful if my officials could be associated with this work.

I am sending copies of this minute to Geoffrey Howe and to David Young.

Duncan Sparkes

p.p.

NIGEL LAWSON

*[Approved by the Chancellor
and signed in his absence]*



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CCPC

Revised after photocopy done

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

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PRIME MINISTER**POLAND**

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Duncan Sparkes

p.p.

NIGEL LAWSON

{Approved by the Chancellor
and signed in his absence}

POLAND: Relations PTD



The following information was obtained from the Polish Press and other sources during the period from January 1, 1940, to January 1, 1941. It is not intended to be a complete record of all Polish news, but rather a summary of the most important events and developments. The information is presented in the form of a narrative, with the date of each event given in parentheses. The events are arranged in chronological order, with the most recent at the top. The information is presented in the form of a narrative, with the date of each event given in parentheses. The events are arranged in chronological order, with the most recent at the top.

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 May 1989

*File PM
ack*

Dear Stephen,

POLAND

The Prime Minister has considered the Foreign Secretary's minute of 29 May and accompanying paper about economic assistance to Poland. She agrees that we need to have a Meeting of Ministers principally concerned and we shall be in touch as soon as possible to arrange this. Her preliminary reaction is that the Poles will see the proposed "know-how" fund as a sop for the real economic help which they are seeking.

I am copying this letter and enclosure to Alex Allan (H.M. Treasury) and Neil Thornton (Department of Trade and Industry).

*Yours sincerely,
C. D. Powell*

C. D. POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

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[Handwritten signature]

PRIME MINISTER

POLAND

You asked for ideas for help to Poland, to make good your promise last November that we would be forthcoming with economic help once they undertook political reform. You need to have something in your hand when you see Jaruzelski on 10 June.

The attached paper by officials sets out options. Frankly there isn't much we can do, until the Poles get themselves an IMF programme. We cannot sensibly offer new credits or government-to-government loans: they will only make the problems worse, at least until there is an IMF programme and Paris Club rescheduling. We shall anyway have to negotiate interim arrangements for 1989 debt maturities, and can make a virtue of this. On trade, we can promise to be helpful in the EC, but cannot do much ourselves.

This leaves the idea of stumping up £5 million to establish a "know-how" fund to finance management training, consultancies and other such activities. We should try to attract some private sector support. It would be a continuing operation.

The questions to be asked are:

- would it do sufficient good to be worth the trouble?
- would the Poles actually welcome it? Or would they see it as a sop for real economic help?
- how do we sort out the public expenditure implications? Inevitably no one wants to pay. Do we go to the reserve for this year?

None of your colleagues has yet commented. Given the time factor, you may think it best to have a meeting, to sort out something before Jaruzelski comes. Agree?

CDP C.D.R.

30 May, 1989.



ceBackup
CC BT

PRIME MINISTER

Poland

1. When we last discussed Poland on 19 April, I told you that work was in hand on proposals for economic assistance we might offer the Poles in response to the political reforms they have introduced. Since then, William Waldegrave has been to Poland and discussed ideas with a wide range of people; and officials from the Whitehall departments concerned have completed the enclosed joint study. You may wish to discuss the matter with those colleagues immediately concerned.

2. Much in the attached paper is indeed already common ground. Taking the main elements in the order in which they appear in the summary, it has long been a central part of our policy that there should be an IMF programme. The Poles have not yet asked for bridging finance and we could leave that possibility on one side for the moment. Our stance in the Paris Club is also already clear, including the need to negotiate interim arrangements for 1989 maturities. I do not think that we should offer the Poles new credits either through ECGD or by means of a direct grant or loan: to do so would be to repeat the mistakes of the past and would not provide that targetted assistance which will be of most benefit to the Poles themselves. On trade matters, we have already come out in favour of greater flexibility in the EC on Quantitative Restrictions, but should not advocate including Poland in the Generated System of Preference. We should, however, clearly encourage sound UK commercial investment in Polish projects.

3. That leaves the main innovation sketched out in the paper. You have regularly stressed the importance of helping the Eastern Europeans acquire the skills and expertise needed to run a modern economy. As you know, we are already promoting a programme of management training in Poland as a direct result of your visit.

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I propose that we develop this approach ambitiously and set up a distinct "know-how" fund, with appropriate levels of new funds and staff, which we hope could be supplemented by private sector involvement. The fund or agency would be active in market-oriented activities - eg financing a management training facility in Poland, and paying for consultancy visits - but also could have a role in providing training in democratic processes. An initiative along these lines could in the long run greatly benefit the private sector in Poland as well as provide an eye-catching new centrepiece in the overall British policy you might outline to General Jaruzelski. I suggest that a figure of the order of £5 million per annum would be right.

4. I am copying this minute to the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office

29 May 1989

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ECONOMIC ASSISTANCE TO POLAND: POLICY OPTIONS

SUMMARY

1. Whitehall departments have considered at official level a range of options for assistance to Poland in the fields of debt, export credits, grants, trade access, investment promotion and the transfer of expertise. Each of the options carries a financial or policy-related cost. It will therefore be for Ministers to determine the composition of any package for presentation to General Jaruzelski when he visits Britain on 10 June.

Options and Recommendations

2. The following are either recommendations or options for Ministerial decision, with the main pros and cons.

IMF (Paras 12-16)

3. Problem. An IMF programme essential precondition for longer term debt rescheduling and, in due course, consideration of restoration of normal ECGD-backed credit relations. But programme must be strong enough to ensure a durable adjustment programme, as well as consistent with the UK's established policy of upholding IMF conditionality.

4. Recommendations

a) Use influence within G7 and IMF to advance case for a Polish IMF programme which commits the Poles to the maximum tolerable level of adjustment. Without conniving at a weak programme, be prepared to consider "shadow" programme or special back-loaded programme as way of enforcing

conditionality without large initial commitment of IMF resources.

b) Impress on Poles the importance we attach to an IMF programme as the framework for reform and adjustment and as a precondition for any Paris Club resheduling of future years' obligations. Make clear that an IMF programme will require Poland to reduce inflation and to make domestic adjustments necessary to achieve a reasonable level of debt service.

Bridging finance (Paras 17-18)

5. Problem. Poles may ask for BIS bridging finance before IMF SBA in place.

6. Recommendation. Participate in bridging exercise if all other major creditors play their part and the bridge is supported by the IMF.

Paris Club (Paras 20-26)

7. Problem. Poles seek long-term solution to remove incubus of debt servicing. Any unconventional solution would set precedents for other debtors which we and other Paris Club members would wish to avoid.

8. Recommendation.

a) Negotiate interim Paris Club agreement for 1989 maturities.

b) Use influence to ensure that future Paris Club Agreements are conditional on Polish compliance with IMF programme. Once IMF programme is in prospect, support

negotiation of further agreement (but premature to decide on what basis).

- c) Insist on treatment no less - if not more - favourable than bank creditors both in 1989 and later years.

Export credit, Government loan or grant (Paras 27-33)

9. Problem. Poles want fresh credits. ECGD consider this would be financially imprudent. Ministers could nevertheless direct ECGD to guarantee export credit or a general loan but would have to announce to the House that the decision was political. HMG could consider providing a direct grant or loan, but extra funds would be needed. Multilateral funding, except from the International Finance Corporation (IFC) is blocked in the absence of an IMF programme.

10. Options

- a) Set up - as a declared political measure - a special arrangement to guarantee a credit to support UK involvement in a project which would assist the Polish economic recovery or the development of the private sector. This would require a Ministerial directive to ECGD.
- b) A Ministerial decision to supply a direct Government loan or grant to the Polish private sector. This could be done either by reviving ECGD's dormant economic assistance powers or by a charge to a Departmental public expenditure programme.
- c) Support more IFC investments for viable projects.

Trade Access (Paras 34-41)

11. Problem. Poles have asked for treatment on Quantitative Restrictions comparable to Hungary and for access to the Community's Generalized Scheme for Preferences (GSP). UK is moving towards a more flexible position on QRs but is opposed to including Poland in GSP, since this would run counter to our belief in a free and open world trading system. One or more of our partners may, however, propose this.

12. Options.

- a) Take the lead in urging partners to adopt a flexible approach over QR liberalisation, with a view to setting a clear framework for their abolition.
- b) If pushed, undertake to look at Poland's GSP request in the context of the 1990 Community review of the GSP.

Investment (Para 42)

13. Problem. How to meet Poles' request that we do more to promote UK investment, while recognizing that investment decisions are commercial matters.

14. Options.

- a) Organise outward mission led by Mr Clark (DTI) to explore investment possibilities in Poland (possibly July).
- b) Draw British companies attention to the existence of the Anglo-Polish Investment Promotion and Protection Agreement (IPPA) and to the limited insurance ECGD can provide to private investors (confiscation and war risks).

- c) Encourage Poland to join the Multilateral Investment Guarantee Agency (MIGA).

Know-how (Paras 43-51)

15. Problem. The scope for assistance on the transfer of know-how is immense. But we will need to establish the organization and staff to provide these with new and adequate funding.

16. Option. Establish a new "know-how fund" with appropriate staffing and an initial first-year seed-capital from the Government of at least £5 million, to carry forward all UK efforts to transfer expertise to Poland, including:

- i) Establish a management training centre in Poland.
- ii) Despatch British management consultants, on a short-term basis, to advise Polish companies.
- iii) Launch a programme of assistance on environmental control: in first instance organize a seminar, and later consider more ambitious programmes, eg British-supported effort to clean up the Vistula.
- iv) Investigate possibilities of providing an advisory service for the small business sector in Poland.

Such a fund would have to be financed from a Departmental public expenditure programme.

ECONOMIC ASSISTANCE TO POLAND: POLICY OPTIONS

1. The Polish economy is in dire straits. We have for years been telling the Poles that they will not get their economy working properly until they have a political consensus on which they could base economic policies which justify Western support. In Warsaw last November the Prime Minister said that once the Poles provided the commitment, the resolve and the perseverance to break through to success, their friends would be ready to help in practical ways: by supporting a programme with the IMF; by offering credits; by rescheduling debts; by encouraging investment; by establishing joint ventures; and by increasing contacts of every sort between our governments and peoples.

UK Objectives

2. The Round Table process has produced a historic consensus which offers hope of a major step towards freedom in Poland. The establishment of a democratic regime would be a major contribution towards peace in the region and stability in East-West relations. An exceptional injection of economic assistance would acknowledge what the Poles have achieved and help underpin political progress with economic renewal. Our aim should be to encourage them further along the path to reform by offering a judicious mix of short-term measures and promises of longer-term help as they adopt and implement the required economic and political reforms.

3. Neither the West in general nor the UK in particular can expect any short-term economic pay-off. Poland's economic situation is likely to deteriorate before it gets better. But in the longer term Britain can expect to see some returns from playing a forward role, so long as changes underway to nurture a strong private sector are sustained

and Poland emerges as a qualitatively different economic partner, with whom we can develop trade and economic relations.

4. The UK has taken a leading role in encouraging reform in Poland. The Prime Minister has made clear her wish that the UK should remain in the vanguard by making a rapid and generous response. (Mr Powell's letter of 19 April to Mr Wall, Annex A). President Bush has already outlined a programme of broad measures, albeit ill-defined ones, and has announced he will visit Poland immediately before the Paris Summit on 14-16 July. Our Community partners are playing their cards close to their chest, but are likely in due course to produce their own packages, possibly in connection with planned high-level visits (Mitterrand in June, Cossiga in May, Kohl possibly in July). President Jaruzelski's visit on 10 June will be the best occasion for the Prime Minister to announce a UK initiative. This paper sets out the policy options open to us and the various elements that might be included in such an initiative.

Economic Background

5. Various forms of Western help, including financial assistance in one form or another, could be made available to Poland. We have to recognise that such help cannot by itself produce a transformation of the economy. But such help can certainly make the transformation easier and may be essential if it is ever to be achieved.

6. The parlous state of Poland's economic situation and possible scenarios for future developments are described in Annex B. The economy in Poland has under-performed for years: with little role for market forces, there has been gross inefficiency in the use of resources and growing alienation of the workforce. Inflation has rocketed.

Getting the Polish economy back on the rails requires both macroeconomic stabilization and radical structural reform. The reforms needed include further moves to transform the Government's role from central planning to macroeconomic steering; turning state enterprises into competitive, accountable firms; and price reform, including reduction of subsidies. Some of the consequences will be extremely painful, and earlier efforts to begin the process could not be sustained politically.

7. Both the Government and Solidarity recognise the need for market-orientated economic reforms, and the difficulties these will bring. But they argue that any squeeze on consumption must be limited, and that substantial debt relief will be essential.

8. Heavy borrowing during the 1970s has left Poland with a convertible currency foreign debt of \$39bn. This represents about two thirds of GDP, similar to the figure for some Latin American countries with per capita GDP comparable to Poland. But, unlike Latin America, about two-thirds of the debt is owed to official creditors. Without further rescheduling the overall hard currency debt service ratio would be over 50% for the next few years, and interest payments alone would account for more than 30% of hard currency earnings. Hard currency exports account for 8-9% of GNP, and rather over 50% of total exports. Banks have until last month continued to receive interest while rescheduling principal. By contrast, no payments have been made to the official sector, and substantial arrears on interest payments to official creditors have repeatedly built up, and have periodically been capitalised in Paris Club reschedulings, thus adding to the total debt. As a result the proportion of debt owed to official creditors has risen substantially.

9. Given the previous lack of consensus on the need for the thoroughgoing reform which the West wants to see, Western Governments as creditors have up to now merely tried to regularise financial relations with Poland through a series of short-term Paris Club reschedulings (four agreements roughly covering maturities of principal and interest between 1981 and 1988); but with an IMF programme in effect ruled out by the US on political grounds official creditors have had little leverage.

10. Even after the Round Table it is hard to be optimistic about the likelihood of rapid economic change. Although the agreement made a vague commitment to economic liberalisation, it gave priority to maintaining living standards and social stability. The reaction of Solidarity and of public opinion to any austerity measures that may be introduced has yet to be tested. The Government already seems reluctant to tackle the restructuring of the largest state enterprises which are at the heart of Poland's industrial problems. There are many pitfalls ahead.

Western Strategy

11. Debt relief (the first of the broad areas of policy discussed below) is inevitable, whether by negotiation or simply by the build up of arrears. The way in which it is handled will be central to Western policy. Assuming debt relief can be negotiated the main issues will be how much debt service the Poles should pay, how this is to be distributed between creditors, and what sort of linkage can be established between debt relief and reform/adjustment. HMG's position will have to balance its interest both as creditor and as upholder of the internationally agreed debt strategy against its interest as supporter of a fragile, long-term process of reform. HMG's freedom of action is limited; it cannot pressurise UK banks; in the Paris Club it

has to proceed by consensus; and for all practical purposes the same is true of the Executive Board of the IMF.

IMF

12. Against this background, the key to any programme of economic assistance is a Polish economic adjustment programme agreed with and supported by the IMF. Now that US political opposition to such a programme has been removed, and that Poland has made the initial steps towards negotiation of an agreement, we can repeat our earlier statements that we strongly support such a programme in principle. But we must always qualify such assertions, by insisting that such a programme will be self-defeating if it does not rest upon a rigorous and long-lasting adjustment programme. Otherwise it will not work, and the IMF resources committed to its support will have been wasted. The American statement is helpful in this respect, since it refers to 'programs that support sound, market-orientated economic policies.' US briefing amplified this as 'a process of economic reform which would gain the confidence of the international community.'

13. But agreement on an IMF programme is likely to be difficult to achieve because of the political difficulty in selling to the Polish population the necessary adjustment and reform measures. There is a pressing need for both internal and balance of payments adjustment. Any agreement with the Fund is likely to require substantial progress on a number of fronts (including: reducing the present overhang of unsatisfied consumer demand; reducing the budget deficit; and diverting resources to the external sector) which one way or another will initially hit consumers' real incomes. Some of the major structural reforms which are needed, notably the closure of loss-making enterprises, will also affect many people.

14. There is certainly strong domestic resistance to the squeeze in living standards which a programme will produce. A programme which tries to squeeze living standards too fast could easily collapse as a result of protests and strikes.

15. Any negotiations with the IMF Staff will therefore have to balance the IMF's concern for adequate conditionality against the practical limits on the speed of adjustment. We can expect the negotiations to be long and difficult.

16. The UK has consistently taken a strong line against any dilution of International Financial Institution (IFI) conditionality in other countries: to the point of abstaining or voting against programmes in the IMF and World Bank on several occasions in the last two years. Even in the case of Nigeria, where we might reasonably have been suspected of softness towards our own client, we were able to sustain pressure for a strong adjustment programme. If the only programme which Fund Staff and the Poles were able to agree on implied less rapid adjustment towards internal and external balance than would normally be appropriate, we would face a choice between softening our previous line, holding out for a tougher but probably unworkable programme, and accepting that no agreement was possible, with all that that implied for our political relations and for Paris Club negotiations. One option may be for Poland and the Fund to agree a "shadow programme" of initial economic reforms which would not be supported by IMF finance (although the Poles explicitly rejected this approach last year). Alternatively, a programme with a number of prior actions could increase confidence on both sides for proceeding with a stronger, financed programme.

Bridging finance

17. An IMF programme of any kind is unlikely to be ready before the autumn. The Poles have hinted they might approach Western creditor Governments for a loan through the Bank for International Settlements (BIS). Security for the loan would be the eventual IMF Standby Arrangement or World Bank Structural Adjustment Loan - SAL (see below, para 33). The UK has participated in BIS bridging loans (eg for Yugoslavia last year) in cases where:

- a) there was a clear need for the finance (and a possibility of systemic risk if it was not forthcoming, ie Western Banks might become insolvent);
- b) the loan was endorsed by the Managing Director of the IMF;
- c) creditors took a fair share of the risk.

The Bank of England as BIS member, indemnifies part of a BIS facility and is indemnified by HM Treasury.

18. Poland could not justify asking for bridging finance on systemic grounds but may need money in advance of the SBA to finance imports of consumer goods. The merits of the case will have to be assessed when a request is made. This could be at the BIS meeting on 12-13 June, or it could be raised by telex beforehand. In either case, a separate submission will be made to Ministers urgently.

UK Approach

19. Within the framework provided by an IMF agreement, there are five broad areas in which the UK could give assistance to Poland:

- a) Debt
- b) Export Credits
- c) Direct Grant
- d) Trade access
- e) Investment promotion
- f) Know-how

Debt

20. Poland's \$39bn hard currency debt is largely a product of a surge of borrowing in the 1970s and subsequent failure to pay interest to official creditors, reflecting in part the sharp rise in real interest rates and the poor performance of the domestic economy. Since 1982 Poland has generally paid \$1.5-2bn a year of debt service, implying an actual debt service ratio of 20-35%, but the dollar value of net debt has risen by about \$11bn (of which perhaps half reflects exchange rate changes and most of the rest capitalisation, ie rescheduling of interest which Poland could not afford to pay). The UK ranks sixth in the list of official creditors (after France, FRG, USA, Canada and Italy). The total ECGD debt covered by current reschedulings amounts to £1,057m. Whilst the bilateral agreement covering all payments due between 1986 and 1988 has just been initialled the Poles still owe £41 million in respect of 1988 arrears of interest due under the 1987 Rescheduling Agreement.

21. It is helpful to distinguish between the immediate problem - debt maturing in 1989, including interest falling due under earlier rescheduling agreements - and subsequent years.

22. In 1989, Poland has so far paid nothing to its Government creditors, and has now suspended payments to

\$ 39hr

commercial banks. It is in the UK's interests, as a major Government creditor, to regularise this situation quickly, and if possible recover some ground at the expense of the banks, who have hitherto taken money out of Poland while governments have been increasing their exposure. The normal Paris Club practice is to insist upon an IMF programme as a pre-condition of rescheduling. However, Poland only returned to membership of the IMF last year, and has not yet had time to negotiate a firm programme. The Paris Club therefore reached an interim agreement in 1987, pending an IMF standby or shadow programme. Since it will be necessary for payments of principal and interest due in 1989 (including payments under the present Paris Club agreements) to be rescheduled, it seems reasonable to repeat this operation, for 1989 only - probably rescheduling over 10 years with some 5 years' grace. In the case of ECGD this will involve the further deferment of payments totalling £185mn. We should be able to make a virtue out of necessity by publicising our support for a new agreement. We should however seek to ensure IMF involvement in two ways. First, the negotiations would be based upon figures investigated and, so far as possible, confirmed by the IMF, so that we had an agreed estimate of the financing requirement. Second, the Fund would be required to certify that negotiations for a standby had begun and that reasonable progress was being made. This would preserve some consistency with our general IMF-based approach. The Chancellor agreed that Mr Waldegrave could refer to this possibility in his recent visit to Poland, but we have not yet discussed it with our Paris Club partners, some of whom may object to this weakening of normal conditionality.

23. It is too early to take firm decisions about the problem of debt maturing in 1990 and beyond. If a medium-term adjustment programme can be agreed with the IMF, and with the IBRD, there is a case for making a longer-term debt agreement with Poland as well. This would both

recognise the reality that by one means or another debt relief is inevitable for years to come and, like an IMF programme, send the Poles a signal that the West supports a long-term programme of market-orientated reforms. Something of this kind was attempted for Yugoslavia in the early 1980s, but collapsed through Yugoslav inability to deliver the necessary reforms. For that reason, we like other creditors should be cautious in attempting a repeat performance.

24. Nonetheless the question will not so much be one of creditors consciously taking a generous line on rescheduling as of their recognising that an agreement which asked too much of the Poles would not be serviced. The sort of arrangements mooted by the Poles themselves (for instance Foreign Minister Olechoswki's suggestion of a long-term Paris Club rescheduling plus a 5-year grace period, or that by Ministry of Finance/Communist Party contacts for a ceiling of 15% on the debt service ratio) may give an indication of what the Poles consider would be politically tolerable.

25. A number of other proposals have been put forward by independent observers, notably by the Hungarian expatriate entrepreneur George Soros. He envisaged, inter alia, the eventual conversion of foreign debt via debt/equity swaps negotiated by a new financial intermediary. While debt/equity swaps may be a useful mechanism for banks, the idea that Polish State enterprises would be run by foreign creditor Governments looks potentially disastrous. Other variants have been mooted eg a scheme to re-cycle rescheduled interest payments on official debt back into Poland through an investment fund to promote industrial restructuring, in association with an IMF programme.

26. Any proposal for long-term debt restructuring, however, would certainly be premature at this stage, until the future of the Brady Plan (for commercial bank debt reduction) is clearer. For the same reason, it is unlikely that the United States, which will not wish to treat Poland even more generously than Mexico, would welcome or support "unconventional" debt restructuring proposals for Poland at this stage. British officials will do more work on the options in the next few months, so as to be in a position to put forward constructive proposals towards the end of this year, once an IMF programme is in place.

Export credits

27. ECGD have put an unassailable case that, against normal criteria, there can be no economic case for extending further medium term credits when the Poles are, and are likely to continue to be, unable to meet even the interest on their current debts. ECGD is currently owed £789.29 million in principal plus £267.65 million in arrears of interest. They believe it will be some time before they can contemplate restoring any medium term cover. As well as completing the next round of debt restructuring Poland will need to demonstrate that its economic reform programme is moving in the right direction and that further debt can be serviced.

28. As Poland cannot be regarded as creditworthy by normal economic criteria the early resumption of ECGD cover for medium term credits cannot be reconciled with ECGD's traditional remit. Whilst some other governments (eg France, USA) sometimes use their export credit agencies for clearly political purposes, this has not been the case with ECGD and numerous assurances have been given to Parliament that it would be informed of any change in this policy.

ECGD's Accounting Officer has warned that he would not regard the assumption of new risks on Poland as prudent at this juncture. If Ministers were to direct ECGD to provide such support, a statement would have to be made to the House making clear that cover was being giving for political reasons against ECGD's advice, and ECGD's trading accounts would be indemnified against any losses that might arise. In practice this would fall on the Exchequer. It is for consideration which Department should account for such a loss.

29. It follows that if Ministers wished to make an immediate financial gesture by way of an export credit a precedent for ECGD would be established which would lead to pressure from other non-creditworthy countries. The procedural options are as follows:-

A An instruction to ECGD to guarantee a UK bank credit under its normal support of trade powers accompanied by a statement to Parliament as indicated above; or

B Re-activation of ECGD's dormant powers to give guarantees for the purposes of "rendering economic assistance." These powers have not been used in recent years and a statement to the House would be required to announce this unusual step (but the objection of the ECGD Accounting Officer would not apply and, unlike ODA assistance, the loan would be funded by UK banks and not HMG).

30. It is considered that if Ministers wished to break new ground in this way the purpose of the export credit should be one which could be justified publicly. For instance it could be applied to assist in the more efficient management of an identifiably British project. Preferably the project would lead to quick foreign exchange benefits; it could involve the private sector, and might have application to

the control of environmental pollution. Given the probability that Poland will not be able to repay any such loan (although it is arguable that greater confidence can be placed in the capacity of a private sector company) and the danger that the precedent set might be followed by more important trading partners, it is recommended that the amount should be relatively modest (say) £10-30 million but that the repayment terms should be as generous as possible.

Government loan or grant

31. As an alternative to an ECGD guaranteed bank loan, ministers may wish to consider the options of a direct loan or an outright grant by the British Government. Either would more appropriately be made to the private sector, both because the private sector would be more likely to make good use of it (and in the case of a loan to repay it) and as a gesture of support for the private sector. Both would of course involve immediate public expenditure, and could not readily be accommodated within existing FCO or DTI programmes. (Poland is not regarded as eligible for Development Aid, so ODA could not directly provide the funds; though a PES transfer from ODA to FCO (DW) is administratively possible. Unless extra funds are forthcoming, it could only be at the expense of the existing tightly-drawn bilateral programmes, which we would not want to disturb).

32. There is a precedent for such a loan by HMG, in the case of Yugoslavia: a £38 million loan was provided in 1983 and has been repaid, with interest. But given Poland's very limited capacity to service new debt, even a loan to the private sector would be risky unless repayment was spread over a very long term with an initial grace period. If the money were devoted to structural purposes (like management education) which were not immediately productive, a grant

would be more appropriate than a loan.

World Bank/IFC

33. Three World Bank (IRBD) loans are under consideration, worth \$550 million in aggregate. All three would encourage foreign exchange earnings: one in support of export industries (\$250m); the second for agricultural industries export development (\$50m); and the third to increase operating efficiency in the energy sector and maintain coal exports to convertible currency markets (\$250m). The Polish Government have requested an element (\$25m) of retrospective financing for consultancy and equipment costs for the first of these. World Bank lending can be either project lending in support of specific infrastructural investments or policy based lending which is to free foreign exchange to support structural reforms. The UK's policy is to consider project proposals on their technical merits; but to insist that it is wrong to provide free foreign exchange in support of particular structural reforms unless a macroeconomic framework which could command the support of the IMF is in place. ODA advise that the Polish loans come into the latter category. Moreover, both the World Bank (at the most recent Paris Club Meeting) and the US (in bilateral exchanges) have said that a satisfactory macroeconomic framework (ie an IMF programme) must be in place before the loans can be approved. World Bank loans in advance of an IMF programme are thus non-starters. But, once an IMF arrangement is in place, the President of the World Bank believes Poland is likely to become of growing interest for the Bank. In the meantime, we should be ready to consider sympathetically on their merits proposals for more investment in Poland from the World Bank - affiliated International Finance Corporation (IFC) which offers loans and equity investments in the private sector. The IFC made a first loan to Poland last year: \$79 million to the cooperative horticultural processing and export organisation

Hortex. A further proposal, for a \$43 million investment (\$10 million equity, \$33 million loan) in a float glass project for the Sandomiesz Glass company with Japanese participation, is in preparation. Roughly one-third of the output will be for export to Western Europe.

Trade

34. After a number of years of decline, Polish exports to the EC appear - in nominal terms - to be increasing again (1985: 2.73 becu; 1987: 2.33 becu; 1988 estimate: 2.42 becu). This represents 25% of their foreign trade. The Poles clearly view improved access to the Community market as essential to their efforts to increase export earnings, to reform non-efficient industries, and to accelerate economic growth (which should, in the longer term, lead to a reduction in their debt burden).

35. Any UK initiative to open up the UK/EC market further to Polish imports would need to be agreed with our Community partners (in view of the common commercial policy which governs EC external trade). The Community is currently negotiating with Poland an agreement on trade, commercial and economic cooperation. The main elements are : trade (principally a framework for the gradual liberalisation of our remaining quantitative restrictions (QRs) in return for improved trade opportunities in Poland); commercial cooperation (improved facilities and conditions for EC businessmen, more up to date data on the Polish economy, etc); economic cooperation (a framework for considering cooperation in areas such as transport, energy, standards and the environment).

36. At the April FAC, Mrs Chalker argued that:

- the Community should adopt a more flexible approach over the criteria relating to QR liberalisation (in response to Polish demands);
- the Community should press ahead with discussions with the Poles on establishing of a Community-funded management training programme (to complement member states' own bilateral activities). It was not (in our view) necessary to await formal conclusion of the main agreement before starting discussions.

37. It is important to maintain the EC's policy of differentiating between East European countries on the basis of economic reforms they have actually achieved. One solution would be to offer the prospect of full QR liberalization over the medium term, subject to successful progress in implementing reform over the next, say, two years. DTI Ministers have endorsed this approach. We believe this, and some early liberalization, would form a package which the Poles would welcome. And it would avoid setting unwelcome precedents for the forthcoming negotiations with the Soviet Union and Bulgaria.

38. Departments have also been considering whether to propose to our Community partners that the EC should extend coverage of the Generalised Scheme of Preferences (GSP). The Scheme, set up under a 1968 UNCTAD Resolution, grants duty-free access for industrial products and a limited range of (mainly processed) agricultural products. These concessions are usually granted without setting quantitative limits, though for some sensitive industrial products the duty can be reimposed if imports reach a certain pre-determined level.

39. Although the Scheme was drawn up with the G77 countries in mind, it was left open to each developed country to decide themselves (or in our case through the EC) who should receive GSP benefits. Of the Eastern European countries, Yugoslavia and Romania are current beneficiaries (the latter added in 1980 for largely political reasons). In view of positive developments in Poland there is now, arguably a strong political case for extending the Community's GSP to other Eastern European countries. The Polish Foreign Minister told Mr Waldegrave on 26 April that Poland would very much welcome such a proposal and estimated that it would benefit the Polish economy to the tune of \$25-30 million per annum. Such a move on the EC's part would also match President Bush's intention to extend GSP benefits to Poland.

40. There are however powerful counter-arguments, based on consistency with wider economic principles and the Community's overall policy on GSP (which is aimed at reducing rather than enlarging the number of recipients). While GSP might offer Polish exporters some short term advantage, it would do them no longer term favours since it would merely continue to insulate them from world market forces. Extending GSP to Poland now would advance the causes of bilateral preferences and protectionism and would also undermine our efforts in GATT to get Newly Industrialized Economies (NIE's) to graduate. The question might perhaps be considered in the context of the next ten year review of the GSP, which begins next year.

41. However, if the UK were to decide against taking the initiative on GSP, there is a risk that our other EC partners - particularly the Germans and the French (in view of their forthcoming Presidency) - will do so themselves. This risk will of course increase if the Poles themselves press the case they made to Mr Waldegrave in Warsaw.

Investment Promotion

42. This is essentially for private companies rather than the Government, but we could play a role in facilitating UK investment in Poland.

a) Joint Ventures: The Poles see these as a way of gaining access to Western technology and managerial expertise as well as finance and believe that such benefits would spread more widely in the economy. Although ECGD provides some limited cover (see below (c)), decisions much rest with the commercial judgement of the UK firms involved. Some limited Government assistance might be arranged, eg:

b) Investment mission: A Ministerial led mission of potential investors and joint venture partners could investigate possible ideas for investment by British companies. For this purpose, Mr Clark might take up (possibly in July) a longstanding invitation to visit Poland. Such a visit, shortly after General Jaruzelski's talks with the Prime Minister, would be well-timed to show the seriousness of our intention to follow up the Chequers discussions. In addition, the recent UK/Poland Joint Commission set up on a trial basis a Task Force to bring together missions of businessmen targetted on specific product sectors for exports and joint ventures.

c) Protection: We already have an IPPA and a double taxation agreement with Poland. ECGD are already able to provide some limited insurance to private investors against confiscation and war risks. The US have only moved level with us in asking Congress to authorise the OPIC in Poland. We should encourage Poland to join the Multilateral Investment Guarantee Agency (MIGA) which provides premium-based investment protection; this would be of main

interest to investors in countries without an IPPA with Poland, but could also offer a financial alternative for British investors.

Know-how

43. However good Poland's economic policies and however much the West helps with credits and rescheduling, the Polish economy will not function efficiently without people capable of running a market-based system. There is an acute lack of expertise at all levels. A small investment in this area could have a major impact. We have already launched a management training scheme, based on a consultancy report by Professor Michael Thomas of the University of Strathclyde. The first event will be a mission to the UK in October of directors of Polish management training schools. But we need to expand these efforts in an eye-catching manner.

44. One possibility could be to establish a management training school. Professor Michael Thomas has recommended that the British Government should consider establishing model management training facilities in the future. He believes we could learn from a similar initiative launched by ICL in Poland. There are existing management training schools in Poland but Professor Thomas argues that "another initiative will do no harm." The obvious model would be the International Management Centre in Budapest, set up largely with private and corporate finance. This cost some £2 million, with the Hungarian Government donating the building to house it. The substantial running costs are initially being met by donations, although the school plans eventually to support itself from the income from fees. A similar arrangement for a UK school might be negotiable with the Polish Government. But we would want to ensure that it

remained independent from Government control. If this option is adopted, the UK Government could seek partnerships in establishing and running it with UK companies active in Poland, such as ICL or Rank Xerox.

45. The UK could pay (wholly or in part) for management consultants to advise individual Polish companies. This should be a pump-priming engagement, limited in time to demonstrate to the Poles how Western management could be used to transform an inefficient operation. Publicity about the Prime Minister's visit last November stimulated a good deal of interest from British management consultancies wishing to do business in Poland. There would have to be a central point to identify Polish clients and organize consultancies in the private sector (see below para 49). There is at least a superficial attraction in sending a team for a limited time to manage one of the British-assisted projects that has run into difficulties, such as the Wloclawek PVC plant. But while British managers could in theory turn around the operation, there are major problems at the plant over which the management would have little influence.

46. UK experience of small business development may be relevant to Polish plans for developing small businesses. We should investigate the possibilities of appropriate help. President Bush announced on 13 April that the US would propose negotiations for a private business agreement with Poland's private sector, but further details are not yet available.

47. Another area in which the UK has special expertise is privatisation. We have already arranged for a small group of Finance Ministry officials to meet Treasury experts next month to discuss British experience. A more formal arrangement could be made if privatisation becomes a major feature of economic reform. There could for example, be

secondments between UK and Polish Ministries. We could also encourage the Poles to make use of City expertise in disposing of State-owned enterprises.

48. A particular area in which British expertise and equipment could be matched with Polish need is that of the environment. Pollution - some home-grown, some imported - is literally poisoning the country, with falling life expectancy in some areas. Poland lacks the indigenous capacity to tackle the problem, and the hard currency to buy anti-pollution equipment. Britain could do much to help, thereby contributing both to Poland's economic future and to international environmental efforts. The scope for assistance is vast. This ranges from the organization of a seminar to a financial commitment to mount a programme to tackle one specific problem, such as the air pollution at Wloclawek or the water pollution of the Vistula (drawing on the UK's successful programme to cleanse the Mersey).

49. But if any of the above proposals to supply know-how are to succeed we need substantial new resources of manpower and finance. Professor Thomas advocates the establishment of a "British Polish Productivity Agency," with a specific remit to act as a clearing house for requests for help and assistance, to arrange for visits by Polish managers to the UK, to encourage the establishment of Joint Ventures etc. We believe that this proposal could be expanded beyond productivity-related projects, eg to the political and legal fields. We propose therefore the establishment of a "know-how Fund" as a clearly defined and separate agency with its own director and staff, which would be aim to promote the transfer of expertise in all areas. We would aim to get professional associations, NGOS and other bodies to cooperate in relevant areas (the Institute of Chartered Accountants, for instance, is keen to help).

50. For maximum impact the Prime Minister would need to put a launch figure on the Fund. £5 million would be likely to be a minimum seed-capital, if the proposal to launch a management training centre is accepted. The Prime Minister could, in announcing the scheme, appeal for contributions from UK businessmen and academic institutions. Any Governmental expenditure in the current year would have to come from the contingency reserve. For later years HM Treasury believe the FCO would have to put forward a bid in the 1989 Public Expenditure Survey. The FCO view is that the question of departmental responsibility for the fund should be looked at if and when a decision is taken to proceed with this option. If it were then decided that the FCO vote would be the most appropriate, the FCO would need additional money to cover the full cost of the Governmental contribution plus the administration costs, including extra staff.

51. Whatever we do for Poland will inevitably lead to demands for similar treatment from the Hungarians and others. A flexible "know-how" fund would have the advantage that its reach could be extended and expanded to other activities and other countries in Eastern Europe.

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

FOREIGN AND COMMONWEALTH SECRETARY

em

EC/POLAND

Thank you for copying me your minute of ~~15~~ ¹⁶ May to David Young.

I am content with the approach you suggest.

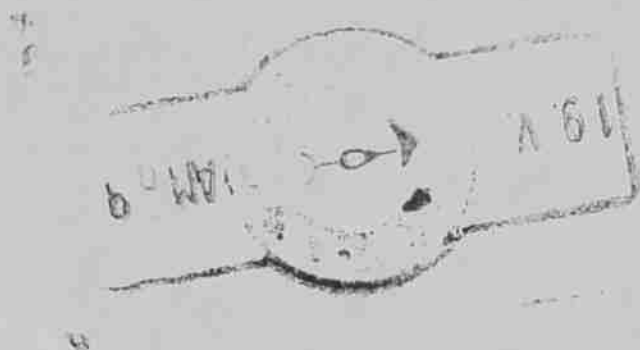
I am copying this letter to the Prime Minister, the Minister for Agriculture, Fisheries and Food, the Secretary of State for Trade and Industry, and to Sir Robin Butler.

NR.

[N.L.]

18 May 1989

POUANO : Ceraias Mio





Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AC

18 May 1989

Dear Geoffrey,

EC/POLAND

I have seen your minute of 15 May to David Young.

As you may recall from the time of the EC/Hungary negotiation last year, my main concern in connection with the negotiation of EC agreements with Eastern bloc countries is the sensitivity of some UK domestic agricultural, and particularly horticultural, production to trade from these countries.

I believe that it is important to make every effort to ensure that UK producers are not put in a less competitive position, compared with their counterparts in other Member States of the Community, as a result of such negotiations, including this EC/Poland negotiation.

In view of the sensitivity of the products for which the UK currently operates quantitative restrictions (QRs) on agricultural trade with Poland, and of the treatment of similar QRs in the EC/Hungary negotiation I would expect that our agricultural QRs would be covered by list C in your minute, and would not thus be due for abolition until 1999. By that time, we envisage, agricultural QRs will have been made subject to a harmonised EC approach. Placing of these QRs in list B would result in faster liberalisation for Poland's exports than for Hungary's which is not of course our aim.

I appreciate the political benefits of the Community's taking a positive stance in concluding an EC/Poland agreement. I can agree to your suggested approach, subject to the points above and also your proposals that super-safeguards should apply until 2004, and

/that liberalisation of....

POLAND: Kulatu PT 10

that liberalisation of QRs should be conditional upon satisfactory reviews in 1992 and 1995/96 of Polish economic reform.

I am copying this letter to the Prime Minister, the Secretary of State for Trade and Industry, the Chancellor of the Exchequer, and to Sir Robin Butler.

Yours etc,



JOHN MacGREGOR

84

dti

the department for Enterprise

Wife

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
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Our ref MM4AMV
Your ref
Date 17 May 1989

CND 17/5.

Geoffrey

pat

Thank you for your letter of 15 May on the EC/Poland agreement and for your suggestion that we might propose the Community accept liberalisation of QRs on a fixed timescale conditional on Poland implementing its planned reforms.

I think this is an extremely useful precaution. It would meet the Prime Minister's wish for a rapid and generous response to the Poles, would keep us to the forefront and could offer the Poles a further incentive to implement their reforms with upsetting the Hungarians. I agree that the focus of attention on concessions to Poland should remain fixed on QRs; the alternative options are considerably less attractive, eg use of the GSP would be particularly unwelcome in view of the consistency of approach which we have encouraged the Community to maintain in the face of pressure from some beneficiaries.

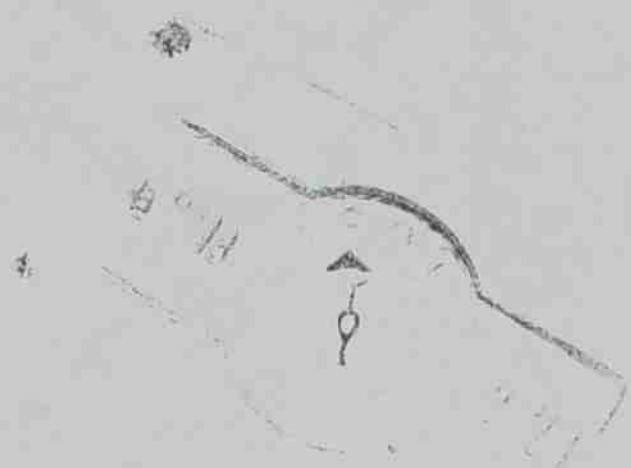
I am therefore content for you to forward this proposal at the May FAC if it becomes clear that the EC/Poland negotiations are in imminent danger of collapse. In focussing on the implementation of reforms I have assumed that you would regard reforms as a continuing process. In reviewing progress the EC should take account not only of existing plans but should also wish to assure itself that the Poles are pursuing further radical reforms.

I am copying this letter to the recipients of yours.

U.E. Hand

the
Enterprise
Initiative

POLAND: Relation Pt 10.



CONFIDENTIAL



FCS/89/088

SECRETARY OF STATE FOR TRADE AND INDUSTRY

EC/Poland

1. The Community is in the process of negotiating a Trade and Cooperation Agreement with Poland. An important element for both parties will be the criteria for the progressive elimination of EC member states' discriminatory quantitative restrictions (QRs) - ie those applying only to certain state-trading countries. The two sides remain far apart on this issue and are likely to remain so after the second round of negotiations on 16/17 May. The Community is offering to abolish or suspend its less sensitive discriminatory QRs and to work towards the progressive abolition of the remainder (without setting a deadline). The Poles are insisting on a firm timetable incorporated into the agreement (as was done for Hungary).
2. The prospect of a breakdown in the talks is worrying the Spaniards, who attach considerable importance to signing the agreement before the end of their Presidency. They have therefore left open the possibility of raising the matter at the 22/23 May Foreign Affairs Council if the Poles continue to press hard for a Hungary-type solution. There is a strong possibility that the Spaniards will press the Council to agree in principle to a timetable, and they may put forward their own ideas for one.
3. It is our firm wish that the UK should maintain a leading role within the Community in ensuring a rapid and generous response to the recent positive developments in

/Poland

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Poland. At the April Foreign Affairs Council, we successfully argued that the Community should show some further flexibility on the trade elements in recognition of the fact that Poland now appeared firmly on the reform path. I believe we now need to agree some definite proposals.

4. I consider (like the Commission) that there is scope within the existing mandate for offering progressive abolition of all discriminatory QRs by a fixed date, while at the same time ensuring that the deal last year accorded to Hungary - where reform has been implemented - remains the more generous. The formula I would ask you and John MacGregor to consider is as follows:

- abolition of List A products (ie the least sensitive) within one year of entry into force of the agreement;
- abolition of List B products (the middle group) by the end of 1994;
- abolition of List C products (ie the most sensitive) by the end of 1999;
- super-safeguard provisions (on the Hungary model) to apply to List C products for five years following their abolition (ie until end of 2004), with normal, ie GATT, safeguards for the other products;
- to make implementation of the timetable for Lists B and C abolition conditional upon successful reviews at the end of 1992 and 1995/6 respectively of progress made by the Polish Government in implementing their economic reforms (particularly in relation to price reform and free-market based practices). This review would be carried out by the Joint Committee set up under Agreement.

CONFIDENTIAL



5. In addition, we would insist - as we did successfully for Hungary - that where, as a result of completing the Single Market, the nature of the QRs applying to non state-trading countries is altered, the list of discriminatory QRs should be amended as necessary. This would again ensure that the UK would not be forced to liberalise to a greater extent than our EC partners during the later stages of the agreement.

6. I hope you will be able to give early agreement to this approach. I firmly believe it is the right one in the circumstances, and fits well with the other ideas we have been putting together on Poland in response to the Prime Minister's wish for a generous response to the Round Table agreement. I am also confident that the Poles would welcome such an initiative on our part (as the Hungarians did in similar circumstances last year) in advance of General Jaruzelski's visit next month.

7. I am copying this minute to the Prime Minister, the Minister for Agriculture, Fisheries and Food, the Chancellor of the Exchequer, and to Sir Robin Butler.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office
15 May 1989

CONFIDENTIAL

C89/2493

MEMO

PRIME MINISTER

VISIT TO POLAND: 10-13 MAY 1989

I paid a short visit to Poland, in response to an invitation from Professor Krawczuk, the Polish Minister of Culture and Art. He visited Britain last November. The programme enabled me to meet a wide range of people in the arts world, as well as political figures. There is an atmosphere of cautious optimism and interest as the election campaign for the Senate and the Sejm starts.

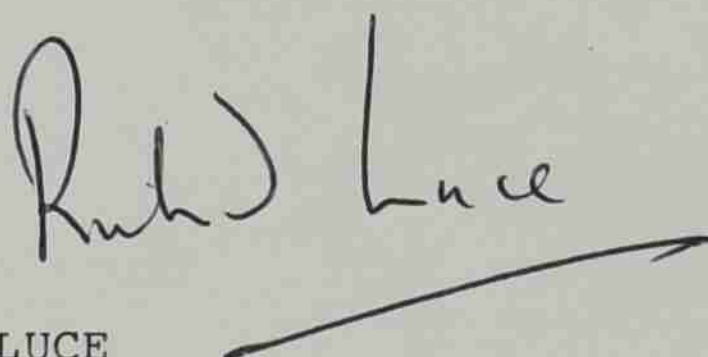
2. Professor Krawczuk and I agreed to facilitate cultural exchanges. The British Council is already active in this. There are certain areas where we can be of some help in, for example, improving low-cost printing methods and management of their arts and museums. I have made it plain that a major obstacle to exchanges is the lack of hard currency.

3. I also met Andrzej Potocki, President of the Catholic Intellectuals Club and in charge of the Solidarity Campaign Office in Krakow. He said that in general the party had received reasonable help from the authorities. We discussed what he saw as the major issues of the election campaign for Solidarity:

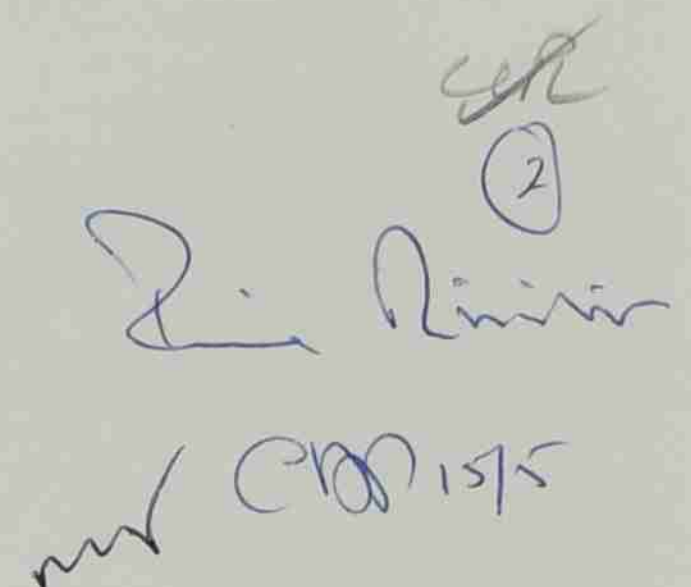
- sovereignty of the people: ie people as subjects of the State rather than objects. Although this might seem a somewhat theoretical and technical distinction, it was an expression that the people understood clearly and simply.
- working conditions and ownership: it was difficult to predict how a change in the ownership of large concerns would work in practice. New forms of management and responsibility had to be introduced.
- agriculture: the primary aim was to facilitate the sale and distribution of produce by removing existing obstacles and encouraging freedom of price.
- pollution: a problem which is particularly serious in the south of Poland.

4. As you know, I followed close on the heels of Kenneth Clarke and William Waldegrave. I firmly believe that such visits are a valuable means of influencing opinion and establishing contacts.

5. Copies of this memo go to Sir Geoffrey Howe and Sir Robin Butler.



RICHARD LUCE
15 May 1989



Prime Minister

VISIT TO POLAND: 8-12 APRIL 1989

My visit to Poland last week was at the invitation of the Polish Minister of Health and Social Welfare, Mrs Izabela Planeta-Malecka. Our talks centred on the UK/Poland health co-operation agreement, medical training and the Health Service Reforms. I also had some very interesting and revealing talks with other members of the Government (the Deputy Prime Minister and the Ministers for Foreign Affairs, for International Economic Co-operation, and for Industry) about the changing political and economic situation in the country.

2. The overwhelming impression I gained from my visit was the huge desire of the Poles to improve contacts of all kinds with the UK. Strong professional links have existed between Polish and British doctors since before the Second World War and a significant proportion of Polish doctors have had experience of working and training in the National Health Service. The Health Ministry and senior Polish doctors set valuable store by these links and want us to expand the training opportunities in the UK for young Polish doctors. Throughout, I heard many tributes to the excellent work of the British Council in Warsaw for their role in fostering medical contacts. In my opinion, health care and medical training are very promising areas for developing strong links between leading influential figures in both countries at a time when we are strengthening our political relations with eastern Europe.

3. The UK/Poland health co-operation agreement was signed in London in January 1988 and covers three specific areas, cardiac surgery, neurosurgery and transplant immunology. It allows for exchange visits to gain experience and exchange information. The present agreement runs out at the end of this year and the Poles are very enthusiastic about renewing it and broadening its scope. As well as building on existing areas, there are a number of promising

new areas which could be covered, including nursing (Poland has a chronic shortage of nurses), child and maternal health care and clinical audit. My Department will be pursuing these with the Poles over the coming months. In addition, I am arranging for a visit by a UK expert to lecture to Polish doctors on the problems of AIDS.

4. There are a number of relatively serious public health problems in Poland. I saw evidence of quite appalling environmental pollution in southern Poland, and the water supply generally is of dreadful quality with heavy metal and chemical contamination. I was also told repeatedly of concerns about occupational health risks, particularly from radon and asbestos.

5. I was accompanied on the visit by a high-powered group of 8 businessmen representing a good cross-section of British companies involved in the production of pharmaceuticals and medical equipment (Boots, Glaxo, Wellcome Foundation, Joyce-Loebl, Huntleigh Technology, Oxford Medical, Amersham International and IGE Medical Systems). All these companies are interested in the prospects of entering the Comecon and Soviet markets and they were all anxious to send senior people with me to explore the prospects of investment in Poland as a base. The visit was a quite surprising success from the commercial point of view both in my opinion and that of the businessmen.

6. The business climate in Poland is changing rapidly and dramatically. Co-operation agreements already exist with Glaxo and Wellcome, and the Poles would like to extend these to other UK pharmaceutical firms, particularly in respect of drug trials. For medical equipment, however, the scope for co-operation will be more limited unless joint ventures and countertrade agreements can be made. The Poles are keen but chronic currency problems limit what is possible.

Policy changes are bringing about a more commercial atmosphere in the country with many constraints on private and overseas capital and management being removed. It is becoming increasingly possible to avoid the bureaucracy of central control and UK businessmen are beginning to forge links with those in the Polish health care system who want to make use of their products. The business delegation also had some very useful discussions with the newly set up Foreign Investment Agency which has ambitious plans for attracting foreign business into the country.

7. Each of the Ministers I met, including Deputy Prime Minister Patorski and Industry Minister Wilczek, told me that the Government's aim was to turn Poland into a market economy and make it attractive to both foreign and Polish capital. They used language to describe their aims which was astonishing from allegedly Communist Ministers. The prevailing view was that political reform would not succeed without economic reform. There was also general agreement that inflation must be brought under control; alongside this there was full acknowledgement that this would need acceptance by the Polish people of some very painful economic measures and that there were difficult times ahead. I fear I was not left with any conviction that these worthy aims were about to be turned into concrete policies that would halt inflation - about 60% per annum and rising rapidly - in the near future however.

8. During my stay, I also had a meeting with leading members of Solidarity (Professors Geremek and Stelmachowski, Drs Kuratowska and Wolak and Janusz Onyszkiewicz), all of whom had played important roles in the round table discussions which had just been completed. The group provided a realistic assessment of the problems still to be confronted and gave three key messages for the West:

- (a) economic aid to Poland should come in the form of investment in the economy and not as credits to the government; as far as possible, aid should be channelled through non-governmental bodies;

(b) for political and psychological reasons, aid should come from Europe rather than the USA; this would be a step towards releasing the country from super power politics;

(c) there should be no repeat of Yalta.

On health care, they were critical of the bureaucracy and inefficiency of the current system and believed that changes were closely linked to wider political and economic changes in the country.

All Solidarity's efforts are now going towards the June elections. The elections will be totally free for 35% of the seats in the lower House and 100% of the seats in the new Senate. Solidarity is not well organised or prepared for those elections but, in so far as I could judge, neither is the Communist Party. Neither Government or Opposition seemed to me to have any clear idea of what was going to happen next in a period of exciting political reform.

9. This report highlights the main features of a very successful visit which promises many opportunities for future UK/Polish co-operation. On the commercial front, the UK representatives came away with concrete proposals for individual companies as well as a clearer view overall of the way forward in dealing with Poland as a trading partner. As for health care, there is a strong fund of friendship and good will which has grown up over several decades, but it is clear that the UK has much more to offer Poland in this field than they have to offer us at the present time. Nevertheless, I am persuaded that it will be to the advantage of both countries to aim to reverse the trend that has led to reduced contacts between our medical professions over the past few years and to re-establish the close links of the 1950s and 60s.

10. Your visit to Poland last November has raised expectations of a new era in UK/Polish co-operation. With genuine political and economic reform now firmly on the Polish agenda, I strongly recommend visits by other Ministers to build new links and develop further opportunities.

11. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Foreign and Commonwealth Affairs, the Secretary of State for Trade and Industry, the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robin Butler.

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Department of Health

19 April 1989



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 April 1989

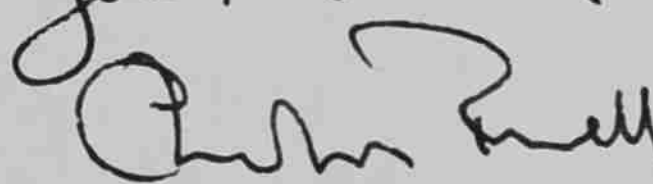
See Stephen.

POLAND

The Prime Minister told the Foreign Secretary this evening that she was concerned that we were losing the leadership role which we had established in relation to Poland. In her speech in Warsaw in November, she had made clear the need for political reform if economic reform was to have a chance of succeeding. At the same time she had promised help when and if the Polish authorities took the necessary steps. They had now done so, but there was no sign that we had a response prepared. The Americans had been much quicker off the mark. She would like to see work on this accelerated with very early recommendations to Ministers.

The Foreign Secretary said that work was indeed in hand. The American offer was not quite what it seemed. The \$1 billion tag on it was a chimera. It was a collection of miscellaneous measures such as trade preferences and liberalisation of import regimes. It was important to avoid compromising Polish negotiations with the IMF and with the Paris Club. Mr. Waldegrave would be visiting Poland next week and we would then be in a position to draw up proposals very rapidly. The Prime Minister agreed that we must not undermine the IMF's position but she would want to see us offer help in the same sort of areas as the United States had done. We must respond rapidly and generously. She did not want the other Europeans to beat us to the draw.

I am copying this letter to Alex Allan (HM Treasury) and to Neil Thornton (Department of Trade and Industry).

Yours sincerely,

(C. D. POWELL)

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

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FM WASHINGTON
TO IMMEDIATE FCO
TELNO 913
OF 312359Z MARCH 89
INFO PRIORITY PARIS, BONN, UKDEL NATO, WARSAW

MY TELNO 901: POLAND

SUMMARY

1. EAGLEBURGER ARGUES STRONGLY THAT THE WEST SHOULD BE READY TO SHOW POLAND THAT THERE ARE SPECIFIC BENEFITS TO BE GAINED FROM POLITICAL LIBERALISATION. ACCEPTS THAT AN IMF AGREEMENT IS THE KEY, AND BELIEVES THAT BAKER IS NOW MORE OPEN-MINDED. SOME FURTHER SPECIFIC MEASURES UNDER CONSIDERATION HERE. AGREEMENT ON THE NEED FOR CLOSE ALLIED CONSULTATION. DETAIL

2. WHEN I CALLED ON EAGLEBURGER ON 31 MARCH, I RAISED POLAND. ADDING THAT I HAD DISCUSSED THIS EARLIER IN THE WEEK WITH KIMMITT. WE BELIEVED THAT IT WOULD BE IMPORTANT TO HOLD EARLY CONSULTATIONS AMONG THE ALLIES ONCE THE ROUND TABLE WAS OVER. OUR CURRENT ASSESSMENT WAS THAT MORE PROGRESS HAD BEEN MADE ON POLITICAL THAN ON ECONOMIC SUBJECTS.

3. EAGLEBURGER AGREED. HE SAID THAT HE HAD DISCUSSED POLAND BRIEFLY EARLIER IN THE DAY WITH BAKER. BOTH FELT THAT THE WEST HAD FOR A LONG TIME, BEEN TELLING THE POLES THAT IF THEY TOOK CERTAIN STEPS, THE WEST WOULD HELP THEM. THE TIME WAS NOW APPROACHING FOR THE WEST TO DELIVER. IT WOULD BE OF WIDER IMPORTANCE IN EASTERN EUROPE TO SHOW POLAND THAT THEY STOOD TO GAIN FROM IMPLEMENTING POLITICAL AND ECONOMIC CHANGE. THE US ADMINISTRATION HAD REAL PROBLEMS IN FINDING NEW ECONOMIC RESOURCES FOR POLAND. THERE WAS STILL A GREAT DEAL OF WORK TO BE DONE IN WASHINGTON ON THIS, AND EAGLEBURGER INDICATED THAT HE WAS TRYING TO FORCE THE PACE. DECISIONS ON AN IMF AGREEMENT WERE LIKELY TO BE THE KEY ELEMENT. EAGLEBURGER ADDED THAT HIS PERSONAL PREFERENCE WOULD BE TO GO SLIGHTLY FURTHER IN HELPING THE POLES OVER AN IMF AGREEMENT THAN THEIR ECONOMIC CONDITIONS WOULD STRICTLY ALLOW. BUT HE MADE CLEAR THAT THIS VIEW WAS NOT SHARED BY THE US TREASURY. BAKER HOWEVER NOW HAD A MORE OPEN MIND ON THE SUBJECT THAN HAD BEEN THE CASE WHEN HE WAS TREASURY SECRETARY.

4. EAGLEBURGER CONTINUED THAT A NUMBER OF OTHER SPECIFIC MEASURES WERE UNDER CONSIDERATION BY THE ADMINISTRATION. IN

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ADDITION TO THOSE MENTIONED BY KIMMITT, THESE INCLUDED POLISH ELIGIBILITY FOR GSP BENEFITS AND FOR OPIC INSURANCE. BOTH WOULD REQUIRE LEGISLATION, BUT CONGRESS, UNDER PRESSURE FROM THE POLISH-AMERICAN COMMUNITY, WAS LIKELY TO BE SUPPORTIVE. EAGLEBURGER ASKED HIS OFFICIALS TO BRIEF US IN MORE DETAIL AT WORKING LEVEL NEXT WEEK: INSTRUCTIONS ARE ALSO BEING SENT TO THE US EMBASSY IN LONDON TO GIVE US A FULLER PICTURE OF US THINKING ON ALL THIS.

5. EAGLEBURGER VERY MUCH AGREED WITH OUR VIEW THAT CLOSE CONSULTATIONS AMONG THE ALLIES WOULD BE ESSENTIAL, ALTHOUGH IT WOULD PROBABLY BE VERY DIFFICULT TO REIN THE GERMANS IN.

6. I ASKED EAGLEBURGER WHETHER STATE HAD YET GIVEN ANY THOUGHT TO HOW THE ISSUE OF CHANGE IN EASTERN EUROPE MIGHT BE DEALT WITH IN THE NATO SUMMIT COMMUNIQUE. EAGLEBURGER SAID THAT THEY WERE NOT YET VERY FAR ADVANCED IN THEIR THINKING. BUT HE HAD URGED THOSE WORKING ON THE SUBJECT TO PUT SOME IMAGINATION INTO THE DRAFTING OF THE DECLARATION.

7. ON THE NEXT STEPS, EAGLEBURGER DID NOT THINK THAT IT WOULD BE NECESSARY FOR ALLIES TO MAKE DETAILED AND SUBSTANTIVE STATEMENTS IMMEDIATELY AFTER THE ROUND TABLE CONCLUDED. BUT HE SHARED OUR WISH TO HAVE VERY EARLY CONSULTATIONS AFTERWARDS TO BEGIN THE PROCESS OF COORDINATING THE WESTERN RESPONSE. THAT WAS WHY HE WAS ALREADY CRACKING THE WHIP WITHIN THE US ADMINISTRATION.

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MR RATFORD

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PS/SIR J FRETWELL

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10 DOWNING STREET

LONDON SW1A 2AA

7 March 1989

From the Private Secretary

PRIME MINISTER'S MEETING WITH THE SPEAKER OF THE POLISH SEJM

Thank you for your letter of 6 March following up various points about the Prime Minister's talk with the Speaker of the Polish Sejm. I note that a proposal for a visit by General Jaruzelski is imminent. It will be very difficult to fit in and I hope the Poles will give us plenty of warning. The Prime Minister did not specifically repeat her invitation to Rakowski although as she was shepherding the Speaker and the Polish Ambassador to the door she said words to the effect that she looked forward to seeing Mr. Rakowski again one day. We certainly cannot cope with both Jaruzelski and Rakowski this year and the Prime Minister would attach much greater importance to a visit from the former.

I note the other points in your letter.

(CHARLES POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

6 March 1989

Dear Charles,

Prime Minister's Meeting with the Speaker of the Polish Sejm

Thank you for your letter of 22 February ^{has} recording the Polish Speaker's call.

The Poles have undertaken to propose a date to us within the next fortnight for a day's visit by General Jaruzelski. The Polish Ambassador, who was present at the Speaker's call, has told our Eastern European Department that the Prime Minister reiterated her invitation to Rakowski to visit the UK during the call. I should be grateful if you could let me know what is anything was said so that we can keep the Embassy in Warsaw in the picture.

We are starting a review of the question of the transfer of General Sikorski's remains to Poland, following the Prime Minister's undertaking to Malinowski to look into this.

Deputy Foreign Minister Kulski, who was in London at the same time as Malinowski, told us that the Poles are to issue invitations to the "leaderships" of certain countries, including the UK, to the principal event marking the 50th anniversary of the outbreak of the Second World War. This will take place in Westerplatte on 31 August. We shall need to consider nearer the time who should represent us.

Yours ever,
Richard Gozney
(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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10 DOWNING STREET

LONDON SW1A 2AA

22 February 1989

From the Private Secretary

PRIME MINISTER'S MEETING WITH THE SPEAKER
OF THE POLISH SEJM

The Prime Minister had a talk this morning with the Speaker of the Polish Sejm. Mr. Malinowski was accompanied by the Polish Ambassador and by Mr. Poleszczuk.

Welcoming the Speaker, the Prime Minister recalled the great impression which her visit to Poland last year had made on her. Her talks with General Jaruzelski had been particularly interesting. He did not flinch from difficult problems. She had followed developments in Poland since then with particular interest and had indeed discussed them the day before with Chancellor Kohl at the Anglo-German Summit.

Mr. Malinowski said that he brought greetings to the Prime Minister from General Jaruzelski and Mr. Rakowski. Both believed that the Prime Minister's visit had raised relations between Britain and Poland to a new level. They were pleased that agreements reached during the visit were being implemented. The opening of Round Table discussions between the Government and Solidarity was a very important development, not just in terms of national reconciliation but because of the prospect it opened for far-reaching reforms. The participants on both sides were guided, not by their group interests, but by the broader national interest. The Round Table could already be judged a success. A new Electoral Law would certainly be forthcoming, which would make it possible for the Sejm to reflect Poland's diversity more fully. There would also be a law on Associations, laying down the rules under which political organisations and groups could be formed. A debate was in progress on the possibility of a second Chamber. It was possible that elections would be brought forward to June. The most important task of the Round Table was to create an environment in which economic reform could succeed, thus establishing the basis for discussions with the Paris Club and the IMF. The Prime Minister welcomed the fact that the Polish Government was committed to reaching agreement with the IMF. That would unlock the door to much other help. The progress being made in the Round Table was on lines which we applauded. It represented a rallying of all moderate and sensible forces in Polish political life.

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Mr. Malinowski said that the Polish Government were grateful for Britain's decision to participate in the celebration of the 50th anniversary of the outbreak of the Second World War. That occasion would be further dignified if we could agree that the remains of General Sikorski should be returned to Poland. The Prime Minister recalled her visit to the monument at Westerplatte with General Jaruzelski and said that there was much which Britain and Poland could commemorate jointly about the beginning of the Second World War. We had to take account of the views of the family and of the Polish community in Britain on the question of the return of General Sikorski's remains. Developments in Poland might help to change attitudes on this. She would look at the matter again.

The Prime Minister expressed the hope that she and General Jaruzelski would have an opportunity to talk again before very long. It would be appropriate for him to pay a formal visit to the United Kingdom in due course.

I am copying this letter to Brian Hawtin (Ministry of Defence), Alex Allan (H.M. Treasury) and to Trevor Woolley (Cabinet Office).

(CHARLES POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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PRIME MINISTER

Tomorrow you have a meeting with the Polish Speaker at 1215.
He will be accompanied by the Ambassador, Director of the
Department of International Relations and an interpreter. I
have arranged the meeting in the White Room.

A detailed briefing by the Foreign Office is in the folder,
but I understand that Malinowski sees the call more as a
courtesy to boost his standing back home rather than the
opportunity for substantive discussion.

PAB

ml

P. A. BEARPARK
21 February 1989

DASAUG



Foreign and Commonwealth Office

London SW1A 2AH

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20 February 1989

Jean Andry,

Call by the Polish Speaker, Malinowski

The Marshal of the Polish Sejm, Roman Malinowski, is visiting Britain as Mr Weatherill's guest from 20-23 February. He is to call on the Prime Minister at 1215 on 22 February for half an hour. Your letter of 10 February asked for briefing. Malinowski will want to discuss the internal situation in Poland, perhaps with special emphasis on parliamentary reform. He may also raise bilateral issues, perhaps as a messenger from Jaruzelski. Subjects might include a visit to Britain by General Jaruzelski and the return to Poland of General Sikorski's remains.

Internal Situation

The internal scene has changed radically since the Prime Minister's visit. The Round Table talks between the authorities and Solidarity which began on 6 February are a major step forward. They cover political reform, economic reform and trade union pluralism. They offer an unprecedented chance for political and economic liberalisation. However, the outlook remains extremely uncertain. Opposition to the Round Table and to legalisation of Solidarity is widespread in the Party and the official trade unions. Many Solidarity radicals oppose negotiation with the authorities. It is by no means certain that the promise of political concessions will persuade the work force to refrain from striking over pay and accept austerity measures.

Rakowski's Government is pursuing economic reform far more actively than its predecessor. Two laws to stimulate private enterprise and foreign investments passed by the Polish Parliament in December 1988 are part of an agenda for a fundamental restructuring of the economy. Concurrently, painful economic measures are being taken to combat high inflation, a budget deficit and other economic problems. The Prime Minister may wish to ask whether popular acquiescence can be secured for these measures.

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The Polish Parliament

As the Prime Minister knows, the Sejm bears no resemblance to Western Parliaments. Policy is decided by the Communist Party. The Parliament passes laws, but usually has little influence on their content. In the past, elections have been little more than a formality. The present Sejm is however rather more than a rubber stamp. Deputies can influence policy by amending legislation in the Sejm commissions, and many have recently become vocal critics of the government, especially on economic policy.

Parliamentary reform will be on the agenda of the Round Table. Elections may take place as early as June. The authorities may propose that 30% of seats in the new Parliament will go to opposition candidates, and 10% to independents. Even if Solidarity feels able to accept a pre-ordained division of seats, it will face the problem of whether, and if so how, it should separate its political and trade union roles. The Prime Minister may wish to ask Malinowski what role he foresees in the new Parliament for the Peasants' Party, one of the minor coalition parties, which he heads.

Other proposals for political reform include the creation of a second parliamentary chamber; and the creation of a Presidency, with wide-ranging powers over foreign policy and defence (probably to be assumed by Jaruzelski after the next Party Congress, which may be brought forward from 1990).

Bilateral Relations

Malinowski's visit coincides with one by Deputy Foreign Minister Kulski, for political consultations with the FCO. This will provide the first opportunity since the Prime Minister's visit for us to discuss our bilateral relations in detail with the Poles.

Malinowski might raise the possibility of a visit by Jaruzelski to London. The Poles have said informally that they may suggest late May/early June. The Ambassador in Warsaw has explained certain timing difficulties (eg European Parliament elections). We await a formal proposal from the Poles.

/During

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During the Prime Minister's visit to Poland, Jaruzelski raised the question of British participation in the Polish commemorations of the 50th Anniversary of the beginning of World War II, in September 1989. Jaruzelski suggested some sort of conference or seminar, and the Prime Minister undertook to look into this. We have told the Poles that we can send a team of historians, but we need to have dates and other details from them. We also hope to send a uniformed tri-service party to attend a suitable official ceremony. An exchange of ship's visits is taking place in May and June. The Poles may invite senior foreign statesmen to attend the commemorations; von Weizsäcker's name has been mentioned. The Prime Minister may wish to ask for more information on what is planned before we can make any commitments.

Malinowski might ask the Prime Minister to agree to the transfer of the remains of General Sikorski to Poland, perhaps for the World War II anniversary. The Poles have been pressing for this since 1981. A vocal section of the Polish community in the UK is strongly opposed to the move. The Prime Minister told the then Polish Foreign Minister, Orzechowski, in December 1987 that she was not in a position to agree to the request at that time; nor was it realistic to expect her to do so during or before her visit to Poland. She repeated this message on Polish Television during her visit. The Prime Minister may like to say that it is too soon for us to reconsider the transfer now; but that we will continue to review the matter, especially in the light of the changing situation in Poland.

Polish Debt

The debt stood at US \$39 billion at end 1988. We repeatedly advise the Poles that they should, as a matter of priority, negotiate a Standby Arrangement (SBA) with the IMF, after which debt rescheduling could be tackled in the Paris Club. We continue to stress that, if an IMF programme is to succeed, the political consent of the Polish people must first be earned; we see economic and political reforms as inextricably interlinked. Polish/IMF talks recommence in March, but we would not in practice rule out another Paris Club arrangement prior to an IMF programme; we note that commercial bank debt is being repaid and hope that repayment to Western Governments will be resumed also.

The Katyn Massacre

In mid February, a Polish official weekly published, for the first time in Poland, evidence pointing to Soviet

/responsibility

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responsibility for the Katyn Massacre. The evidence is in the form of a report produced in 1943 by a team from the Polish Red Cross which travelled to Katyn. It was sent to London in 1946. The report was classified top secret, because the author's life was considered to be in danger. Mr Malinowski might ask about Polish and British press reports that the Red Cross report has until now been suppressed by HMG. In fact it was released to the PRO in 1977. Its publication in Poland is a remarkable move which demonstrates Polish impatience with the slow progress being made by the Polish-Soviet Joint Historical Commission, which has been set up to deal with "blank spots" in Polish-Soviet relations.

Attendance at the call

Malinowski will be accompanied by the Polish Ambassador, Dr Gertych; Mr Poleszczuk, Head of the Sejm's Department of International Relations; and Mr Litwinski, interpreter. I
/ attach personality notes on Mr Malinowski and Dr Gertych.

Yours ever,

Richard Gozney
(R H T Gozney)
Private Secretary

P A Bearpark Esq
10 Downing Street

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MALINOWSKI, ROMAN (MAL-IN-OFF-SKI)

Marshal of the Sejm (the Polish Parliament, pronounced "same") since November 1985. Leader of the Peasant Party, which has nearly a quarter of the seats in the Parliament and represents agricultural interests.

Born in Bialystok, Eastern Poland in 1935. Studied at Chief School of Planning and Statistics, Warsaw. Governor of Lodz province, which includes Poland's second largest city, 1975-80. Minister of Agricultural Purchasing 1980. Deputy Prime Minister 1980-85. MP since 1976. Chairman of the Polish-Soviet Friendship Society since 1988.

He and Jaruzelski are said to get on well. He speaks Russian.

Hosted a visit by the Speaker of the House of Commons in September 1987.

GERTYCH, ZBIGNIEW

Polish Ambassador to the Court of St James since June 1987.

Born in Poznan 1922. 1940 - 44 fought with the AK (Polish partisans). 1947 graduated in agricultural science from Jagiellonian University in Krakow. 1947 - 73 worked in various agricultural institutions. Deputy Chairman of the Council of Ministers (ie Deputy Prime Minister) until 1987.

Joined the Communist Party in 1955.

Until his appointment as Vice-Marshal of the Sejm in July 1982 was Chairman of the Sejm Commission on the Economic Plan, Budget and Finance. Appointed Vice-Premier in November 1985, with responsibility for education and culture, but has allegedly played a wider political role in particular in contacts with "independent opinion". Says that he has good links with General Jaruzelski.



Speaker's Office House of Commons London SW1A 0AA

17 February 1989

P J Kitcatt CB
Speaker's Secretary

Dear Andy,

Thank you for your letter of 10 February confirming the time of 12.15 on Wednesday 22 February for the call by Mr Malinowski on the Prime Minister.

The names of those accompanying Mr Malinowski are as follows:-

His Excellency Dr Zbigniew Gertych -
Ambassador

Mr Romuald Poleszczuk -
Director of the Dept. of International Relations

Mr Krzysztof Litwinski -
Interpreter

Yours sincerely,

Peter Vukobratovic

P.A. Bearpark Esq.
10 Downing Street
London SW1A 2AA





Cole JH

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 February 1989

The Prime Minister has agreed to see the Polish Speaker on 22 February. Could you please let us have appropriate briefing a couple of days before.

P. A. BEARPARK

Richard Gozney, Esq.,
Foreign and Commonwealth Office

DTJ



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CFD

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 February 1989

This is just to confirm the time of 1215 on 22 February for the call by the Polish Speaker on the Prime Minister. It would be helpful if you could let us know all the names of those accompanying him when you have them.

P. A. BEARPARK

P. J. Kitcatt, Esq., C.B.,
Speaker's Office

12.15 22 Feb.

CSP To see / with
get briefing (PB)

PRIME MINISTER

The Polish Speaker will be in London from 20-23 February, and the Speaker has asked if you would be prepared to see him after Questions on the 21st. This is in fact impossible as you will be in Frankfurt then.

Would you be prepared to give him half an hour on the Wednesday?

PAB

Yes no

P. A. BEARPARK

1 February 1989

Tessa

Could I have a time please

(PB)

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FM WARSAW

TO IMMEDIATE FCO

TELNO 46

OF 301530Z JANUARY 89

INFO ROUTINE UKDEL IMF/IBRD, BONN, WASHINGTON, PARIS, ROME

UKDEL IMF/IBRD TELNO 26 (NOT REPEATED EXCEPT TO WARSAW) : IMF :
POLAND AND PARIS CLUB RESCHEDULING

1. ONE OF THE AIMS OF THE CURRENT POLISH DIPLOMATIC OFFENSIVE IN THE WEST IS TO GET THE BEST OBTAINABLE DEAL ON DEBT RESCHEDULING FROM THE PARIS CLUB AND THE RESUMPTION OF CREDIT. THE MOST PROMINENT FIGURE IN THIS OFFENSIVE IS RAKOWSKI HIMSELF: HE WAS IN VIENNA IN DECEMBER, HAS JUST BEEN TO BONN AND WILL BE IN PARIS NEXT MONTH. WILCZEK (MINISTER OF INDUSTRY) HAS JUST RETURNED FROM ITALY. A SUBSTANTIAL PROGRAMME OF MINISTERIAL LEVEL EXCHANGES WITH WESTERN COUNTRIES IS PLANNED FOR THE MONTHS AHEAD.

2. THE POLES WILL PRAY IN AID BOTH THE ECONOMIC REFORMS INITIATED BY THE RAKOWSKI GOVERNMENT AND THE PROCESS OF PROGRESS TOWARDS POLITICAL AND TRADE UNION PLURALISM LAUNCHED AT THE 10TH PLENUM. WE CAN EXPECT TO HEAR MORE OF THE THEME, USED BY RAKOWSKI TO JARUZELSKI AND BUSINESSMEN IN BONN, THAT NOW THAT POLAND HAS MET THE POLITICAL REQUIREMENTS SET BY THE WEST AS PRE-CONDITIONS FOR ASSISTANCE, THE WESTERN COUNTRIES SHOULD FULFIL THEIR OLD PROMISE TO HELP POLAND ECONOMICALLY. IN SO DOING THE POLES WILL PRESENT THEIR OWN VERSION OF LINKAGE BETWEEN POLITICAL AND ECONOMIC DEVELOPMENTS, SUGGESTING THAT A HARSH FINANCIAL STANCE BY THE WEST COULD PUT THE PROCESS OF REFORM AT RISK.

3. AT THE SAME TIME, THE POLISH AUTHORITIES ARE UNDER NO ILLUSION THAT SUBSTANTIAL CREDITS ARE ABOUT TO FLOOD IN. RAKOWSKI SAID IN BONN THAT HE SUSPECTED THAT EVEN AFTER SOLIDARITY HAD BEEN MADE LEGAL THE NUMBER OF MODERN MACHINES WOULD NOT INCREASE. SPEAKING TO THE SELF-MANAGEMENT CONFERENCE IN WARSAW ON 27 JANUARY, HE WARNED AGAINST THE ILLUSION THAT POLAND WOULD GET LARGE CREDITS FROM THE WEST, SAYING 'EVEN IF WE INTRODUCE 150 PERCENT PLURALISM IN THE UNIONS AND 200 PER CENT IN POLITICS, DON'T YOU BELIEVE THAT DOLLARS WILL START FLOWING TO POLAND'. HIS MESSAGE WAS THAT POLAND WOULD HAVE TO RELY ON HER OWN VAST MATERIAL AND HUMAN RESOURCES.

4. RAKOWSKI AND OTHER POLISH LEADERS ARE OF COURSE TAILORING THE CONTENT OF STATEMENTS TO THE PARTICULAR AUDIENCE. THEY WILL NOT

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WANT TO ENCOURAGE THEIR DOMESTIC AUDIENCE TO BELIEVE THAT THERE IS LESS NEED FOR ECONOMIC REFORM JUST BECAUSE INTERNAL DIALOGUE IS TO BEGIN SHORTLY. IN THE WEST THEY WILL CLAIM CREDIT FOR SETTING OUT ON THE PATH OF ECONOMIC AND POLITICAL REFORM BUT WILL GLOSS OVER DIFFICULTIES THAT MAY LIE AHEAD AND SUGGEST AN UNREALISTICALLY SHORT TIME SCALE. AT THE SAME TIME, THEY WILL TRY TO EXPLORE THE POSSIBILITY OF IMPROVING THE TERMS FOR ANY ECONOMIC ASSISTANCE LIKELY TO BE PROVIDED BY THE WEST. WHETHER OR NOT THEY ARE CONFUSED BY CONFLICTING WESTERN STATEMENTS OR ARE SIMPLY TRYING TO ESTABLISH WHETHER THERE HAVE BEEN ANY SHIFTS IN THE WESTERN POSITION(PARTICULARLY IN THAT OF THE GERMANS AND THE NEW AMERICAN ADMINISTRATION),IT SEEMS DESIRABLE THAT AN EFFORT SHOULD BE MADE TO REACH A CONCERTED POSITION AMONG THE MAJOR WESTERN CREDITOR COUNTRIES BEFORE MUCH ELSE IS SAID TO THE POLES.

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MADRID

FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETING WITH POLISH FOREIGN MINISTER

SUMMARY

1. OLECHOWSKI KEEN TO THICKEN UP THE ANGLO-POLISH RELATIONSHIP.
SPEAKS OPTIMISTICALLY ABOUT INTERNAL DEVELOPMENTS IN POLAND. HOPES
FOR RESUMPTION OF JARUZELSKI'S DIALOGUE WITH THE PRIME MINISTER.

DETAIL

2. THE SECRETARY OF STATE MET OLECHOWSKI AT THE LATTER'S REQUEST
TODAY. OLECHOWSKI REMINDED THE SECRETARY OF STATE THAT THEY HAD MET
IN LONDON WHEN THEY HAD BOTH HAD RESPONSIBILITY FOR TRADE MATTERS
AND WERE NEGOTIATING THE URSUS CONTRACT IN THE 1970S. MOST OF THE
CONVERSATION WAS DEVOTED TO BILATERAL RELATIONS.

3. OLECHOWSKI SAID POLAND ATTACHED VERY GREAT IMPORTANCE TO THE
DEVELOPMENT OF ACTIVE, DYNAMIC AND CORDIAL RELATIONS WITH BRITAIN.

MRS THATCHER'S VISIT HAD BEEN VERY IMPORTANT AND THE POLISH
GOVERNMENT WANTED TO ENSURE THAT IT WAS PROPERLY FOLLOWED UP WITH A
VIEW TO PRAGMATIC IMPLEMENTATION. THE GERMANS WERE ALREADY VERY
ACTIVE IN EASTERN EUROPE. POLAND WAS ENCOURAGING THE FRENCH TO
FOLLOW SUIT. THEY HOPED BRITAIN WOULD BE EQUALLY ACTIVE
POLITICALLY, ECONOMICALLY AND CULTURALLY.

4. THE SECRETARY OF STATE SAID WE TOO VALUED THE RELATIONSHIP AND
HAD VERY PROFOUND HOPES FOR POLAND'S ECONOMIC AND POLITICAL SUCCESS.
WE WOULD CARRY THINGS FORWARD IN THE IMF AND THE PARIS CLUB PROVIDED
POLAND MADE IT POSSIBLE FOR US TO DO SO. POLAND'S ABILITY TO MAKE
ECONOMIC PROGRESS DEPENDED ON THE MANAGEMENT OF HER POLITICAL
PROBLEMS. IT LOOKED TO US AS IF CONDITIONS WERE DEVELOPING WITHIN
POLAND WHICH BROUGHT SUCH PROGRESS TANTILISINGLY WITHIN POLAND'S
GRASP. ANYONE WHO HAD EVER BEEN REMOTELY CONNECTED WITH HER IN WORLD
WAR II LOVED POLAND. THERE WERE A WHOLE RANGE OF SUBJECTS ON WHICH
WE WANTED TO FOLLOW UP THE PRIME MINISTER'S VISIT INCLUDING POL/MIL
TALKS AND PLANNING TALKS, UN CONSULTATIONS AND EXCHANGE OF SHIP
VISITS. WE WERE READY TO DISCUSS EDUCATIONAL EXCHANGES AND
COOPERATION IN BROADCASTING AND TO BE ASSOCIATED IN SOME WAY WITH

MARKING THE 50TH ANNIVERSARY OF THE BEGINNING OF WORLD WAR II. WE LOOKED FORWARD TO THE VISIT OF DEPUTY FOREIGN MINISTER KULSKI.

5. OLECHOWSKI SAID VERY FUNDAMENTAL CHANGES WERE GOING ON IN THE POLITICAL AND SOCIAL STRUCTURE OF POLAND. THINGS HAD MOVED ON EVEN SINCE MRS THATCHER'S VISIT. THE MAJOR ISSUE WAS HOW TO ACHIEVE NATIONAL RECONCILIATION WITH WALESA AND SOLIDARITY. THE POLES WERE CLOSE TO A POSITIVE SOLUTION INVOLVING DISCUSSION WITH WALESA AS A PARTNER, NOT AS AN ENEMY. THE SAME WAS TRUE FOR SOLIDARITY AS A WHOLE. THE POLISH GOVERNMENT WANTED TO INTRODUCE PLURALISM TO POLITICAL LIFE, AND INTO THE TRADE UNIONS. WITHIN THE SOCIALIST PATTERN ESTABLISHED IN POLAND, EVERYTHING WAS POSSIBLE. THE ECONOMIC SITUATION REMAINED A MATTER OF CONCERN AND POLAND LOOKED FOR HELP FROM THE WORLD BANK, THE IMF AND THE PARIS CLUB. POLAND'S DEBT BURDEN WAS MOUNTING. EACH YEAR POLAND COULD MEET ABOUT HALF ITS LIABILITIES SO ANY SOLUTION IN THE PARIS CLUB MUST INVOLVE CONSOLIDATION OF DEBT AND LONG TERM RESCHEDULING IF POLAND HAD ANY HOPE OF MEETING HER OBLIGATIONS. THE AMERICANS HAD PLEDGED THEIR SUPPORT IN THE IMF AND SHULTZ SAID HE WOULD GIVE POLAND'S CASE A FAIR WIND WITH HIS SUCCESSOR. THE FRENCH WERE BEING HELPFUL. HE HAD HIMSELF DISCUSSED THE ISSUES ON MORE THAN ONE OCCASION WITH MITTERRAND. THE LATTER WOULD BE VISITING POLAND DURING THE COURSE OF THE YEAR. RAKOWSKI WOULD BE PAYING A PRIVATE VISIT TO GERMANY LATER IN THE WEEK.

6. THE SECRETARY OF STATE SAID WE WERE VERY KEEN TO HELP. THE RELATIONSHIP WITH THE IMF WAS FUNDAMENTAL. POLAND WOULD NEED TO SIGN UP TO AGREEMENTS WITH THE PARIS CLUB AND WOULD HAVE TO TAKE TOUGH DECISIONS, WE SYMPATHISED WITH THE ASPIRATIONS OF SOLIDARITY BUT, AS AN EX-FINANCE MINISTER, HE KNEW THAT THERE WERE ALSO SOME PAINFUL ECONOMIC TRUTHS WHICH SOLIDARITY COULD NOT IGNORE.

7. RELATIONS WITH THE EUROPEAN COMMUNITY. OLECHOWSKI SAID HE HAD SPOKEN TO THE SPANISH FOREIGN MINISTER WHO HOPED TO ESTABLISH A NEGOTIATING MANDATE SHORTLY. POLAND'S MAIN REQUEST WAS THAT SHE SHOULD NOT BE DISCRIMINATED AGAINST. SHE WANTED THE SAME TERMS AS HUNGARY. POLAND WAS MORE IN DEBT THAN HUNGARY AND NEEDED EQUALLY FAVOURABLE CONDITIONS IF SHE WAS TO PAY HER WAY. THE SECRETARY OF STATE POINTED OUT THAT THE SIZE OF THE POLISH ECONOMY WAS VERY DIFFERENT FROM THAT OF HUNGARY. THE TIME SCALE FOR SOLUTIONS MIGHT BE DIFFERENT. WE HAD PRESSED WITHIN THE COMMUNITY FOR PROGRESS ON AN AGREEMENT WITH HUNGARY AND HAD EVENTUALLY ACHIEVED SOME SATISFACTORY CHANGES FOLLOWING THE INTERVENTION OF THE PRIME MINISTER. WE COULD NOT PROMISE TO DO THE SAME IN POLAND'S CASE. BUT WE WERE MORE INCLINED TO LIBERALISM THAN MOST OF OUR PARTNERS. OLECHOWSKI REGISTERED THE POINT.

8. VISIT BY JARUZELSKI. OLECHOWSKI SAID THAT JARUZELSKI WAS KEEN TO

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CONTINUE HIS EXCHANGE OF VIEWS WITH THE PRIME MINISTER. THE POLISH EMBASSY IN LONDON HAD BEEN TOLD BY FCO OFFICIALS THAT IT MIGHT BE POSSIBLE TO TAKE ADVANTAGE OF A TRANSIT OPPORTUNITY. THE PROBLEM WAS HOW TO CREATE SUCH AN OPPORTUNITY. THE SECRETARY OF STATE SAID THAT WHILE HE DID NOT THINK THAT A FORMAL VISIT BY GENERAL JARUZELSKI COULD TAKE PLACE FOR SOME YEARS, A SHORTER, INFORMAL VISIT WOULD BE MORE FEASIBLE IF A NATURAL OPPORTUNITY COULD BE FOUND AND IF SPACE COULD BE FOUND IN THE PRIME MINISTER'S EXTREMELY FULL DIARY. OLECHOWSKI SAID HE UNDERSTOOD AND WOULD FOLLOW UP ON THAT BASIS.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 January 1989

**POLISH NEWSPAPER:
QUESTIONS FOR THE PRIME MINISTER**

Thank you for your letter of 10 January.
I have somewhat revised the answers for
Rzeczpospolita and added one to the first
question. Subject to any comments you may
have, I will send them to the Polish Ambassador.

(C. D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

Question A: "WHICH OF THIS YEAR'S DEVELOPMENTS IN YOUR COUNTRY DO YOU CONSIDER TO BE MOST IMPORTANT FOR ITS FUTURE"

I consider most important the completion of the government's very extensive legislative programme for the first year of the new Parliament elected in 1987. This included some of the most radical reforms which our country has seen in the fields of education, housing and local government. They will help shape our society for the future, in the direction of increasing opportunity and choice.

This will be carried forward in 1989, with a further programme of reform, particularly the privatising of our electricity and water industries. We do not believe that it is for government and the state to run these services. They will be more efficient and provide better value for the consumer if they are run on market principles. It will also enable an ever wider circle of people in Britain to own shares, even beyond the one in five who already do so. It is all part of the radical transformation of our economy in the direction of greater freedom and enterprise - and a capital-owning democracy. All this has happened against the background of increasing prospects which has given our people a higher standard of living than ever before.

Question B: "WHAT IS THE POSITION OF YOUR COUNTRY ON THE IDEA OF BUILDING A "COMMON EUROPEAN HOME?"

I agree very much that the borders of Europe go way beyond the European Community. Europe is much older than the Treaty of Rome. As I said when I was in Warsaw, the first step is to dismantle some of the existing walls, in particular the Berlin Wall, before we can really build something new. Probably the best way to give the idea substance is to concentrate on practical cooperation between the countries of Eastern and Western Europe on issues such as transport, environment and industry. This sort of cooperation is surely in the interests of everyone. Mr. Gorbachev has also made it clear that his concept of the common European Home also involves the US and

Canada, which is helpful.

But in the end this will not be enough. If the idea of the Common European Home is to have real substance, it must be a Europe where people, ideas, and resources can move freely and naturally, where everybody enjoys basic human rights enshrined in law, and where the freedom of choice which Mr. Gorbachev described, in his speech at the UN, as a "universal principle", is a reality for all the peoples of Europe. That is what we want to build in Europe, and what we are working towards through the CSCE process.

Question C: HOW DO YOU IN YOUR COUNTRY EVALUATE OUR MUTUAL BILATERAL RELATIONS?"

I believe that my visit to Poland last year was important and has set our relations on a new basis. I do not just mean official contacts, important though these are. I mean contacts between individuals and cultural, academic and institutional links of all kinds. As for the economy, we are ready to give practical support to your reforms. But as I stressed in Warsaw, economic reform cannot succeed without greater political freedom and greater responsibility.

Both our countries also have an important part to play in dismantling the barriers between East and West and I discussed with General Jaruzelski ways in which we could cooperate in that course. I hope that 1989 will see some practical results. Poland's roots lie as deep in Europe as ours. My visit brought this truth home to me more than ever. We must never forget it.



Foreign and Commonwealth Office

London SW1A 2AH

10 January 1989

Dear Charles,

Polish Newspaper: Questions for the Prime Minister

Thank you for your letter of 16 December about a request from the Polish Government daily paper, Rzeczpospolita, for the Prime Minister to answer three questions for publication. Other EC Embassies have received similar requests.

// We recommend that the Prime Minister should accept the invitation. The question on Poland will allow her to set out her views on bilateral relations following her visit. I attach draft replies to Questions B and C, which Mr Waldegrave has seen in the Foreign Secretary's absence. I assume you will wish to provide an answer to Question A (which reads "Which of the past year's events in your country had the greatest meaning for its future?").

Yours ever,

L Parker
(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street



Foreign and Commonwealth Office

London SW1A 2AH

21 December 1988

Dear Charles,

Anglo-Polish Relations

Thank you for your letter of 16 December. We do not think the Prime Minister need reply to General Jaruzelski's message. It does not contain any new points. But the Ambassador in Warsaw will of course refer to it when he calls on the MFA to discuss follow-up to the visit.

Yours ever,

L Parker

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street





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c/c

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 December 1988

POLAND

The Polish Ambassador has asked whether the Prime Minister could provide written answers to a series of questions for the official government daily newspaper "Rzeczpospolita". Unless you see any strong objection, I should be grateful if you could let me have some draft replies by 9 January.

(C. D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 December 1988

ANGLO-POLISH RELATIONS

The Polish Ambassador called on me this morning to deliver the enclosed message to the Prime Minister from General Jaruzelski. I gave the Ambassador no reason to suppose that there would be a specific reply. But it would be helpful to have advice whether we should regard it simply as a reply to the Prime Minister's own earlier message, or use it as a peg to hang some further communication.

(C. D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

21



PRZEWODNICZĄCY RADY PAŃSTWA
POLSKIEJ RZECZYPOSPOLITEJ LUDOWEJ

Wielce Szanowna Pani Premier,

dziękuję Pani za listy, które była Pani uprzejma przekazać po wizycie w Polsce. Przeczytałem je z wielką uwagą.

Pragnę podziękować Pani zwłaszcza za ciepłe słowa wypowiedziane pod adresem naszego kraju w parlamencie brytyjskim. Pragniemy odczytywać je jako potwierdzenie intencji rozwijania wszechstronnej brytyjsko-polskiej współpracy.

Podczas wizyty w naszym kraju miała Pani okazję zapoznać się szeroko z polską rzeczywistością. Przywiązuję do tego dużą wagę. W Polsce zachodzą szybkie przemiany, procesy o historycznym nierzadko znaczeniu.

Problemy i zjawiska doraźne nie powinny ich przesłaniać.

Społeczeństwo polskie wysoko oceniło Pani wizytę na Westerplatte. Rad jestem, że wyraziła Pani w imieniu Wielkiej Brytanii gotowość do wspólnej refleksji w związku ze zbliżającą się 50 rocznicą wybuchu II wojny światowej.

Pani Margaret Thatcher

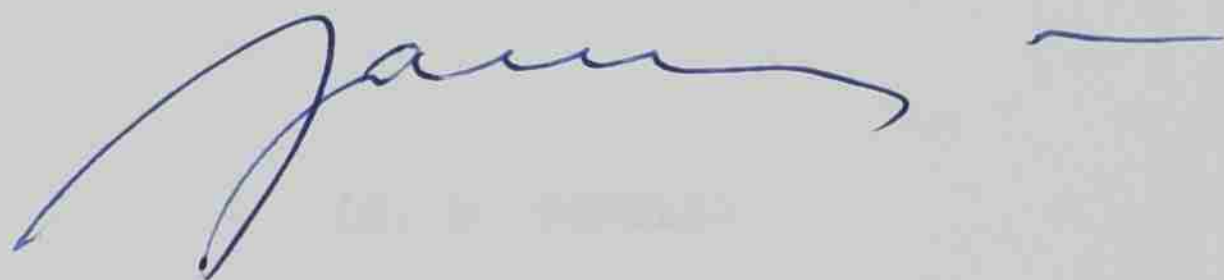
Premier
Zjednoczonego Królestwa
Wielkiej Brytanii i Północnej Irlandii
L o n d y n

W historii współpracy naszych państw i narodów nie brakuje chlubnych kart. Powinniśmy zarazem patrzeć dalekowzrocznie w przyszłość. Jestem przekonany, że polsko-brytyjska współpraca może stać się ważnym czynnikiem stabilizującym oraz utrwalającym proces odprężenia w Europie.

Bardzo sobie cenię Pani zaproszenie do kontynuowania naszych rozmów tak obiecująco zapoczątkowanych w Warszawie.

Wymierny rozwój współpracy między naszymi państwami, na który bardzo liczę, mógłby stać się najpewniejszym pomostem do naszego kolejnego, owocnego spotkania.

Łączę wyrazy szacunku i najlepsze pozdrowienia.



Warszawa, 6 grudnia 1988 roku

The Polish Ambassador

London, 14th December, 1988.

Dear Mr Powell,

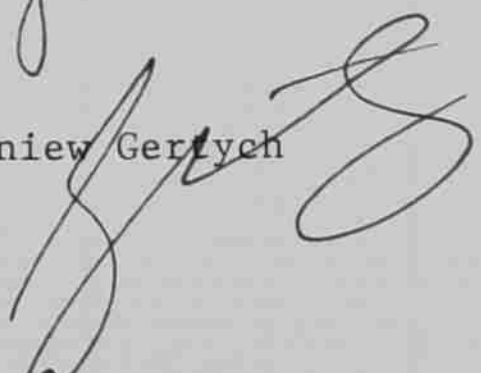
I would be grateful if you could submit the questions of the Polish official Government daily newspaper "Rzeczpospolita", as below, to the Prime Minister, the Rt. Hon. Margaret Thatcher.

The same set of questions has been presented to Heads of State of several countries including Belgium, France, Greece, Italy, Spain, Sweden and the Federal Republic of Germany.

Answers are expected to be published by mid-February.

- 1) Which one of this year's developments in your country do you consider to be the most important for its future?
- 2) What is the British attitude to the idea of "The Common European House"?
- 3) What is your view on the future of British-Polish bilateral relations?

Thanking you in advance for your kind assistance in this matter, I remain,

Yours sincerely


Dr. Zbigniew Geremek

Mr. C.D. Powell,
Private Secretary to Prime Minister,
Prime Minister's Office,
10 Downing Street,
London, SW1A 2AA.

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TO ROUTINE FCO
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AND TO ROUTINE WARSAW

IMF: POLAND

SUMMARY

1. NEW GOVERNMENT HAS NOT YET FORMULATED ITS ECONOMIC PLANS FOR 1989. ECONOMIC SITUATION CONTINUES TO DETERIORATE IN 1988. NO IMMEDIATE PROSPECT OF A FUND PROGRAM.

DETAIL

2. WE HAVE SPOKEN TO PRUST (MISSION CHIEF) ON HIS RETURN FROM POLAND. HE REPORTED THAT THE NEW GOVERNMENT HAS NOT YET FORMULATED ITS ECONOMIC PLANS FOR 1989 AND WAS NOT THEREFORE READY TO HAVE DETAILED DISCUSSIONS WITH THE FUND. PRUST NOTED, TOO, THAT NEITHER THE NEW DEPUTY PRIME MINISTER OR THE NEW FINANCE MINISTER HAD MUCH BACKGROUND IN MACRO-ECONOMICS.

3. PRUST SAID THAT THE CURRENT ECONOMIC SITUATION WAS QUOTE BAD AND GETTING WORSE UNQUOTE. FOR 1988 AS A WHOLE, PRICE INFLATION WAS PROJECTED AT 60 PERCENT, AND WAGE INFLATION AT MORE THAN 70 PERCENT. MOREOVER THERE HAD BEEN AN ACCELERATION IN WAGE INFLATION DURING THE COURSE OF THE YEAR, PARTLY IN RESPONSE TO THE SUMMER STRIKES - YEAR-ON-YEAR WAGE INFLATION IN SEPTEMBER HAD REACHED 87 PERCENT. THUS REAL WAGE (AND A FORTIORI) REAL INCOMES HAD GROWN STRONGLY IN 1988, SHARPLY EXACERBATING DOMESTIC IMBALANCES. THE FUND ESTIMATED THAT WHILE REAL INCOME IN AGGREGATE WOULD RISE BY 10 PERCENT IN 1988, REAL EXPENDITURE WOULD INCREASE BY ONLY 5 PERCENT THE IMPLIED INCREASE IN FRUSTRATED DEMAND WAS ONE REASON WHY THE POPULATION FELT HARD DONE BY DESPITE THE CLEAR INCREASE IN AGGREGATE INCOMES.

4. THE VERY HIGH PRICE AND WAGE INFLATION IN 1988 HAD NOT ONLY EXACERBATED EXCESS DEMAND PRESSURE IN POLAND, IT HAD ALSO PREVENTED SIGNIFICANT PROGRESS ON RELATIVE PRICE ADJUSTMENT. OVER THE YEAR AS A WHOLE THERE WOULD PROBABLY BE SLIGHT INCREASES IN THE RELATIVE PRICES OF ENERGY AND CONSUMER DURABLES, BUT THESE SHIFTS WERE DWARFED BY THE GENERAL PRICE RISE. SIMILARLY, WHILE AT THE BEGINNING OF THE YEAR IT HAD SEEMED THAT THERE WOULD BE A FALL IN RELATIVE WAGES IN THE MINING SECTOR, THIS HAD BEEN LARGELY ERODED BY SUBSEQUENT

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GENERAL WAGE INFLATION.

5. PRUST COMMENTED THAT THE GROWING DOMESTIC IMBALANCES HAD NOT YET LED TO A DETERIORATION IN THE EXTERNAL POSITION. EXPORT GROWTH (15 PERCENT IN THE FIRST NINE MONTHS OF 1988) HAD BEEN STRONGLY FUELLED BY A COMPETITIVE EXCHANGE RATE AND BY TAX AND RETENTION ACCOUNT INCENTIVES. THE MAIN EXPORT GROWTH AREA WAS IN MANUFACTURES TO WESTERN EUROPE. IN LINE WITH EXPORT GROWTH, IMPORTS TOO HAD GROWN RAPIDLY IN 1988. THE AUTHORITIES ARGUED THAT HIGH IMPORT GROWTH HAD ALLOWED STRONG EXPORT GROWTH. PRUST, HOWEVER, FELT THAT IMPORT GROWTH COULD BE COMPRESSED SOMEWHAT WITHOUT SIGNIFICANT IMPACT ON PRODUCTION.

6. PRUST REPORTED THAT THE AUTHORITIES STILL APPEARED TO BE STALLING ON SIGNING BILATERAL AGREEMENTS WITH OFFICIAL CREDITORS. HE COULD FIND NO EXPLANATION FOR THEIR FAILURE TO TAKE THIS IMPORTANT FIRST STEP IN NORMALISING RELATIONS. PRUST DID NOTE HOWEVER THAT THE POLES HAD RECENTLY CONCLUDED A BILATERAL AGREEMENT WITH JAPAN (A HANGOVER FROM THE 1985 MULTILATERAL AGREEMENT).

7. LOOKING TO THE YEAR AHEAD, PRUST EMPHASISED THAT THE AUTHORITIES HAD NOT PRESENTED TO THE FUND STAFF ANY DETAILED FIGURES. HOWEVER, HE THOUGHT THAT THEY WOULD BE AIMING TO KEEP INFLATION TO 25-35 PERCENT, AND TO HOLD REAL INCOMES CONSTANT. GIVEN THAT THERE WOULD BE A 20 PERCENT INFLATION QUOTE CARRY-OVER UNQUOTE FROM 1988, THIS INFLATION TARGET WOULD LEAVE VERY LITTLE ROOM FOR FURTHER PRICE LIBERALISATION. HE THOUGHT THAT THE AUTHORITIES MIGHT ALSO BE PREPARED TO INCREASE INTEREST RATES.

8. PRUST'S VIEW WAS THAT A PROGRAM ALONG THESE LINES WOULD NOT BE ADEQUATE. HE THOUGHT THAT THERE WAS A CLEAR NEED TO CUT REAL INCOMES IN VIEW OF THE LEVEL OF DOMESTIC IMBALANCES. HOWEVER, THAT WOULD CLEARLY BE VERY DIFFICULT POLITICALLY AT THIS STAGE. PRUST FELT THAT THE POLES STILL HAD A GREAT DEAL TO DO TO DEMONSTRATE A TRACK RECORD OF COMMITMENT TO ADJUSTMENT WHICH MIGHT LEAD EVENTUALLY TO A FUND-SUPPORTED PROGRAM. PRUST ALSO OFFERED THE THOUGHT THAT WITH BAKER HEADING FOR THE US STATE DEPARTMENT LITTLE CHANGE IN THE US' POSITION ON POLAND COULD BE ANTICIPATED.

9. PLEASE PASS TO SHORT (CABINET OFFICE).

CASSELL

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10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

11 November 1988

Dear Stephen,

CHIEF PRESS SECRETARY'S INVITATION
FROM THE POLISH GOVERNMENT

I should be grateful for the Foreign Office's views on the advisability of Bernard Ingham accepting the Polish Government's invitation, described in his minute attached, to make a lecture tour to post graduate colleges of journalism in Poland. 8/11/88

I have to confess to certain misgivings about acceptance of this invitation. There is the obvious security consideration. But beyond that, there is the concern that the Polish authorities would turn the visit of Mrs. Thatcher's Chief Press Secretary to their own political advantage. A lecture tour to Poland under the auspices of the Polish Government could degenerate into an exercise of Communist propaganda. To that extent, Bernard would be "used". A lecture tour organised by the Warsaw Embassy could be another matter. We could then control its content and management so that the pitfalls identified above, if they exist, could be avoided. But this is not on offer, though I suspect it could be arranged if we saw advantage in it.

wick 2/11 BF
I should be glad to have the Foreign Office's views on the advisability of Bernard accepting this invitation. There is no objection to your seeking the Post's advice if you thought it helpful. Of course, the Prime Minister would need to be consulted before Bernard could accept the invitation.

I am sending a copy of this letter to Trevor Woolley in Sir Robin Butler's office.

Nigel Wicks

(N. L. WICKS)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

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TO IMMEDIATE FCO

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OF 091435Z NOVEMBER 88

INFO IMMEDIATE EAST EUROPEAN POSTS, UKDEL NATO, BONN, WASHINGTON

MY TELNO 683: CLOSURE OF LENIN SHIPYARD

SUMMARY

1. WALESA DOES NOT PUT PROMISED STRIKE ALERT INTO EFFECT AT LENIN SHIPYARD. MINOR PROTEST ACTION AT TWO OTHER SHIPYARDS IN GDANSK.

DETAIL

2. ON 8 NOVEMBER LECK WALESA ADDRESSED A RALLY OF SOME 3,000 WORKERS ON FIRST SHIFT AT LENIN SHIPYARD IN GDANSK. HE DID NOT CALL THE STRIKE ALERT WHICH HE THREATENED ON 6 NOVEMBER (PARA 2 MTUR), IN VIEW OF QUOTE ENCOURAGING NEWS UNQUOTE FROM SHIPYARD MANAGEMENT THAT LIQUIDATION WOULD NOT TAKE EFFECT UNTIL 31 DECEMBER 1990. WALESA ADDED THAT CONDITIONS WERE UNFAVOURABLE FOR STRIKE ACTION (FOR EXAMPLE, THE AUTHORITIES COULD EASILY COUNTER AN OCCUPATION STRIKE BY TURNING OFF THE HEATING ETC) AND SOLIDARITY WAS NOT YET READY.

3. PROTEST ACTION AT LENIN SHIPYARD HAS SO FAR BEEN LIMITED TO COLLECTION OF SIGNATURES FOR PETITIONS TO THE AUTHORITIES, AND AN APPEAL TO THE CONSTITUTIONAL TRIBUNAL. MINOR PROTEST ACTION IN SUPPORT OF LENIN SHIPYARD HAS TAKEN PLACE AT TWO NEIGHBOURING SHIPYARDS IN GDANSK: AROUND 50 WORKERS PICKETED THE GATES OF THE WISLA SHIPYARD, AND ABOUT 500 WORKERS BEGAN A STRIKE AT THE REPAIR SHIPYARD ON 8 NOVEMBER. BY 9 NOVEMBER ONLY AROUND 120 WERE STILL ON STRIKE. THIS IS EXPECTED TO PETER OUT SOON.

4. AT HIS PRESS CONFERENCE ON 8 NOVEMBER, GOVERNMENT SPOKESMAN URBAN, APPLAUDED WALESA'S DECISION NOT TO CALL A STRIKE ACTION.

COMMENT

5. WALESA'S COMMENT ON ENCOURAGING NEWS FROM THE MANAGEMENT PROBABLY RELATES TO AN ANNOUNCEMENT BY THE MINISTRY OF INDUSTRY LAST WEEK THAT LIQUIDATION OF SHIPYARD WOULD TAKE PLACE OVER THE PERIOD 1 DECEMBER 1988 - 31 DECEMBER 1990. BUT ESSENTIALLY HE IS BACKING-OFF FROM HIS MILITANT COMMENTS ON 8 NOVEMBER, PARTLY NO DOUBT BECAUSE OF THE VERY REAL PRACTICAL DIFFICULTIES OF MOUNTING STRIKES IN THE WINTER. IT REMAINS TO BE SEEN WHETHER WALESA WILL

RESTRICTED

126007
MDADAN 6400

ASSESS THE SITUATION DIFFERENTLY WHEN THE NEXT RALLY IS HELD AT THE SHIPYARD ON 15 NOVEMBER. AT PRESENT HIS POLICY SEEMS VERY UNCLEAR.

BARRETT

YYYY

DISTRIBUTION

22

ADVANCE

22

.EASTERN EUROPEAN ECONOMIC

PS + Mrs Chalker

PS/MR WALDEGRAVE

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PS/SIR J FRETWELL

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RESIDENT CLERK

MR BRIND CAB OFF

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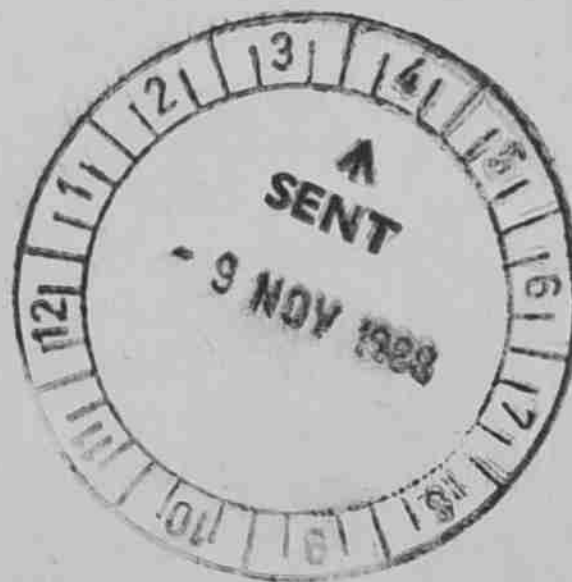
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STAFF IN CONFIDENCE



CABINET OFFICE

A ...11269...

9 NOV 1988

FILING INSTRUCTIONS

FILE No.

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

c - Mr Wicks

SIR ROBIN BUTLER

POLISH EXCHANGE

I would not rule it out. I think that it is worth getting the FCO's and post's views and thinking again in the light of that; and then, if it is recommended, put it to the PM.

I should be glad to know whether you share my doubts about the wisdom of Bernard Ingham accepting the Polish Government's invitation, described in his minute below, to visit post-graduate colleges of journalism in Poland.

FE-BS

9.11.

There is the obvious security consideration. But this is not my main concern. My main worry is that the Polish authorities would use the visit of Mrs. Thatcher's Chief Press Secretary for their own political advantage. A lecture tour to the United States, which Bernard has undertaken, is one thing. But any lecture tour to Poland, under the auspices of the Polish Government, could well degenerate into an exercise of Communist propaganda. To that extent, Bernard would be "used". Of course, a lecture tour organised by the Embassy might be another matter. But that is not what is suggested.

If we were ready to see Bernard accept this invitation, the Foreign Office would need to be consulted and they would no doubt want to consult the Post. The Prime Minister's permission would also be necessary.

But before involving the Foreign Office and the Prime Minister, I should be glad to know whether you share my views.

N.L.W.

(N. L. WICKS)
8 November 1988

STAFF IN CONFIDENCE

MR WICKS

POLISH EXCHANGE

During the Prime Minister's visit to Poland I was invited by Polish spokesmen who had visited me in No 10 during study tours of the UK to pay a return visit to Poland. I thanked them and said I would explore the possibility, though the difficulty of getting away under our system was very considerable.

The two spokesmen are Slawomir Tabkowski, Chief Party Spokesman, and Jerzy Urban, Government spokesman.

Mr Tabkowski extended his invitation in the context of seeking help from me in getting a number of senior journalists, with an international outlook, or Professor of Schools of Journalism, to visit their post-graduate colleges of journalism to lecture and lead discussions.

Mr Urban, who has twice invited me to make an official visit to Poland, was enthusiastic about the idea of my combining a visit with such a lecture tour to explain how I do my job in the UK. So too was John Saville, the Information Officer in our Embassy.

It would be an interesting experience to go out with say Robin Oakley, Political Editor, Times; Peter Jenkins, Independent, and Paul Potts, Deputy Editor, Express. This group would provide a range of journalistic experience and outlook which could only be valuable to Polish journalists.

What do you think about

- (a) the idea of my responding to the Tabkowski/Urban invitation; and
- (b) my doing so in the context of a lecture visit with such a group of journalists.



BERNARD INGHAM

8 November 1988

1001



Foreign and Commonwealth Office

London SW1A 2AH

25 October 1988

Dear Charles,

Message from the Polish Prime Minister

The Prime Minister sent a message of congratulation to the new Polish Prime Minister, Mieczyslaw Rakowski, on 28 September. The Polish Embassy has now forwarded Mr Rakowski's reply, which I enclose.

Yours ever,

L Parker

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

H.E. Mrs Margaret Thatcher
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland
London

(Dear Mrs Prime Minister),

Please accept my thanks for the congratulations and wishes conveyed to me on the occasion of my election for the Chairman of the Council of Ministers. May I assure you, Madame, that I am looking forward with pleasure to our forthcoming meeting and the opportunity of hosting you in Poland.

I fully share your hope that our talks should contribute to the consolidation of the time-honoured friendship and all-round co-operation between the two countries.

Mieczysław F. Rakowski
Chairman of the Council of Ministers of the Polish People's Republic

Peard: Relations

Pt 10



1000

cc
cc FCO
CDP
17/X

CDP 17/X

No. 11-65/88

The Embassy of the Polish People's Republic presents its compliments to the Protocol Department of the Foreign and Commonwealth Office and has the honour to request that the enclosed message from the Mr. Mieczyslaw Rakowski, Chairman of the Council of Ministers of the Polish People's Republic, be submitted to Prime Minister Mrs. Margaret Thatcher.

The Embassy of the Polish People's Republic avails itself of this opportunity to renew to the Protocol Department of the Foreign and Commonwealth Office the assurance of its highest consideration

12th, October, 1988



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T157C/88

H.E. Mrs Margaret Thatcher
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland
London

SUBJECT CC Master
OPS

(Dear Mrs Prime Minister),

Please accept my thanks for the congratulations and wishes conveyed to me on the occasion of my election for the Chairman of the Council of Ministers. May I assure you, Madame, that I am looking forward with pleasure to our forthcoming meeting and the opportunity of hosting you in Poland.

I fully share your hope that our talks should contribute to the consolidation of the time-honoured friendship and all-round co-operation between the two countries.

Mieczysław F. Rakowski

Chairman of the Council of Ministers of the Polish People's Republic

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL NO. 207/79

207/79

207/79

The Prime Minister is pleased to announce that the Government has decided to increase the minimum wage for unskilled workers from Rs. 100 to Rs. 120 per month. This decision is in line with the Government's policy of improving the living standards of the working class. The increase will be effective from 1st January 1980.

207/79

207/79

17X
PM 6/1

PRIME MINISTER'S
PERSONAL MESSAGE

SERIAL No. *7148/88*

RESTRICTED

*SUBJECT CC MASTER
OPS*

145461
MDHOAN 5584

RESTRICTED
FM FCO
TO IMMEDIATE WARSAW
TELNO 440
OF 281300Z SEPTEMBER 88

YOUR TELNO 1541

1. PLEASE PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO
MR RAKOWSKI AS SOON AS POSSIBLE:

QUOTE

PLEASE ACCEPT MY CONGRATULATIONS ON YOUR APPOINTMENT AS
PRIME MINISTER. I WISH YOU EVERY SUCCESS IN THE DIFFICULT TASKS
AHEAD. I AM LOOKING FORWARD GREATLY TO MY VISIT TO POLAND AND I
FEEL SURE THAT OUR DISCUSSION WILL HELP TO INCREASE THE
FRIENDSHIP AND UNDERSTANDING BETWEEN OUR TWO COUNTRIES.

HOWE

YYYY

DISTRIBUTION

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PS/MR WALDEGRAVE
PS/PUS
PS/SIR J FRETWELL
MR RATFORD

NNNN



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

28 September 1988

Thank you for your letter of 28 September proposing the Prime Minister should send a message of congratulations to the new Polish Prime Minister. I am sure the Prime Minister will be prepared to send a message, and the text enclosed with your letter may issue, with the omission of the word "warm" before congratulations, which I think is a bit excessive in the circumstances.

Charles Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

OSG

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1 +

FROM:
PS

Reference

DEPARTMENT:

TEL. NO:

PO2AAB

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

TO:

Copies to:

Top Secret

Secret

Confidential

Restricted

Unclassified

PS/No 10

PRIVACY MARKING

..... In Confidence

CAVEAT

SUBJECT:

We have heard from the Embassy in Warsaw that the Polish parliament confirmed that choice of Rakowski as the new Polish Prime Minister. As you know the Poles are now considering a postponement of the Prime Minister's visit. It may be two or three days before we know their decision. Nevertheless we recommend that a message of congratulations should be sent to Mr Rakowski as soon as possible. I should be grateful for your comments on the enclosed draft.

I also enclose a personality note on Mr Rakowski.

Enclosures flag(s)

OUT TELEGRAM

Classification	Caveat	Precedence
RESTRICTED		IMMEDIATE

CAVEAT
FM
TO
TELNO
OF
AND TO

1 ZCZC
2 RESTRICTED
3
4 FM FCO
5 TO IMMEDIATE WARSAW
6 TELNO
7 OF 281300Z SEPTEMBER 88
8
9 YOUR TELNO 1541
10 1. Please pass the following message from the Prime Minister to
11 Mr Rakowski as soon as possible:
12 Quote
13 Please accept my warm congratulations on your appointment as
14 Prime Minister. I wish you every success in the difficult tasks
15 ahead. I am looking forward greatly to my visit to Poland and I
16 feel sure that our discussion will help to increase the
17 friend-ship and understanding between our two countries.
18
19 HOWE
20
21 YYYY
22 LIMITED
23 PS/Mrs Chalker
24 PS/Mr Waldegrave
25 PS/PUS
/// 26 PS/Sir J Fretwell
// 27 Mr Ratford
/ 28 HD/EED
29 HD/SOVIET

YYYY

MAIN

ADDITIONAL

NNNN

File number		Dept	Catchword: HD/ECD(E)	
P02AAA		EED	Drafted by (Block capitals)	Telephone no
			Hd/EED	270 2366
Authorised for despatch by:		Initials	Date/time	
For COD use only	Comcen reference		Telegram number	Processed by

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OUT TELEGRAM (CONT)

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<div style="border: 1px solid black; height: 20px; width: 100%;"></div>				
For distribution order see Page		Catchword:		

Charles Powell 

This came in from someone^{*}
I met at a recent Royal Society
dinner. These may be prints
for the Polish trip.

* John Pascoe - a
major shareholder in AT

Steve Jones
20/9

Active Technologies plc

57 COLLEGE ROAD, HARROW, MIDDLESEX HA1 1BZ

FAX NO: 01 427 1099

TELEX NO. 946240 CW EASYG ELN 19002385 TELEPHONE: 01 427 4165 & 861 3352

It is a 'talking' through report,
if you want any help let me know.

With Compliments

John Passoe -

Active Technologies plc

57 COLLEGE ROAD, HARROW, MIDDLESEX HA1 1BZ

FAX NO: 01 427 1099

TELEX NO. 946240 CW EASYG ELN 19002385 TELEPHONE: 01 427 4165 & 861 3352

Points re situation in Poland.

15 sept 1988.

Active technologies plc signed the first Anglo Polish joint venture in Jan 1988. We have signed our first export contract and are investigating several very interesting possibilities.

The philosophy behind our action was that the manufacturing world needs a new market place in which to sell its goods in order to continue its standard of living. The third world is short of finance and credibility, the other countries are generating extremely competitive market places, Eastern Europe is waking up and will provide an enormous market if the finance is solved. Our joint venture is a possible solution

Our own capability to import products and sell them in local currency at a premium over the official exchange rate for later purchase of goods services and products is unique for a U.K. company. It results in labour charges to our joint venture company of 100 pounds for a skilled worker per month. A extraordinary advantage over western labour rates.

The capabilities of some of the Polish factories has impressed our guests and is already used by the West Germans and Japanese. One factory which had recently introduced a semi automated production line was already full of export orders.

The current anxiety over the shortage of engineers in the U.K. if real and a problem, could be solved by utilizing Polish engineering resources.

Joint ventures after the change in the law in april 87 have allowed some new ideas and enthusiasm to generate in Poland. The I.M.F are monitoring their progress as a new way of helping Polish industry generate hard currency to pay back the debt currently some 36 b dollars.

"Solidarity", rather than being a union it is more of a political party. The likely role for Solidarity is as an opposition party. Whether Walesa leads or another will be seen, Walesa is a simple man who may be a temporary leader.

DIRECTORS: Martin Vlieland-Boddy A.C.A., M.B.I.M. (Managing), Martin Jackson, John Pascoe, Paul Chambers B.A., A.C.A.

Active Technologies PLC is registered in England No. 1651588

The old style leaders in Poland and other Eastern Europe countries are all fighting to preserve the status quo. Their opposition is not open but they hide behind committees and interpretation of new legislation.

The recent internal pressures of unrest and strikes caused the existing government to divert export orders to the internal market. This, whilst serving to alleviate the frustration of the workers will mortgage their future business integrity. Contracts if signed must be honoured not diverted to internal market.

Poland suffers from some well known diseases, business versus bureaucrats / whose fault / interpretation of rules/ timetables for rules /. A lot of these problems could be solved by using Japanese solutions eg exchange of personnel between the bureaucrats and business managers at the lower levels. Another solution would be the introduction of enterprise zones near the major ports, independent of the business law.

A great deal of the delays and frustrations of doing business with Poland could be reduced by the appointment of a "Minister for joint ventures" who with the help of western representation on his advisory groups would arbitrate and ease new ventures. In other words his role would be of an Ombudsman with teeth.

Investment protection as offered by the D of I is a good incentive for British industry. Another would be dividend relief on joint venture companies. As there are only two the cost to the U.K. would be minimal but what great P.R.

Other general points :

General J might be invited to London.

The U.K. could extend places at U.K. universities and technical colleges in engineering fields that are unfilled from U.K.

* invite Professor Janicki
President,
Digital laboratories ltd
Room 512
Hotel Polonia
Warsaw.

to meet Mrs Thatcher

1x 12

1x 6

1x 6

1x Anacardio Gab

1x 90 ysters

~~1x S. S.~~ 1x swails

1x Saloin (Med)

1x Partridge

1x Partridge

1x Partridge

1x House

1x Partridge



CEPC

Foreign and Commonwealth Office

London SW1A 2AH

10 May 1988

CEPC
10/5'

Dear Charles,

Poland: Lord Bethell

You told me yesterday that Lord Bethell had rung you from Warsaw about a piece in the Sunday Times on 8 May (copy enclosed) under the headline "Howe backs Jaruzelski".

Lord Bethell was in Gdansk yesterday, and unavailable. (As you may have seen, he was arrested briefly there, and held for about 40 minutes. In releasing him, the police told him that "a mistake" had been made). He is now back in Warsaw, and plans to travel to London this afternoon. Our Embassy have told him that the Sunday Times piece is incorrect, and that a statement made by News Department on 6 May (copy enclosed) correctly represents the Foreign Secretary's views. Lord Bethell said he was relieved. He also seemed relaxed about his brief arrest, and said he does not propose to make an issue of it.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

SUNDAY TIMES

Howe backs Jaruselski

SIR GEOFFREY HOWE, the foreign secretary, has greater sympathy with General Wojciech Jaruselski in the Polish crisis than with the Solidarity movement. He believes Jaruselski should be regarded as a patriot for safeguarding his country against Russian military intervention and that the recent labour unrest is based on unrealistic demands.

But the Foreign Office, striving to remain even-handed over developments, last week deplored police violence in breaking up the strikes.

Mrs Thatcher is to visit Poland later this year. She is expected to meet Lech Walesa, the Solidarity leader, and Jaruselski.

Walesa defiant, page 17

1
CONTROL ALUW ESCE PSOM A13
FENCE 06 PSOM A13
VICT R3 PSOM 01
SSA PSIE 03 A5
TODOL PSIE 03 A5

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LA PSOM R5 05 A12
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URITY PUSD PS6 R5 03 PSOM D6 [A4 A6]

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JAMEN PSIE A5
ROY. SCI. SPACE PS6 R6 [02 A4]
LEAR ENERGY PSOM R6 [A1]
RELS. ECO. ENV R6 [02 A3]

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INING PS6 03 DIPS A6

8 May 88

49

UNREST IN POLAND

The Government has been following closely and with concern the recent strikes in Poland, and the reactions of the Polish authorities. We deplore the use of police violence. We call upon the Polish authorities to recognise the importance of political reforms designed to ensure individual liberties and freedom of association, and to make use of persuasion and dialogue, rather than coercion and repression. Poland's planned economic reforms offer the welcome prospect of a new start. But they involve short-term sacrifices. They cannot be successfully introduced without support from the Polish people.





10 DOWNING STREET

~~Enquiries~~

Lord Bethel Phased
From Warsaw, Poland.

RE : Sunday Times article
on 'Solidarity' and the
comment that Geoffrey Howe
sympathises with the Polish
Government rather than Solidarity.
Lord Bethel stated that
if this was a correct
representation - he would register
his deep concern because
the crisis was not of
Solidarity making :
10070

He wanted also to
draw your attention to
his articles in the
Sunday Telegraph on pages
2 and 8.

He is staying in the
Victoria Hotel Warsaw

AS
Duty Clerk
8/5/58
13.00 hrs.

Solidarity leader is jailed

by Nicholas Bethell 8/5
our Special Correspondent in Warsaw

THE MAIN spokesman for the outlawed Polish trade union Solidarity, Janusz Onyszkiewicz, was jailed for six weeks yesterday for incorrect reporting of clashes between police and strikers in Gdansk and for possession of subversive pamphlets.

Onyszkiewicz's sentence, together with the one passed on Solidarity's Gdansk representative, Bogdan Lis, are the first convictions for political offences since the general amnesty 18 months ago. They seem to mark a renewed clampdown by the Polish government on unofficial trade union activity.

But the leader of the six-day strike at the Lenin shipyard in Gdansk said early today that, at a meeting last night, management had generally agreed to raise pay, reinstate fired activists and grant an amnesty for strikers.

"It was a big step forward," said strike committee chairman Alojzy Szablewski, after emerging from the three-hour talks.

Mr Szablewski said management had accepted the union's demands for pay increases of at least 15,000 zlotys a month (£20), but demands to legalise Solidarity were not considered.

In an illegal Solidarity 15-minute sound broadcast that broke into the television news at 9.30pm in Gdansk, the banned union's leader, Lech Walesa, told strikers: "You are to decide whether we accept or fight for Solidarity. It's your decision. In the case of a pacification [raid], I'll be the last to leave the shipyard."

At a meeting near Warsaw yesterday a leading member of the Polish Politburo said that the authorities proposed to "liquidate" the Gdansk strike.

"The strike is illegal," he said. "In our country, as in Britain, there are laws about the rights to strike and, as it happens, we took them mainly from the British model, not from the Soviet Union. There are seven separate steps that must be taken before a strike is legal."

"In the midst of this, the West invites us to bow down to Walesa and accept him as a social force. The rebirth of Solidarity would lead to chaos."

Foreign commentary — p 8

Why Poles feel solidarity with the Thatcher way

PAGE 8

SUNDAY

TELEGRAPH

8/5/88



by Nicholas Bethell in Warsaw

LAST WEEK marked an acceleration in the Grecian inevitability of Poland's tragedy. Some of the demands made by strikers in Gdansk and Nowa Huta were irresponsible to the point of surrealism. When a country's productivity is seven per cent less than it was 10 years ago, as Poland's is, it makes no sense for its workers to demand 50 per cent pay increases.

The outbreak was, nevertheless, inevitable. Indeed, it is surprising that the calm of the recent stagnation endured so long. Seldom can the working people of an industrialised and well-educated nation have been so cruelly provoked by a government which, whether through insensitivity or stubborn refusal to move from positions of dogma, makes it ever more clear that it will never be in a position to satisfy their simplest and most natural aspirations.

The Gdansk shipyard workers, well-paid by Polish standards, earn 45,000 zlotys a month. This is the princely sum of £5.60 a week at a free market exchange rate (\$1 = 1,000 zlotys) and may be worth £10 in terms of local purchasing power. It provokes Lech Walesa to remark that he is fed up with his men being kept as Europe's paupers. It is a poverty which, in many respects, now surpasses Third World levels.

Infant mortality is on the increase and some of the most basic medicines are no longer stocked in pharmacies. Unless they are made in the country, which few items are, they will not be on the shelves. Poland owes the West nearly \$40,000 million. There is no foreign currency available for imports. Ordinary items like cotton wool are not on sale either. One sees signs pasted up in pharmacy windows: "No cotton wool, no razor blades, no tampons." This is to stop shop assistants being constantly pestered and abused.

Toilet paper is hardly ever in stock. Sometimes it is made available on an exchange basis at the rate of one roll for a kilo of waste paper—old newspapers or books. In villages and small towns, though, no such scheme exists. Poland has fewer telephones per capita than any European country except Albania.

Many ordinary foodstuffs are not on sale either and some items, such as chocolate and meat, are rationed. The meat ration is 2½ kilos a month, including sausage. The chocolate ration is 200gms a month for children and nothing for adults, except on the black market or for foreign currency.

Since 1980 some 700,000 Poles, often the youngest and best qualified, have left their country for good. A public opinion poll at the end of 1987 indicated that 60 per cent of people under 30 wished to leave Poland for a period of at least five years in the West, or for ever. The reasons they cited were low wages, inadequate housing and lack of prospects.

It is against this background that Mrs Thatcher's visit, originally scheduled for this month and now planned for October, is arousing great expectations among the Poles, especially the government. She is influenced, it is said, by humanitarian dismay at Poland's misery, by a feeling of historical obligation towards the country which suffered most during the Second World War and by the practical need to avoid, especially at this juncture, another Polish explosion of despair.

An outbreak of unrest in Eastern Europe will not help Mr Gorbachev's chances of survival at the June plenum. He and his Liberal

policies will be blamed by Soviet hardliners if things get worse and the Soviet Union is put to the trouble of having to restore order. These strikes could end the new East-West detente before it really begins, and with it Mrs Thatcher's working relationship with the Soviet leader.

She will therefore fly to Warsaw later this year with a bag of gold and a rabbit in a hat, ready to help the Polish Government as well as herself. Her new-style Marshall Plan will be backed by Western Europe and large amounts of money will be made available for Poland's infrastructure, including housing. Morale will be lifted, the Poles will have the means to work themselves out of their stagnation and central Europe will be stabilised, in everyone's interests.

The Polish Government, of course, is enticed by the idea, especially since it has been urging its workforce to follow the "Thatcher way", austerity as a phase leading to recovery. Many non-Communist Poles, who revere her as "our Iron lady", like the idea, too. Therefore, if the Government can sell the idea of her "plan" it will acquire badly-needed breathing space and popularity.

Such wishful thinking does not survive economic examination. Even if Mrs Thatcher were ready to find the money the grand joint venture would never survive, so isolated has the Government become. The present economy is now so sick, so poisoned by opiates administered for short-term pain relief, that it no longer has the means to cure itself. Britain would therefore be most unwise to try to pull chestnuts out of a fire which the Government, unpopular and stubbornly unwilling to build any consensus, deliberately inflames.

So deep are the divisions that dollars alone will not help Poland's anguish. This was tried in Mr Gierek's day and it left the country with burdens. Investment will now have to be accompanied by harsh austerity measures. Wages must be restrained, subsidies phased out, differentials widened, over-manning reduced and unprofitable concerns sent into liquidation.

It seems unlikely that the Government will swallow such a solution, incompatible as it is with its ideology, and it is even more unlikely that the hard-pressed Polish workers, including Solidarity supporters, would put up with it if it were imposed. Price increases provoked anger in the streets. And as for Solidarity, why should they help after the treatment they have suffered? But without Solidarity's acquiescence austerity measures are bound to fail.

And so the vicious circle continues. Wage increases in Nowa Huta add to the spiral. No-one, not the World Bank, not the International Monetary Fund, certainly not Mrs Thatcher, will help in conditions of such indiscipline. Indiscipline, though, can be cured only by austerity and austerity can survive only with Solidarity's consent. Communists are not yet ready to seek that consent. If they did General Jaruzelski would lose face.

A "Thatcher plan" at this stage would be no better than a filling for a rotten tooth. On the other hand, a miserable and unstable Poland is not in Europe's interests. We should be ready to help—under the right terms. The Polish Government may find them humiliating. But the tragedy has fermented for many decades and Hamlet's last act now seems the only alternative.

Lord Bethell is Member of the European Parliament for London North-West

Strikers turn back clock

Simon Freeman

POLAND

LATE afternoon in Gdansk and at first glance the clock had been turned back to the summer of 1980 — the glorious days of Solidarity, Lech Walesa, banner-waving, debate, laughter and, above all else, a collective national dream that everything was possible.

In the Lenin shipyard, birthplace of Solidarity, Walesa and thousands of striking fellow-workers defied the authorities, just as they had eight years ago. A few minutes' walk away, in St Brigid's church, where Walesa confesses and which is now a commercialised shrine to the union, Solidarity intellectuals manned two telephone lines, briefing the world's media on developments.

But this was not 1980. Then, there was a seemingly irresistible dynamism about the protests; as last week drew towards a close there was only fatalism, an assumption that it would all end in failure and a political disaster for Solidarity — evidenced by the way some workers began drifting forlornly out of the yard.

Outside, detested Zomo riot police units fidgeted with their truncheons, waiting to be ordered to storm the yard and hammer the remaining strikers, otherwise described by the official press as "hooligans, enemies of the people and counter-revolutionaries".

"It is not the same now," said Peter Konopka, 39, an economics lecturer who is one of Walesa's closest aides, as the feeling of defeat mounted in the yard. "People had hope then. Now there is a feeling of hopelessness. Maybe the police will attack. Maybe they will just starve the remaining workers out."

"I do not know how much hope we have left. I don't know if the workers believe in a political solution any longer."

After a fortnight of strikes by transport, steel and shipyard workers in Polish cities, it is now obvious even to the most optimistic Solidarity activist that, barring divine in-



Clash: May-day marches in Warsaw erupted into violent confrontations with police

tervention from the Black Madonna of Czestochowa, Poland's most cherished religious saviour, the protests were doomed from the start.

That does not mean the strikes will peter out feebly this week. Polish workers, especially in the old heavy industries, are at heart stubborn romantics who draw sustenance from the legends surrounding previous, noble defeats. "We are more determined than in 1980. We have to do something. When people are hungry they cry out for food. That is what we are doing now. We are becoming poorer and poorer. We must

have economic and social reform. So we are fighting," said Konopka.

It is quite true that the economic privations now are as bad, if not worse, as in 1980. Inflation is running at more than 40% annually. Some Poles are cushioned because they have access to precious Western hard currency, either because they have relatives in the West or because they work in service industries where fiddling on the black market is easy. But workers in places such as the Lenin shipyard have just their official wages, paid in what is increasingly a worthless currency.

But little else resembles 1980. Most importantly of all, the Polish government is a far more sophisticated animal. In 1980, it had nothing to offer its people apart from price rises and repression; today General Wojciech Jaruzelski is attempting to modernise the antiquated economy. He wants to decentralise and, to a very limited extent, allow private enterprise.

He is faced with the challenge of dismantling the massive subsidies which buttress heavy industry and which have kept food and consumer goods prices artificially low. Yet, at the same time, he must

ock, but time has run out



Breadline: Lech Walesa, Solidarity leader, shares a loaf with workers as he addresses a crowd at the Lenin shipyard

avoid unemployment — which marxist theory dictates cannot exist under communism but would naturally follow such restructuring in a capitalist society. Finally, he must be seen to remain loyal to the idea that the Communist party retains its traditional, all-embracing authority.

To his discredit, Jaruselski has failed totally to convince the workers that today's sacrifices will lead to a better life. But he is far from alone in the Communist bloc in this failure. Even Mikhail Gorbachev, the Kremlin's master of public relations, has yet to prove himself able to convince both workers and party hardliners of the value of economic liberalisation.

Jaruselski's advisers in trying to overcome these problems include men who have stolen many of Solidarity's ideas and who now argue, to the irritation of the Solidarity leaders who were imprisoned or beaten up during martial law, that the strikes of 1980 were legitimate expressions of discontent by a patriotic nation.

Last year, Mieczyslaw Rakowski, one of the advisers and a politburo member, produced a report setting out the dangers facing communist governments. Somehow, he wrote, they had to develop "creative energy, courage and imagination if communist ideology is not to wither away". He warned that living conditions in Poland were so appalling that, if they existed in a Western democracy "the people would rise in revolutionary struggle".

But there is a limit to the government's tolerance, exemplified by the announcement on Friday that all strikes would be deemed illegal until the end of the year. So the message from the government to its people is simple.

We are trying to reform, says the government, but do not imagine that we have become weak. We are a communist society, in which some limited dissent will be permitted. But we will not return to the heyday of Solidarity, when the essentials of political life could be challenged.

The Polish public knows

that the Soviet Union has also been watching the industrial unrest with anxiety and mounting irritation. Gorbachev cannot risk chaos in Poland. His enemies in the Kremlin would be able to use it as proof of the damage of *glasnost*. "It is not a question of the Russians threatening the Poles," said one Western expert on Poland. "It is more subtle than that now. But the Polish government knows what is expected and it is doing it."

Western governments, for their part, show no signs of adopting the cause of the strikers as they did enthusiastically in 1980. In Britain, the government is privately sympathetic to Jaruselski for trying, in the words of one Foreign Office official, "to squeeze inflation out of the system".

The West does not want Polish workers, with their demands for more money and more freedom, to jeopardise superpower summitry. The United States government has made that plain, saying that it did not think the Polish events would prejudice this month's

Reagan-Gorbachev summit in Moscow.

Many Solidarity intellectuals privately admit all this. But, as Konopka explained last Friday in Gdansk, Poles will always dream. "The demands over pay are just a code for other, more fundamental reforms. We have a system in which there is the state and the people and there is nothing in between. That is why we are fighting," he said.

On Friday, Konopka added, strikers in the shipyard were asked if they would go back to work if only one demand — for the legalisation of Solidarity — was conceded by the authorities. Yes, they said, we would.

"The expectations which were raised by Solidarity can never be realised in a communist society," said one Western analyst who has lived through Solidarity's bravest days. "Poles thought then they could enjoy the same lifestyle and freedoms as the West. That was never possible but the Poles still think Solidarity can save change the world."

Additional reporting by Jonathan Luxmore

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MIPT : POLAND : UNREST

SUMMARY

1. TOUGH ACTION AT NOWA HUTA AND GDANSK JUSTIFIED BY ESTABLISHMENT FIGURES AS NECESSARY TO SAVE REFORM, THWART PRESSURES FROM HARD-LINERS OPPOSED TO REFORM, AND AVOID AGGRAVATING PROBLEMS IN SOVIET UNION. ACTION TAKEN MAY SIMPLY MEAN THAT NOTHING HAS CHANGED SINCE 1981.

DETAIL

2. THE AUTHORITIES HAVE NOT YET PRODUCED ANY FULL PUBLIC EXPLANATION FOR THE ACTION TAKEN IN NOWA HUTA, NOR INDICATION OF WHAT THEY PLAN TO DO IN GDANSK. IN PRIVATE CONTACTS WITH LEADING ESTABLISHMENT FIGURES, THE FOLLOWING POINTS ARE BEING STRESSED:

(A) THE AUTHORITIES SENSED (I THINK CORRECTLY) THAT CURRENT UNREST DID NOT HAVE THE DYNAMISM OF THE AUGUST 1980 WAVE OF STRIKES. ACTION COULD THEREFORE BE TAKEN IN SOME CONFIDENCE THAT REACTION WOULD BE CONTAINABLE.

(B) WAGE DEMANDS WERE HOWEVER CAUSING SERIOUS PROBLEMS. MANY HAD BEEN SETTLED WITHOUT MUCH PUBLICITY, BUT PRESSURE WAS GROWING ON MANY FRONTS FOR WAGE INCREASES. THE AUTHORITIES FELT OBLIGED TO DEMONSTRATE THAT NOT EVERY STRIKE OR PROTEST WOULD LEAD TO AN INCREASE, AND THAT WHERE PROTESTS WERE POLITICAL THEY WOULD BE PUNISHED.

(C) THE GOAL WAS TO SET AN EXAMPLE, NOT TO EXACT REVENGE. NOWA HUTA WOULD BE WORKING NORMALLY NEXT MONDAY: ALL CONCERNED WOULD BE AT WORK (BY IMPLICATION INCLUDING ALL STRIKERS AND STRIKE LEADERS).

(D) THE 'LIBERAL' REFORMIST WING OF THE PARTY HAD BEEN UNDER

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GROWING PRESSURE IN RECENT WEEKS FROM HARD-LINERS, ARGUING THAT REFORM WAS LEADING ONLY TO PROBLEMS AND UNREST. TOUGH ACTION WAS NECESSARY TO HEAD OFF THIS CHALLENGE.

(E) ACCORDING TO JARUZELSKI'S ADVISER, KRASUCKI, THE POLISH LEADERSHIP ARE INCREASINGLY CONCERNED ABOUT A MAJOR POWER STRUGGLE IN THE SOVIET UNION. THEY DID NOT WISH TO COUNTENANCE EVENTS IN POLAND THAT COULD ADVERSELY AFFECT GORBACHEV'S POSITION.

3. POLISH FOREIGN MINISTER, WHO WAS GUEST OF EC AMBASSADORS AT LUNCH ON 5 MAY (ARRANGED BEFORE NOWA HUTA DEVELOPMENTS) SAID THREAT TO POLISH ECONOMY AND ECONOMIC REFORM FROM CONTINUATION AND POSSIBLE SPREAD OF STRIKES WAS TOO SERIOUS TO BE ACCEPTABLE. BUT A DIFFERENT SOLUTION IN GDANSK FROM THAT ADOPTED AT NOWA HUTA WAS NOT EXCLUDED. ROAD TO DIALOGUE AND NATIONAL RECONCILIATION REMAINED OPEN.

COMMENT

4. THE AUTHORITIES SEEM CONFIDENT THAT INTERNAL AND EXTERNAL REACTIONS TO TODAY'S DEVELOPMENTS CAN BE CONTAINED WITHOUT EXCESSIVE DAMAGE. THE 'LIBERAL' REFORMIST INTERPRETATION (DESCRIBED ABOVE) HAS SOME FORCE TO IT. ITS WEAK POINT IS THAT THIS GROUP HAS FAILED TO DELIVER THE POLITICAL REFORMS WHICH MIGHT HAVE ENGAGED PUBLIC INTEREST AND SUPPORT FOR THE ECONOMIC REFORM, AND WHICH COULD HAVE BEGUN TO CHALLENGE THE WIDESPREAD BELIEF THAT THE PRESENT POLITICAL SYSTEM IS INCAPABLE OF FUNDAMENTAL REFORM OF ANY SORT. MANY POLES, WHILE NOT HAVING AN APPETITE FOR CONFRONTATION WITH THE AUTHORITIES, MAY WELL CONCLUDE FROM THE NOWA HUTA ACTION THAT NOTHING HAS CHANGED IN POLAND SINCE 1981 AND THAT THE AUTHORITIES HAVE STILL NOT YET LEARNED ANY BETTER METHODS OF RESOLVING CONFLICTS.

5. I AM TELEGRAPHING SEPARATELY ABOUT HOW HMG (AND OTHER WESTERN GOVERNMENTS) MIGHT BEST REACT TO THESE EVENTS AND THEIR IMPLICATIONS FOR FORTHCOMING CONTACTS WITH THE POLISH AUTHORITIES.

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POLAND : UNREST

SUMMARY

1. NOWA HUTA STRIKE BROKEN BY POLICE. GOVERNMENT SPOKESMAN CLAIMS NO VIOLENCE AT NOWA HUTA. LOCK-OUT DECLARED AT GDANSK SHIPYARD. POLICE INTERVENTION POSSIBLE. SOME PROTEST STRIKES.

DETAIL

2. AT 0200 HOURS LOCAL TIME ON 5 MAY, POLICE ENTERED THE NOWA HUTA LENIN STEELWORKS AND BROUGHT THE STRIKE TO AN END. ENTIRE STRIKE COMMITTEE ARRESTED, BAR TWO WHO ESCAPED. ABOUT 35 ARRESTED IN ALL. EYE-WITNESS ACCOUNTS, PARTICULARLY FROM A PRIEST IN THE PLANT, AT THE TIME, ARE THAT MUCH GRATUITUOUS VIOLENCE WAS USED. GOVERNMENT SPOKESMAN, URBAN, HAS CLAIMED THAT NO VIOLENCE WAS USED AND NO-ONE HURT. OTHER EYE-WITNESS ACCOUNTS NOW BEING CARRIED BY WESTERN MEDIA INDICATE OTHERWISE.

3. IN GDANSK, MANAGEMENT OF THE LENIN SHIPYARD HAS DECLARED A LOCKOUT. THE YARD IS NOW SURROUNDED BY LARGE NUMBERS OF POLICE AND RIOT POLICE. ATMOSPHERE IS SAID TO BE VERY TENSE AND STRIKERS EXPECT POLICE TO ENTER YARD AND EVICT THEM. WALESIA IS IN THE YARD. HE SAID THAT IF THE POLICE ENTER HE WILL BE THE LAST PERSON TO LEAVE.

4. THERE ARE REPORTS OF PROTEST STRIKES IN A FEW PLACES BUT NO EVIDENCE YET OF A MAJOR WAVE OF STRIKES IN PROTEST AT THE POLICE ACTION.

5. SEE MIFT.

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MR POWELL

c Sir Robin Butler

Poland: Industrial

Poland is experiencing serious industrial unrest. The current focus is a strike, now in its third day, at the Lenin steel works at Nowa Huta, near Krakow. Several thousand strikers are demanding a 50 per cent increase in pay.

2. The official media argue that such demands have no basis in the state of the economy, would rapidly aggravate inflation, and strike at the very basis of Poland's economic reforms. This is true. The 50 per cent demand is a reaction to the price rises introduced as part of the reforms, and which have produced (according to official spokesmen) a 42 per cent increase in retail prices in the first quarter of 1988.

3. But there are two additional aspects which make the regime's dilemma even more serious. First, the Nowa Huta strike followed immediately on a strike by transport workers on 24 April in Bydgoszcz, which paralysed the town and produced a rapid and massive concession of a 63 per cent wages increase. There are reports of another strike, at the same time, in Inowroclaw. Second, the Nowa Huta demands go wider than 50 per cent for the steelworkers. The strikers, according to the media, are demanding the doubling of a recent nationwide increase for industrial workers, health workers, teachers and pensioners; and the reinstatement of four Solidarity activists who were dismissed in 1981. Walesa has apparently confined public comment to asserting the rising popular concern over price rises and the need to revise the reform programme.

4. The regime faces two conflicting requirements: to halt the damage to economic policy caused by excessive wage increases; and to reduce the risk of individual strikes - or, worse, a wave of strikes - by buying off discontent, as was done in Bydgoszcz. Meanwhile, there are unconfirmed reports that the Nowa Huta management has threatened to call in riot police today if the dispute is not settled; that the regional prosecutor has declared the strikers' action illegal; and that the management has broken off talks.



PERCY CRADOCK

28 April 1988

1. The first item is the Family Life Survey which was held in 1965. The results of this survey are given in the Family Life Survey Report which is available from the Family Life Survey Unit. The results of this survey are given in the Family Life Survey Report which is available from the Family Life Survey Unit.



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Robert Atkins MP
Parliamentary Under Secretary of State for Industry

Charles Powell Esq
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The Prime Minister
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9 February 1988

Dear Charles

MR ATKINS' VISIT TO POLAND

My Minister recently visited Poland, leading a group of UK businessmen. In view of the Prime Minister's visit to Poland later this year, Mr Atkins would be grateful if you could draw to the Prime Minister's attention the attached report of the visit, which he made to Lord Young.

I am copying this to Kim Darroch in David Mellor's office.

*Yours
Sincerely*

Stuart Gill

STUART GILL
PRIVATE SECRETARY

the
Enterprise
initiative

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To:
Secretary of State

From:
Robert Atkins

8 February 1988

cc Chancellor of the Duchy
Minister for Trade
HM Ambassador Warsaw
Mr Dell Dep Sec
Mr Stephens ECGD
Mr Hunter OT3
Mr George OT3/5
Mr Coombe ECGD
Mr Rossiter OT3/5d

VISIT TO POLAND: 25-29 JANUARY 1988

I visited Poland from 25-29 January accompanied by a small group of businessmen drawn primarily from the coalmining, steel, transport and textile machinery sectors. I attach a copy of my programme and a list of the businessmen who accompanied me.

My host was the new Minister of Industry, Mr Jerzy Bilip. I also had meetings with Mr Wladyslaw Gwiazda, Minister of International Economic Co-operation (and a former Deputy Prime Minister) and Mr Janusz Kaminski, Minister of Transport, Communications and Shipping as well as a number of industrialists associated with coalmining, steel and textiles machinery.

It was of great benefit to take along the businessmen, all of whom found the visit worthwhile and productive. I am very encouraged that a number of specific opportunities emerged during our talks, notably in steel and textiles. On steel, for example, Davy McKee are now pursuing prospects for an electronic galvanising line and modernising a hot steel strip rolling mill. To follow up this and other prospects I believe we should invite the Director of the Huta Lenina plant to see BSC's operations at Shotton and Port Talbot, where Davy have carried out similar work. In the textile machinery area the Poles were greatly interested in collaborating on the establishment of manufacturing facilities producing goods for third markets; the British Textile Machinery Association will be following this up.

Indeed, cooperation and collaboration were at the forefront in all areas we discussed, and, of course, the Poles' prime aim is to improve their capacity to earn foreign currency. They are genuinely interested in seeing greater UK company

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activity, which in their view has dropped off to negligible levels. Nevertheless, it is striking that a number of the British companies most successful in the Polish market (eg ICI, Rank Xerox, ICL) have been prepared to respond flexibly and imaginatively to Polish interest in industrial cooperation; and it is encouraging that the businessmen with me went home with points to follow up on collaborative and joint venture proposals.

The economic reforms loomed large in our discussions and the Poles sought to emphasise their seriousness in tackling their underlying economic problems and their commitment to the reform programme. Since the setback suffered in the referendum in November the official line has been that the essential elements of the reform programme (price increases, reduction of subsidies, devolution of decision-making, financial self-sufficiency of enterprises) will remain unaltered, but that the changes will be introduced over a longer timescale.

The implementation and effectiveness of the reform programme can by no means be taken for granted. Mr Bilip frankly admitted that his Ministry faced a substantial task in changing the attitudes of enterprise managers so that they become attuned to running their own affairs and imposing the disciplines implicit in financial self-sufficiency. This will certainly not happen overnight. My discussions with the Coal Authority suggested that no real attempt had yet been made to get to grips with the detailed consequences of the changes in the areas of pricing policy, currency allocations and foreign trade. It was disturbing, also, to find the Industry Minister ignorant of the importance attached by Western Governments to agreement with the IMF on an economic adjustment programme.

Not surprisingly, the Poles emphasised their interest in new medium and long term credit facilities for specific, export-orientated projects. I undertook to report their interest to Ministers in London, but made no promises. The Poles are in no doubt about our present position (no new medium term credit until there is firm evidence of an adjustment programme agreed with the IMF), But this will not prevent them raising this subject with the Prime Minister in May.

The Poles are clearly looking forward to the visit of the Prime Minister later this year and they will, of course, press her on credit. The visit will be a timely opportunity to press the Poles on one or two project prospects. The most significant immediate prospect is for the construction of a new terminal at Warsaw airport, worth some £65m, which

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Mowlem are pursuing. I intend to encourage Sir Philip Beck to push ahead with producing technical and financial proposals. It may just suit the Poles and ourselves to be able to announce a major contract success. I also took an opportunity to raise the problem of substantial late payments due to British Airways and to BP. I was given a strong hint that these problems would be resolved before the Prime Minister's visit.

All in all this was a useful visit and I shall be asking businessmen who accompanied me to report - before the Prime Minister's visit - on the progress they have made in following up opportunities identified during the visit.

I should like also to record my appreciation to H M Ambassador and his staff and to Tony Rossiter in OT3 for their efforts in ensuring a full and well organised visit.

ROBERT ATKINS

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PROGRAMME FOR MR ATKINS' VISIT TO POLAND 25-29 JANUARY 1988

MONDAY 25 JANUARY

- 15.00 Arrive Warsaw Airport. Met by Mr Eugeniusz Szatkowski, Vice Minister of Industry
- 16.30 Meeting with Mr Jerzy Bilip, Minister of Industry (Whole British Delegation to attend)
- 20.00 Dinner hosted by Mr Bilip

TUESDAY 26 JANUARY

- 06.20 Leave Residence
- 06.40 Express train to Gliwice
- 10.13 Arrive Gliwice
- 10.30-12.30 Visit Komag, Centre for mining equipment design. A light meal will be served
- 13.00 Visit Polish coalmine. This may be the Jankowice Mine at Rybnik where machinery supplied by Anderson Strathclyde is installed
- 16.00 Lunch hosted by Mr Jan Szlachta (former Minister of Mining and Energy), General Director of Polish Coal Authority, followed by meeting and discussions
- 19.00 Leave by car for Krakow
- 20.30 Arrive hotel (details to be advised)

WEDNESDAY 27 JANUARY

- 09.00 Visit Huta Lenina
- 11.30 Leave for Oswiecim
- 12.30 Visit former concentration camps of Auschwitz and Birkenau
- 15.00 Return to Krakow
- 16.00 Lunch at Wierzynek Restaurant, Krakow
- 18.00 approx Some sightseeing in Krakow
- 19.05 Express train to Warsaw
- 22.15 Arrive Warsaw



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THURSDAY 28 JANUARY

08.00 Leave by car for Lodz
10.00 Arrive Lodz and visit Wifama textile machinery works
13.00 Visit First of May textile factory (cotton fabrics)
14.30 Lunch hosted by Director-General of Wifama
16.00 Leave for Warsaw
20.00 Dinner hosted by HM Ambassador

FRIDAY 29 JANUARY

08.30 Call on Mr Janusz Kaminski, Minister of Transport,
Communications and Shipping. (Messrs Fletcher, Codd
and Beesley to attend)
10.00 Call on Mr Wladyslaw Gwiazda, Minister of International
Economic Cooperation (Whole Delegation to attend)
12.00 Depart for Airport. Vice Minister Szatkowski
in attendance
13.00 Leave by air for Frankfurt

LIST OF BUSINESSMEN ACCOMPANYING MR ATKINS

Mr M T Beesley

BTR Hose Ltd, Leyland
Director and General Manager

Mr J Bielak

Rank Xerox
Manager for Countertrade

Mr H A Codd

GEC
Consultant

Mr R Fletcher

- 1) BP - Co-ordination for Eastern Europe
- 2) Chairman: Polish Section,
London Chamber of Commerce and Industry

Mr R E France, MBE

British Textile Machinery Association
Director

Mr H Glasby

Anderson Strathclyde PLC
Group Director

Mr K Gunary

GEC Traction Ltd
Commercial Director

Mr A B McLauchlan

Dowty Mining
Managing Director

Mr A A Thomas

Davy McKee (Stockton)
Director



PART 9 ends:-

CLG MALLABY to CID 26/1/88

PART 10 begins:-

PS /DTI to CID 9/2/88