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WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name DOBRIANSKY, PAULA: FILES

Withdrawer

RBW 9/4/2012

File Folder POLAND - DEBT RESCHEDULING (5)

FOIA

M434

Box Number 3

KINSTETTER

54

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
142772	REPORT	RE. POLAND [PG. 2 ONLY]	1	8/19/1983	B1
142773	MEMO	ROGER ROBINSON TO WILLIAM CLARK RE. AUTUMN AGENDA FOR INTERNATIONAL ECONOMICS <i>R 3/2/2018 M434/3</i>	2	9/12/1983	B1
142774	PAPER	RE. U.S. POLICY ON POLAND [W/NOTATION] <i>R 7/8/2015 M434/3</i>	2	ND	B1
142775	CABLE	RE. POLAND: PARIS CLUB MEETING <i>R 7/8/2015 M434/3</i>	3	9/13/1983	B1
142776	CABLE	WARSAW 9193 <i>R 7/8/2015 M434/3</i>	2	10/5/1983	B1
142777	CABLE	RE. U.S. POSITION ON POLISH DEBT <i>R 7/8/2015 M434/3</i>	3	10/25/1983	B1
142778	CABLE	STATE 305225 [SAME TEXT AS DOC. 142777] <i>R 7/8/2015 M434/3</i>	2	10/26/1983	B1
142779	CABLE	PARIS 40586 <i>R 7/8/2015 M434/3</i>	4	10/28/1983	B1
142780	PAPER	RE. POLISH DEBT <i>R 7/8/2015 M434/3</i>	1	11/2/1983	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

B-3 Release would violate a Federal statute [(b)(3) of the FOIA]

B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]

B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]

B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]

B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
142781	PAPER	RE. POLAND [PG. 3 ONLY] <i>R 7/8/2015 M434/3</i>	1	11/15/1983	B1
142782	MEMO	PAULA DOBRIANSKY TO ROBERT MCFARLANE RE. POLAND DEBT RESCHEDULING <i>R 3/2/2018 M434/3</i>	1	3/20/1984	B1
142783	MEMO	MCFARLANE TO RR RE. POLAND DEBT RESCHEDULING <i>R 3/2/2018 M434/3</i>	2	ND	B1
142784	MEMO	SECRETARIES SHULTZ AND REGAN TO RR RE. POLISH DEBT RESCHEDULING <i>R 7/8/2015 M434/3</i>	2	3/17/1984	B1
142785	PAPER	RE. NEXT STEPS ON POLAND <i>R 3/2/2018 M434/3</i>	3	ND	B1
142786	MEMO	ROBERT MCFARLANE TO SHULTZ AND REGAN RE. POLAND DEBT RESCHEDULING <i>R 7/8/2015 M434/3</i>	1	ND	B1

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POLAND - DEBT RESCHEDULING (5)

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<i>ID</i>	<i>Document Type</i> <i>Document Description</i>	<i>No of</i> <i>pages</i>	<i>Doc Date</i>	<i>Restric-</i> <i>tions</i>
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6355

POCAWD DEBT

MEMORANDUM

NATIONAL SECURITY COUNCIL

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ACTION

September 12, 1983

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142773

MEMORANDUM FOR WILLIAM P. CLARK

FROM: ROGER W. ROBINSON *rw*

SUBJECT: Autumn Agenda for International Economics and
Relation to KAL Shootdown-Part I

As Congress reconvenes, we are faced with a number of important issues which should be carefully coordinated to ensure consistency with the President's adroit handling of the KAL shootdown. At the same time, the fundamental reappraisal taking place in this country and abroad concerning Soviet intentions and geopolitical behavior, particularly among liberals and moderates, can greatly assist the advancement of our objectives related to these issues if properly orchestrated. The issues involved are: (1) the rescheduling of Poland's official debt, (2) imminent decisions on licensing the sale of semi-submersible pumps to the USSR and a marine mooring system to Libya, (3) the renewal of the Export Administration Act, (4) passage of the IMF legislation, and (5) moving out on our SIG-IEP approved public affairs strategy on East-West economic relations. As the time fuse is so short on item one, the Polish rescheduling, this memo will be divided into two separate parts. The second part will treat the other four items in a similar format along with recommended actions.

Polish Debt Rescheduling:

Update

The Paris Club is meeting this Thursday, September 15 ostensibly to proceed with the rescheduling of Poland's official debt. We stated an "in principle" willingness to go forward with rescheduling in July with the explicit precondition that the vast majority of political prisoners are released. The State Department reportedly views the number of releases as sufficient to fulfill this precondition.

Problems

Although State will probably take the position that the preconditions laid down by the President (a successful papal visit and release of a vast majority of prisoners) have been adequately addressed by the Polish government, they will factor in the political tensions created by the KAL massacre. The US announcing its intention to participate in a rescheduling of Poland's official debt at this time would be a serious mistake. One need only imagine the public

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BY *W* NARA DATE 3/2/18

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reaction, especially conservative groups, to this signal when feelings of outrage legitimately remain at a high pitch. I have shared the outlined recommendations below with State in an effort to forge a common approach.

Objectives

- The President has laid down strong political preconditions to US participation in a rescheduling in order to advance reconciliation in that country;
- This is a time of anger to be reflected in US words and deeds. The repression in Poland is Soviet-sponsored and the latest flagrant abuse of human rights illustrated by the shutdown should affect our timetable on the Polish rescheduling even if 1) the Polish government has fulfilled our preconditions and 2) the issues are not directly linked.

RECOMMENDATIONS

Have State call in the Allies tomorrow morning and make clear that the atmosphere created by the KAL shutdown precludes the US going beyond its position outlined in July -- namely an "in principle" willingness to reschedule with the announcement of rescheduling talks deferred. The Allies should be encouraged to recognize the obvious substantive and perceptual policy problems associated with sending such a signal to the USSR at this time. We should delay any announcement of rescheduling for a minimum period of 30 days and possibly more depending on how events unfold. The British have proposed a factual discussion on Poland in NATO later this month where we could evaluate our position. If the Allies and/or neutrals do not honor our request to defer rescheduling talks the US should make clear it will not participate. We could participate in a technical working group scheduled to visit Warsaw soon on a fact-finding mission as it is consistent with past practice and does not commit us to any action.

That you approve the above approach by the NSC to handling the Poland rescheduling issue at this juncture.

Approve W/S

Disapprove _____

W/S Norman Bailey, *P/S* Bob Lilac, *W/S* Peter Sommer, *W/S* John Lenczowski and *W/S* Chris Lehman concur. Paula Dobriansky is travelling with the Vice President.

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U.S. POLICY ON POLAND

The next meeting of the Paris Club is set for September 15. We need to provide our representatives with instructions on an urgent basis. At the July 29 Paris Club meeting, we made it clear to the creditors that while we agreed "in principle" to go ahead with rescheduling talks, our actual participation would be determined by our review of the situation in Poland. The President established two criteria for movement on Poland: a successful Papal visit and the release of the vast majority of political prisoners. Everyone agrees that the Papal visit was a success. While the situation with respect to political prisoners is less clear, available evidence indicates that the vast majority has probably been released.

Since the imposition of martial law in December 1981, up to 40 thousand individuals may have been incarcerated. At any given time, the maximum number in jail was five to six thousand. Assessments of the number of political prisoners currently behind bars ranges from 30 (a well-known Solidarity activist in Warsaw) to 65 (GOP officials to Codel Long) to about 600-700 (the rough guess of two Church sources). If we define "political prisoners" narrowly to mean imprisoned Solidarity activists, then the "vast" majority has been released. If a broader definition is used (e.g., a rock-thrower jailed for demonstrating), then the number of prisoners released might better be described as a "substantial" majority.

Both the Allies and the neutrals expect a positive U.S. decision to begin rescheduling negotiations next week. They have made it clear that they are prepared to proceed on their own if we refuse to go along.

If we were to make a judgment on the merits of the Polish case alone, we should probably decide to agree to participate in debt rescheduling talks as well as take a modest step in the bilateral context such as agreement on a small fishing allocation. However, even though we could argue that a positive decision is justified by the President's policy of encouraging East European independence from Moscow through differentiation, as well as the GOP's fulfillment of the two specific criteria, in the aftermath of the KAL downing it would be inappropriate and difficult to move ahead in the present climate.

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BY RW NARA DATE 7/8/85

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We therefore need to buy time before modifying our present policies toward Poland. However, we must also avoid a major tangle with our Allies and the neutrals precisely at a time when we are trying to consolidate support for the set of actions we have proposed on the KAL massacre. We therefore plan to take the following positions (consulting with key Allies beforehand) at the September 15 Paris Club meeting:

--State that we believe it would be useful for the Allies to review the factual situation in Poland in the NAC in late September as proposed by the U.K., expressing readiness to consult with them on policy decisions thereafter.

--Explain that in the present context of the KAL aftermath, it would be inappropriate to take a positive step toward Poland.

--Note that we are therefore not prepared at the Paris Club on September 15 to go beyond our previously stated support "in principle" to proceed with debt rescheduling negotiations, and strongly oppose other creditors doing so either.

--Point out, however, that in order to gather the information needed for any eventual decision to hold rescheduling talks, we are prepared to join in a technical/informational team to visit Warsaw. We would make clear that we are not now prepared to invite the Poles (Karcz) to Paris to meet with the group to begin rescheduling talks. We would stress that the dispatch of a technical working group to Warsaw in late September or early October to gather financial data must not be construed as agreement to commence or participate in formal talks.

We plan to see key Allies here on Monday or Tuesday to try to get their agreement in advance. On the U.S. domestic side, given our earlier announcement of agreement to proceed with rescheduling "in principle," our participation in a late September or early October technical working group will not be perceived as a new departure. As a result, this course will leave our policy options open.

*This was obviously
written last Friday, Sept 9.*

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WASHFAX RECEIPT
DEPARTMENT OF STATE

POLAND
DEBT

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S/S #

UNCLASSIFIED UPON REVIEW
OF CLASSIFIED ENCLOSURE(S)

URGENT

MESSAGE NO. 304 CLASSIFICATION SECRET No. Pages 3
FROM Chill S/S 22540
(Officer name) (Office symbol) (Extension) (Room number)
MESSAGE DESCRIPTION Cable to Bonn: Poland: Paris Club Mtg

TO: (Agency)	DELIVER TO:	Extension	Room No.
<u>NSC</u>	<u>BOB KIMMITT</u>		
	<u>NSC S/S</u>		
	<u>Adm. POINDEXTER</u>		
	<u>Sommer Matlock</u>		
	<u>Bailey Shull</u>		
	<u>Dobriansky</u>		

URGENT

FOR CLEARANCE ☐ INFORMATION ☐ PER REQUEST ☐ COMMENT ☐

REMARKS URGENT CLR REQUESTED BY 12 NOON, THURSDAY, SEPTEMBER 15

S/S Officer: Bonck

CROSSHATCH

RETURN TIME-STAMPED COVERSHEET TO S/S.

OUTGOING TELEGRAM

OPTIONAL FORM NO. 10, MAY 1962 EDITION
GSA GEN. REG. NO. 27

Use of Space

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NLRR M434/3 #142775

7/8/15 NARA DATE

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FORM NO. 10, MAY 1962 EDITION

EUR/EEY:DRHERSPRING (0202H)

09/13/83 EXT. 20575

STHE SECRETARY

P: LSEAGLEBURGER

EUR/EEY:RECOMBS

S/S: BRCKTNEY

S/S-O: RDAVIS

EUR:RBURT

EUR/CE:JKORNBLUM

EUR:MPALMER EALANCES

E:RMORRIS

IMMEDIATE BONN

IMMEDIATE WARSAW, USNATO IMMEDIATE

MODIS

E.O. 12356: DECL: OADR

TAGS: PL

SUBJECT: POLAND; PARIS CLUB MEETING

1. (S - ENTIRE TEXT)

2. EMBASSY SHOULD DELIVER THE FOLLOWING LETTER FROM THE SECRETARY TO FOREIGN MINISTER GENSCHER AT EARLIEST POSSIBLE OPPORTUNITY. BEGIN TEXT.

DEAR HANS-DIETRICH,

AS YOU KNOW, THE PARIS CLUB IS PLANNING TO MEET TO DISCUSS POLAND ON SEPTEMBER 15. THE U.S. CONSIDERS THIS MEETING TO BE OF PRIME IMPORTANCE INsofar AS OUR JOINT POLICY TOWARD POLAND IS CONCERNED.

FOR OUR PART, THE UNITED STATES REMAINS COMMITTED TO PROCEEDING "IN PRINCIPLE" WITH RESCHEDULING THE POLISH OFFICIAL DEBT. RECENT EVENTS, HOWEVER, INCLUDING POLISH ACTIONS AT THE UNITED NATIONS, MAKE POSITIVE STEPS VIS-A-VIS POLAND INAPPROPRIATE AT THIS TIME. WE AGREE WITH THE BRITISH SUGGESTION THAT WE NEED TO DISCUSS THE POLISH SITUATION IN NATO BY THE END OF THE MONTH. WE CAN THEN CONSIDER THE IMPLICATIONS FOR OUR

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LONG-TERM, STEP-BY-STEP POLICY WITH YOU AND OUR OTHER NATO ALLIES.

IN THE MEANTIME, GIVEN THE STRONG INTEREST ON THE PART OF OTHER MEMBERS OF THE PARIS CLUB TO GATHER THE INFORMATION NEEDED FOR ANY EVENTUAL DECISION TO HOLD RESCHEDULING TALKS, WE ARE PREPARED TO JOIN IN A TECHNICAL/INFORMATIONAL TEAM WHICH WOULD BE SENT TO WARSAW. OUR WILLINGNESS TO AGREE TO THE DISPATCH OF A TECHNICAL WORKING GROUP TO WARSAW IN LATE SEPTEMBER OR EARLY OCTOBER TO GATHER FINANCIAL DATA MUST NOT BE CONSTRUED AS AGREEMENT TO COMMENCE OR PARTICIPATE IN FORMAL TALKS. ACCORDINGLY, WE ARE NOT NOW PREPARED TO GO ALONG WITH THE ISSUANCE OF AN INVITATION TO THE POLES TO COME TO PARIS TO MEET WITH THE GROUP TO BEGIN RESCHEDULING TALKS. THEREFORE WE CANNOT AGREE TO HAVE THE PARIS CLUB GO BEYOND THE "IN PRINCIPLE" POSITION IN FAVOR OF RESCHEDULING AT THIS TIME. WE WILL NOT BE ABLE TO JOIN IN THE TECHNICAL TEAM IF THE PARIS CLUB GOES BEYOND THIS POSITION.

I HAVE APPRECIATED THE SUPPORT WHICH THE FEDERAL REPUBLIC HAS GIVEN TO OUR JOINT POLICY FOR DEALING WITH THE SITUATION IN POLAND. WE HAVE TRIED TO BE AS FLEXIBLE AS POSSIBLE AND HOPE YOU WILL SUPPORT US AT THE SEPTEMBER 15 MEETING. WE KNOW YOU ALSO UNDERSTAND THE IMPORTANCE OF AVOIDING A SPLIT AT THIS TIME WITHIN THE ALLIANCE. SUCH AN ACTION WOULD STRENGTHEN THE HAND OF THOSE IN THIS COUNTRY WHO FAVOR CALLING POLAND INTO DEFAULT.

THE UNITED STATES REMAINS INTERESTED IN THE ROMAN CATHOLIC CHURCH'S PLAN TO CHANNEL FUNDS TO PRIVATE AGRICULTURE. I UNDERSTAND YOUR REASONS FOR NOT MOVING NOW ON THIS SUBJECT. NEVERTHELESS, GIVEN THE EXTENT OF INTEREST IN WASHINGTON, I WOULD HOPE THAT OUR TECHNICAL SPECIALISTS WILL BE ABLE TO SIT DOWN AND BEGIN DISCUSSIONS ON IT AT AN EARLY DATE.

FINALLY, I UNDERSTAND THAT THE EC FOREIGN MINISTERS AGREED ON SEPTEMBER 12 TO A STEP-BY-STEP APPROACH TO DEALING WITH THE POLISH QUESTION. I TRUST THAT IMPLEMENTATION OF THIS APPROACH WILL BE DEPENDENT ON HUMAN RIGHTS PROGRESS WITHIN POLAND. IT WOULD BE DIFFICULT TO JUSTIFY MOVEMENT ON THIS QUESTION TO THE POLISH PEOPLE IN THE ABSENCE OF MEANINGFUL PROGRESS ON THE HUMAN RIGHTS FRONT. IT WILL BE VERY IMPORTANT FOR US TO BE IN CLOSE CONSULTATION AS WE RESPOND TO DEVELOPMENTS WITHIN POLAND.

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SIGNED, GEORGE P. SHULTZ. END TEXT

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*Requested
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NATIONAL SECURITY COUNCIL
MESSAGE CENTER

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PAGE 01
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WARSAW 9193
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PASS TREASURY FOR STEVE CANNER
E.O. 12356: DECL: OADR
TAGS: EFIN, PL
SUBJ: PARIS CLUB WORKING GROUP ON POLAND
REF: WARSAW 9126

1. S - ENTIRE TEXT

2. SUMMARY: THE FOCAL POINT OF THE WORKING GROUP'S SECOND DAY OF DISCUSSIONS AT THE MINISTRY OF FINANCE CAME IN OPENING REMARKS LASTING NEARLY ONE HOUR BY KARCZ AT THE AFTERNOON SESSION DEVOTED TO POLAND'S BALANCE OF PAYMENTS PERFORMANCE. KARCZ MADE A CANDID, FORCEFUL APPEAL FOR THE RESUMPTION OF NORMAL FINANCIAL RELATIONS WITH THE PARIS CLUB CREDITORS AND MADE IT CLEAR THAT BY "NORMAL RELATIONS" HE MEANT NOT ONLY THE RESCHEDULING OF POLAND'S OFFICIAL DEBT BUT ALSO THE EXTENSION OF NEW GOVERNMENT BACKED CREDITS AND APPROVAL OF THE GOP'S APPLICATION FOR IMF MEMBERSHIP. KARCZ INDICATED THAT WITHOUT SUCH A SOLUTION, ECONOMIC STAGNATION WOULD CONTINUE AS WOULD THE DE FACTOR MORATORIUM ON DEBT PAYMENTS TO THE OFFICIAL CREDITORS. END SUMMARY.

3. IN HIS INTRODUCTORY REMARKS TUESDAY AFTERNOON, KARCZ DEFENDED GOP PERFORMANCE UNDER THE 1981 PARIS CLUB RESCHEDULING AGREEMENT AND EMPHASIZED THAT THE GOP WISHES TO MEET ITS FINANCIAL OBLIGATIONS TO WESTERN CREDITORS. HE MAINTAINED THAT THE GOP HAD ONLY CEASED REPAYMENTS TO OFFICIAL CREDITORS IN THE AUTUMN OF 1982 AND THEN "NOT BECAUSE WE WOULD NOT, BUT BECAUSE WE COULD NOT MEET THE OBLIGATIONS". HE WENT ON TO REMIND THE CREDITORS THAT IN NOV 1981 THEY HAD BEEN NEAR AGREEMENT ON THE MAIN ELEMENTS OF A 1982 RESCHEDULING PACKAGE, INCLUDING A \$2.4 BILLION IN NEW CREDITS. INSTEAD, POLAND HAD ACTUALLY BEEN ABLE TO DRAW ONLY \$1.4 BILLION IN CREDITS IN 1982, PRIMARILY FROM FRANCE, CANADA AND AUSTRIA. THIS CONSTITUTED A SHARP DROP FROM THE \$4.6 BILLION DRAWN IN 1981. THE RESULTING SHORTFALL CAUSED SERIOUS REPERCUSSIONS ON PRODUCTION, EXPORTS AND THE BALANCE OF PAYMENTS. IN 1983, GOVERNMENT PROJECTIONS CALLED FOR ONLY \$800 MILLION IN NEW OFFICIAL CREDITS, BUT THE LATEST ESTIMATES HAVE NOW BEEN REVISED DOWN TO \$600 MILLION. MOREOVER, WITHOUT A CHANGE IN PARIS CLUB ATTITUDES, THE

GOP WAS COUNTING ON SCARCELY \$100 MILLION IN NEW CREDITS IN 1984.

4. ACCORDING TO KARCZ, THERE ARE ONLY TWO POSSIBLE OUTCOMES TO THE PRESENT STALEMATE:
--A CONTINUED EMBARGO ON WESTERN GOVERNMENT CREDITS, WHICH WOULD RESULT IN VERY SLOW ECONOMIC RECOVERY AND LEAVE VERY LIMITED RESOURCES FOR REPAYMENT, AND
--A MUTUALLY BENEFICIAL AGREEMENT WITH THE WEST THAT WOULD ENABLE ACCELERATED RECOVERY AND THUS INCREASE GOP CAPACITY TO SERVICE ITS PARIS CLUB DEBT. KARCZ LEFT NO DOUBT THAT THE GOP WOULD PREFER THE SECOND SOLUTION, BUT STIPULATED THAT IT DEPENDS ON FULL NORMALIZATION OF FINANCIAL RELATIONS WITH THE WEST, NOT A PARTIAL SOLUTION SUCH AS RESCHEDULING BUT WITH A CONTINUED FREEZE ON GOVERNMENT CREDITS AND RELATIONS WITH THE IMF. IN SHORT, THE ONLY SOLUTION IS NEW MONEY THROUGH COOPERATION WITH PARIS CLUB CREDITORS, THE IMF, AND THE COMMERCIAL BANKS IF POLAND IS TO ESTABLISH INTERNAL AND EXTERNAL ECONOMIC EQUILIBRIA. KARCZ MAINTAINED THAT THERE IS NO FURTHER ROOM TO CUT IMPORTS OF SPARE PARTS, FOODSTUFFS, AND INVESTMENT GOODS WITHOUT IMPACTING ADVERSELY ON DOMESTIC PRODUCTION AND EXPORTS.

5. KARCZ ESTIMATED THAT IT WOULD TAKE \$6 TO \$8 BILLION OF NEW CREDITS OVER THREE YEARS BEFORE POLAND COULD GENERATE A SUFFICIENT TRADE SURPLUS TO BRING ITS CURRENT ACCOUNT INTO BALANCE. WITH INTEREST PAYMENTS THUS COVERED, THE ABSOLUTE LEVEL OF POLAND'S INDEBTEDNESS WOULD NO LONGER BE A CONCERN TO CREDITORS.

6. IN A BLUNT RESPONSE, TRICHET REMINDED KARCZ OF THE PURELY TECHNICAL MANDATE OF THE TEAM AND ITS INABILITY TO ADDRESS THE KEY POLICY ISSUES RAISED IN KARCZ'S PRESENTATION. TICHET THEN TOOK ISSUE WITH KARCZ'S "REINTERPRETATION OF HISTORY", POINTING OUT THAT THE

GOP HAD IGNORED THE TERMS OF THE 1981 RESCHEDULING DURING 1982 AND HAD PURSUED A DELIBERATE POLICY OF UNEQUAL TREATMENT OF CREDITORS, BOTH VIS-A-VIS INDIVIDUAL COUNTRIES AND BETWEEN THE GOVERNMENTS AND THE BANKS. THE GOP PERMITTED ARREARS UNDER THE 1981 PARIS CLUB AGREEMENT TO MOUNT DESPITE THE RECEIPT OF OVER A BILLION DOLLARS IN NEW CREDITS IN 1982 AND SUBSEQUENTLY REIMBURSED ARAB CREDITORS \$300 MILLION IN 1983 ON SHORT TERM CREDIT LINES. TRICHET ADDED FINALLY
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BY *RW* NARA DATE *7/8/15*

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~~SECRET~~ SECTION 02 OF 02 WARSAW 9193

THAT AT NO TIME HAD THERE EXISTED A PRE-MARTIAL LAW
CREDITOR'S CONSENSUS ON NEW CREDITS.

7. KARCZ COUNTERED TRICHET'S CHARGE OF DISCRIMINATION AGAINST CREDITORS WITH A SHRUG. IT HAD BEEN A DIFFICULT DECISION TO MOVE FORWARD WITH A 1982 BANK RESCHEDULING AGREEMENT, BUT POLAND HAD TO KEEP BANKING CHANNELS OPEN. THE SITUATION WAS ALREADY BAD ENOUGH IN THAT POLAND WAS NOW MAKING NEARLY \$500 MILLION IN ADVANCE PAYMENTS ON CONFIRMED LETTERS OF CREDIT FOR MUCH NEEDED IMPORTS. KARCZ ALSO DEFENDED THE GOP'S \$300 MILLION REIMBURSEMENT TO THE ARAB BANKS IN 1983, CLAIMING THAT THERE HAD BEEN NO OTHER ALTERNATIVE IN LIGHT OF ARAB THREATS TO TAKE ECONOMIC REPRISALS.

8. COMMENT: AFTER LISTENING TO KARCZ'S LAST REMARKS, TRICHET REQUESTED TIME FOR A PRIVATE CAUSUS WITH THE MEMBERS OF THE TECHNICAL TEAM TO HEAR THEIR VIEWS, AND KARCZ READILY ASSENTED. ALL WORKING GROUP PARTICIPANTS ENDORSED TRICHET'S PRESENTATION, BUT RECOMMENDED THAT THE ISSUES RAISED NOT BE PRESSED FURTHER. EVERYONE AGREED THAT KARCZ'S COMMENTS HAD BEEN INEVITABLE AND PREDICTABLE. WITH THE AIR THUS CLEARED, IT WAS TIME TO RETURN TO NUMBER CRUNCHING. PARTICIPANTS RETURNED TO THE CONFERENCE ROOM TO FIND A SMILING, SLIGHTLY CHASTENED KARCZ MUNCHING PATIENTLY ON A CRUMB CAKE. THE SESSION RESUMED AND QUICKLY GOT BOGGED DOWN IN GOP BALANCE OF PAYMENTS STATISTICS. DAVIS
BT

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NATIONAL SECURITY COUNCIL

October 18, 1983

TO: ROGER ROBINSON
PAULA DOBRIANSKY

FROM: NORMAN BAILEY

Please give me your
comments on the attached
ASAP.

→ POLAND
DEBT

12

DATE AND TIME TRANSMITTED

DATE AND TIME REC. RCVD

DEPARTMENT
OF THE TREASURY
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WATCH OFFICE

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FROM (NAME)

TM. LELAND

(OFFICE)

3432

(EXT)

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SUBJECT OF MESSAGE

POLAND

CLASSIFICATION/CONTROLS

RW
9/4/12

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NO. OF PAGES

4

IDX TO	DELIVER TO	EXT	ROOM NUMBER
B	UNDERSECRETARY ALLEN WALLIS	632-3256	7256
B	ASST. SEC. RICHARD BURT	632-9626	6026
C	DR. NORMAN BAILEY NSC WHSR	395-49853	372/OEOB
	NSC S/G		

REMARKS

UNCLASSIFIED UPON REMOVAL
OF CLASSIFIED ENCLOSURE(S)

to: Watch Office

Department
of the Treasury

room: _____ date 10/18/83

Assistant Secretary
(International Affairs)

Please LDX the attached asap to:

Under Secretary Allen Wallis
Department of State (E)
Room 7256 (632-3256)

Assistant Secretary Richard Burt
Department of State (EUR)
Room 6226 (632-9626)

Dr. Norman Bailey
National Security Council
c/o White House Situation Room
Room 372/OEOB (395-4985)

Marc E. Leland
room 3432
phone 566-5363

UNCLASSIFIED
(with SECRET attachments)



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

15

MEMORANDUM FOR W. ALLEN WALLIS
UNDER SECRETARY FOR ECONOMIC AFFAIRS
DEPARTMENT OF STATE

NORMAN BAILEY
NATIONAL SECURITY COUNCIL

Subject: Polish Debt Rescheduling

Attached is a draft paper on Polish debt rescheduling which I plan to circulate to SIG-IEP members tomorrow for SIG discussion Friday, October 21, 1983. Please let me have your comments by the close of business today.

A handwritten signature in dark ink, appearing to read "Marc E. Leland".

Marc E. Leland
Assistant Secretary
International Affairs

cc: Assistant Secretary Burt

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(with SECRET attachments)

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Polish Debt Rescheduling Negotiations

- At their last meeting, September 16, 1983, the official creditors agreed to send a Task Force to Poland to obtain information on the prospects for the Polish economy and to assess its payments capabilities.
- They agreed that the Task Force will meet in Paris on October 25-26 to present its findings to all creditors.
- It was also tentatively agreed that creditors will meet with the Poles on November 14-15. The U.S. was not in a position to accept this planned meeting with the Poles because of the KAL incident, and the subsequent Polish action in the U.N. supporting the Soviets on the KAL incident.
- The Task Force of experts visited Poland October 3-6. Thirteen of the sixteen official creditors, including the United States were represented. Belgium, Norway and Spain were not.
- Although the meetings were somewhat clumsy due to the size of the Task Force, considerable information and data were obtained. There are some problems of interpretation of the data because of different Polish/Western concepts. The Poles also agreed to provide to the creditors responses in writing to requests for additional information.
- An abbreviated Task Force consisting of the U.S., U.K., France, Italy and the FRG will reconvene in the French Treasury on October 21 to draft a factual report. This report will be presented to the official creditors on Tuesday, October 25, 1983.
- After reviewing the report, creditors will seek again to reach a consensus on next steps, e.g., whether or not to meet with the Poles on November 14 in Paris and to set an agenda for that meeting.
- One possibility would be to limit the agenda to a review of Polish performance under the 1981 agreement. Such a limited agenda is not likely to maintain creditor unity.
- Most creditors will want to discuss: 1) arrangements for getting payments up to date on the 1981 rescheduling; and 2) the shape of a rescheduling for 1982 without commitment to, or signing a rescheduling agreement for 1982 until payments on the 1981 rescheduling are current.

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Authority Straw to Leonard (H: 8/22/86)
BY RW NARA DATE 9/4/12

Classified by Marc E. Leland
Review for Declassification
on 10/18/92

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- This approach is consistent with the view that creditors are not willing to discuss new money with the Poles; they want to be paid.
- The U.S. delegation would prefer to limit the agenda for a November meeting with the Poles to a review of 1981 payments performance. However, the United States may have to reconsider if the others determine to go ahead with the meeting on 1982 debt without the United States.
- The emphasis of the broader approach will be to seek repayment as rapidly as possible. In accepting this approach, the U.S. will oppose discussion of new money.
- This course will insure continued Allied unity and will enable the USG to maintain control of the Polish rescheduling exercise.

Classified by Marc E. Leland
Review for Declassification
on 10/18/92

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Paula -
David said you
could use this
Call me if you have
any questions.

MARY ANN PETERS
ECONOMIC / COMMERCIAL OFFICER
OFFICE OF EASTERN EUROPEAN
AND YUGOSLAV AFFAIRS

18

WASHINGTON, D.C. 20520

(202) 632-3191

Fact Sheet on Polish Debt

-- Poland has an external hard currency debt of approximately \$25.7 billion; government and government-guaranteed debt is some \$17.8 billion; private unguaranteed debt is some \$7.5 billion.

-- Of this amount, roughly \$20 billion is due to 16 Western countries.

-- The precise amount of the banks' guarantee-adjusted exposure in individual countries is reported regularly only for U.S. and U.K. banks (exposure in Poland of \$1.2 billion and \$0.9 billion, respectively, as of year-end 1981). Around 60 U.S. banks account for the \$1.2 billion, most of which report amounts equal to less than 5 percent of their capital, broadly defined.

-- Continental banks have a relatively greater exposure in Poland. The degree of exposure varies among individual banks. Some figures have appeared in the press, but we cannot attest to their authenticity.

-- Polish debt to the U.S. totals some \$3.15 billion, which is 13 percent of the total \$25 billion. The breakdown of this figure is:

Non-guaranteed loans from private creditors (primarily commercial banks)	\$1.197
Direct credits and guarantees by Commodity Credit Corporation	\$1.701
Export-Import Bank loan	\$.247
AID loan	\$.006
	<u>\$3.152</u>

Official Creditors

-- Governments of 16 Western countries including the U.S. and U.K., France, West Germany, Japan, Canada, Switzerland and the Netherlands signed a multilateral agreement in April 1981 to reschedule 90 percent of the principal and interest falling due from May 1981 to December 1981. The U.S. share of this was \$381 million. The official rescheduling totaled \$2.3 billion.

-- Repayment terms provided for 4 years grace and 4 years repayment, the latter commencing in 1986.

-- These terms are generally comparable to those of other countries which have found it necessary to reschedule their debts.

-- The U.S. Government rescheduled \$381 million due it in 1981. Of this sum \$3 million was due AID, \$356 million to CCC and \$22 million to the Export-Import Bank. The non-rescheduled debt totaled \$42 million, with nearly \$40 million of it owed to CCC. The U.S. has collected some \$14 million of this \$42 million.

-- In response to the violations of human rights which occurred when the Polish Government imposed martial law in December 1981, the NATO Allies refused to discuss debt rescheduling with the Poles until the situation in Poland moved toward a national reconciliation. NATO governments also agreed to halt all official lending to the Government of Poland except for food related credits. These measures remain in force. We are reviewing the situation in Poland in consultations with our Allies. Once this process is complete, we will decide how to proceed in our relations with Poland.

-- The NATO sanctions have resulted in a sharp drop in Western government-backed financing of exports to Poland as existing credit lines have been drawn down and not replaced. The Western embargo on new credits remains broadly observed.

Commercial Banks

-- The commercial banks of the 16 Western countries concluded their 1981 debt rescheduling agreement with Poland in April 1982.

-- The terms of this agreement, which provided for the rescheduling of 95 percent of principal only, or \$2.3 billion, appears to be comparable to those provided by Poland's official creditors. Payment of the remaining 5 percent of principal (about \$100 million) was deferred until 1982 and was completely repaid in three equal installments of about \$34 million each, in May, August and November 1982.

-- The Government of Poland paid all interest due to the commercial banks in 1981 as a precondition to signing of the agreement. They also paid the interest due during January-April 1982 on the consolidated 1981 debt.

-- On November 3, 1982 Western banks and the Poles signed an agreement to reschedule 95 percent of the principal payments due to private banks in 1982. Repayment of this sum was deferred until 1986 with repayment over four years.

-- The remaining 5 percent of principal is to be paid in 1983 in two installments, on August 20 and November 20.

-- Interest payments of \$1.1 billion were to be paid in three installments, November 19 and December 20, 1982 and March 20, 1983.

-- An amount at most equal to 50 percent of the interest paid by the Poles (maximum \$550 million) will be made available to finance Polish imports of goods and services which are essential for the production in Poland of exports to generate hard currency.

-- Commercial banks began rescheduling negotiations with the Polish Government in March on private unguaranteed debt due in 1983. The banks have proposed terms similar to those governing the 1982 debt rescheduling agreement. It is not clear at this time when a new agreement will be reached since the bank and GOP positions appear far apart.

Poland's 1983 Payments

-- About \$13 billion in debt service is due in 1983, including: at least \$4 billion in arrears from 1982; \$4.7 billion in principal payments under original loan contracts; and probably more than \$4 billion in interest, including charges on rescheduling agreements.

-- Warsaw owes Western governments \$2.7 billion in principal and \$1 billion in interest from 1982 on loans granted or guaranteed by official creditors, plus nearly \$300 million in interest due in 1982 on obligations covered by the 1981 government rescheduling agreement. (The Poles have paid some interest on the 1981 agreement to those governments who did not reschedule, but virtually all interest to Western governments who did reschedule is in arrears.) In addition to the foregoing arrears, Warsaw owes Western governments another \$1.9 billion in principal and \$1.1 billion in interest due in 1983 under original loan contracts plus some \$200 million in interest pursuant to the 1981 government rescheduling agreement.

Poland: Amounts Due and Payments
to Western Governments and Banks, 1981 and 1982
(Billion Dollars)

	Paris Club Governments			Banks		
	<u>Amounts Due on Original Loan Contracts</u>	<u>Amounts Rescheduled</u>	<u>Payments</u>	<u>Amounts Due on Original Loan Contracts</u>	<u>Amounts Rescheduled</u>	<u>Payments</u>
1981	3.9	2.3	1.5	3.8	2.2	1.5
1982	4.2	0	0.1	3.2	2.2	1.8(1) gross
						0.2 less short-term credits equal to one-half interest payments received
						1.6 <u>net</u>

(1) Including payments deferred from 1981 and interest and fees on 1981 and 1982 reschedulings. Poland is believed to be current on principal and interest payments to commercial banks on their 1981 and 1982 reschedulings.

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NSC:PDOBRIANSKY
EUR:RBURT
TREAS:SCANNER
EB:RTMCCORMACK

EB/IFD/OMA:PHCMONAGLE
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U.S. POSITION ON POLISH DEBT RESCHEDULING

1. WE DO NOT HAVE A PRESIDENTIAL DECISION ON RESCHEDULING, ALTHOUGH WE EXPECT ONE IN A FEW DAYS. THE OFFICIAL USG POSITION IS THUS LIMITED TO AGREEMENT IN PRINCIPLE TO PROCEED WITH RESCHEDULING BUT OUR FINAL DECISION, WHICH DEPENDS ON OUR ASSESSMENT OF HUMAN RIGHTS PROGRESS IN POLAND, HAS NOT YET BEEN MADE. WE RECOGNIZE THAT THE OTHER CREDITORS WILL WANT TO GO AHEAD WITH THE TIMETABLE TENTATIVELY LAID OUT AT THE LAST PARIS CLUB (I.E., A MEETING WITH THE POLES IN MID-NOVEMBER) AND ISSUE AN INVITATION TO THE POLISH GOVERNMENT TO PARTICIPATE IN RESCHEDULING TALKS. IN ORDER TO ASSURE THAT OUR VIEWS ARE TAKEN INTO ACCOUNT, AND TO AVOID A SPLIT IN PARIS CLUB RANKS, USDEL SHOULD SUGGEST TO THE CHAIR THAT THE CREDITORS' DISCUSSIONS AND DRAFTING SESSION BE CONDUCTED ON AN AD REFERENDUM BASIS, WITH CONFIRMATION OF DECISIONS FROM CAPITALS WITHIN A STIPULATED TIME (E.G. ONE WEEK). SHOULD THE OTHER CREDITORS BE UNWILLING TO PROCEED ON THIS BASIS, THE USDEL SHOULD MAKE IT CLEAR THAT A U.S. POLICY DECISION HAS NOT YET BEEN MADE, ALTHOUGH ONE IS EXPECTED SHORTLY, AND THE USDEL MUST THEREFORE PARTICIPATE IN CREDITOR DELIBERATIONS AND DECISIONS ON AN AD REFERENDUM BASIS ONLY. SPECIFICALLY, USDEL SHOULD SEEK AGREEMENT THAT:

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BY RW NARA DATE 7/8/15

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1) THE INVITATION TO THE GOP WILL BE DRAFTED BUT NOT ACTUALLY SENT UNTIL THE OFFICIAL USG DECISION HAS BEEN MADE AND THE SECRETARIAT INFORMED; AND 2) THERE WILL BE NO PUBLIC ANNOUNCEMENTS OR STATEMENTS TO THE PRESS UNTIL THE USG DECISION IS MADE. (WE RECOGNIZE THAT OTHER CREDITORS WILL BE RELUCTANT TO POSTPONE THE INVITATION FURTHER AND THAT USDEL MAY HAVE TO AGREE TO A DATE AFTER WHICH THE INVITATION WILL BE SENT WITHOUT USG CONCURRENCE.)

2. USDEL PARTICIPATION IN CREDITOR DISCUSSIONS SHOULD BE ON THE BASIS OF THE POSITION RECOMMENDED BY THE SECRETARY AND THE NSC, I.E. AGREEMENT ON A REPAYMENTS SCHEDULE FOR 1981 DEBT ARREARS. ONCE THIS IS ACHIEVED, DISCUSSION OF 1982 RESCHEDULING COULD PROCEED. HOWEVER, USDEL SHOULD NOT AGREE TO NEGOTIATE A 1982 RESCHEDULING AGREEMENT OR SIGN AN AGREED MINUTE.

3. FOLLOWING ARE SUGGESTED TALKING POINTS:

-- THE U.S. HAS NOT YET REACHED AN OFFICIAL DECISION TO GO BEYOND OUR AGREEMENT IN PRINCIPLE TO PROCEED WITH RESCHEDULING. THIS IS A MATTER FOR PRESIDENTIAL DECISION AND, BECAUSE OF THE TRAGEDY IN BEIRUT AND EVENTS IN GRENADA, WE DO NOT YET HAVE A DECISION.

-- A POLICY RECOMMENDATION HAS BEEN MADE. BECAUSE I UNDERSTAND A DECISION IS IMMINENT, I AM PREPARED TO PARTICIPATE IN THESE DISCUSSIONS, ON AN AD REFERENDUM BASIS, AND WILL SEEK MY GOVERNMENT'S CONFIRMATION UPON RETURN TO WASHINGTON.

-- GIVEN OUR COMMITMENT TO ECONOMIC CONDITIONALITY IN THIS PROCESS, THE USG WOULD SEE IT AS PREMATURE TO AGREE TO DISCUSS A 1982 RESCHEDULING AGREEMENT BEFORE THE 1981 PAYMENTS SCHEDULE HAS BEEN AGREED. A STEP-BY-STEP APPROACH WILL GIVE THE CREDITORS MAXIMUM LEVERAGE.

-- BEFORE FURTHER STEPS ARE TAKEN, AND IN PARTICULAR, CONCLUSION OF A 1982 RESCHEDULING AGREEMENT, POLAND SHOULD DEMONSTRATE ITS GOOD FAITH BY MAKING AGREED PAYMENTS ON 1981 ARREARS.

-- (PRIVATELY) OUR WILLINGNESS TO GO BEYOND THIS INITIAL FIRST STEP IN THE RESCHEDULING PROCESS WILL DEPEND ON FURTHER HUMAN RIGHTS PROGRESS BY THE GOP AS STIPULATED IN THE PRESIDENT'S STEP-BY-STEP APPROACH TO IMPROVING RELATIONS WITH POLAND.

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-- IN LIGHT OF OUR AD REFERENDUM PARTICIPATION, WE STRONGLY PREFER THAT AN INVITATION TO THE POLISH GOVERNMENT TO REOPEN RESCHEDULING TALKS NOT ACTUALLY BE SENT UNTIL THE USG HAS MADE ITS OFFICIAL DECISION. WE WOULD UNDERTAKE TO INFORM THE SECRETARIAT AS SOON AS THE DECISION HAS BEEN MADE, WHICH WE HOPE WILL BE WITHIN THE NEXT WEEK.

-- WE ALSO BELIEVE THAT NO PUBLIC OR PRESS STATEMENTS SHOULD BE ISSUED UNTIL THE USG DECISION HAS BEEN MADE.

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EXDIS PLEASE PASS DAS ELINOR CONSTABLE
E.O. 12356: DECL: OADR
TAGS: EFIN, PL
SUBJECT: U.S. POSITION ON POLISH DEBT RESCHEDULING

1. WE DO NOT HAVE A PRESIDENTIAL DECISION ON RESCHEDULING, ALTHOUGH WE EXPECT ONE IN A FEW DAYS. THE OFFICIAL USG POSITION IS THUS LIMITED TO AGREEMENT IN PRINCIPLE TO PROCEED WITH RESCHEDULING BUT OUR FINAL DECISION, -WHICH DEPENDS ON OUR ASSESSMENT OF HUMAN RIGHTS PROGRESS IN POLAND, HAS NOT YET BEEN MADE. WE RECOGNIZE THAT THE OTHER CREDITORS WILL WANT TO GO AHEAD WITH THE TIMETABLE TENTATIVELY LAID OUT AT THE LAST PARIS CLUB (I.E., A MEETING WITH THE POLES IN MID-NOVEMBER) AND ISSUE AN INVITATION TO THE POLISH GOVERNMENT TO PARTICIPATE IN RESCHEDULING TALKS. IN ORDER TO ASSURE THAT OUR VIEWS ARE TAKEN INTO ACCOUNT, AND TO AVOID A SPLIT IN PARIS CLUB RANKS, USDEL SHOULD SUGGEST TO THE CHAIR THAT THE CREDITORS' DISCUSSIONS AND DRAFTING SESSIONS BE CONDUCTED ON AN AD REFERENDUM BASIS, WITH CONFIRMATION OF DECISIONS FROM CAPITALS WITHIN A STIPULATED TIME (E.G. ONE WEEK). SHOULD THE OTHER CREDITORS BE UNWILLING TO PROCEED ON THIS BASIS, THE USDEL SHOULD MAKE IT CLEAR THAT A U.S. POLICY DECISION HAS NOT YET BEEN MADE, ALTHOUGH ONE IS EXPECTED SHORTLY, AND THE USDEL MUST THEREFORE PARTICIPATE IN CREDITOR DELIBERATIONS AND DECISIONS ON AN AD REFERENDUM

BASIS ONLY. SPECIFICALLY, USDEL SHOULD SEEK AGREEMENT THAT:

1) THE INVITATION TO THE GOP WILL BE DRAFTED BUT NOT ACTUALLY SENT UNTIL THE OFFICIAL USG DECISION HAS BEEN MADE AND THE SECRETARIAT INFORMED; AND 2) THERE WILL BE NO PUBLIC ANNOUNCEMENTS OR STATEMENTS TO THE PRESS UNTIL THE USG DECISION IS MADE. (WE RECOGNIZE THAT OTHER CREDITORS WILL BE RELUCTANT TO POSTPONE THE INVITATION FURTHER AND THAT USDEL MAY HAVE TO AGREE TO A DATE AFTER WHICH THE INVITATION WILL BE SENT WITHOUT USG CONCURRENCE.)

2. USDEL PARTICIPATION IN CREDITOR DISCUSSIONS SHOULD BE ON THE BASIS OF THE POSITION RECOMMENDED BY THE SECRETARY AND THE NSC, I.E. AGREEMENT ON A REPAYMENTS-SCHEDULE FOR 1981 DEBT ARREARS. ONCE THIS IS ACHIEVED, DISCUSSION OF 1982 RESCHEDULING COULD PROCEED. HOWEVER, USDEL CAN NOT AGREE TO NEGOTIATE A-1982 RESCHEDULING-AGREE-

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BY RW NARA DATE 7/8/15

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MENT OR SIGN AN AGREED MINUTE, AND WE SHOULD SEEK TO PROMOTE CREDITOR UNITY ON THIS POINT.

3. FOLLOWING ARE SUGGESTED TALKING POINTS:

-- THE U. S. HAS NOT YET REACHED AN OFFICIAL DECISION TO GO BEYOND OUR AGREEMENT IN PRINCIPLE TO PROCEED WITH RESCHEDULING. THIS IS A MATTER FOR PRESIDENTIAL DECISION AND, BECAUSE OF THE TRAGEDY IN BEIRUT AND EVENTS IN GRENADA, WE DO NOT YET HAVE A DECISION.

-- A POLICY RECOMMENDATION HAS BEEN MADE. BECAUSE I UNDERSTAND A DECISION IS IMMINENT, I AM PREPARED TO PARTICIPATE IN THESE DISCUSSIONS, ON AN AD REFERENDUM BASIS, AND WILL SEEK MY GOVERNMENT'S CONFIRMATION UPON RETURN TO WASHINGTON.

-- GIVEN OUR COMMITMENT TO ECONOMIC CONDITIONALITY IN THIS PROCESS, THE USG WOULD SEE IT AS PREMATURE TO AGREE TO DISCUSS A 1982 RESCHEDULING AGREEMENT BEFORE THE 1981 PAYMENTS SCHEDULE HAS BEEN AGREED. A STEP-BY-STEP APPROACH WILL GIVE THE CREDITORS MAXIMUM LEVERAGE.

-- BEFORE FURTHER STEPS ARE TAKEN, AND IN PARTICULAR, CONCLUSION OF A 1982 RESCHEDULING AGREEMENT, POLAND SHOULD DEMONSTRATE ITS GOOD FAITH BY MAKING AGREED PAYMENTS ON 1981 ARREARS.

-- (PRIVATELY) OUR WILLINGNESS TO GO BEYOND THIS INITIAL FIRST STEP IN THE RESCHEDULING PROCESS WILL DEPEND ON

FURTHER HUMAN RIGHTS PROGRESS BY THE GOP AS STIPULATED IN THE PRESIDENT'S STEP-BY-STEP APPROACH TO IMPROVING RELATIONS WITH POLAND.

-- IN LIGHT OF OUR AD REFERENDUM PARTICIPATION, WE STRONGLY PREFER THAT AN INVITATION TO THE POLISH GOVERNMENT TO REOPEN RESCHEDULING TALKS NOT ACTUALLY BE SENT UNTIL THE USG HAS MADE ITS OFFICIAL DECISION. WE WOULD UNDERTAKE TO INFORM THE SECRETARIAT AS SOON AS THE DECISION HAS BEEN MADE, WHICH WE HOPE WILL BE WITHIN THE NEXT WEEK.

-- WE ALSO BELIEVE THAT NO PUBLIC OR PRESS STATEMENTS SHOULD BE ISSUED UNTIL THE USG DECISION HAS BEEN MADE. SHULTZ
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POLAND
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PAGE 01 OF 02
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DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY WARSAW 4488

~~SECRET~~ SECTION 01 OF 02 PARIS 40586

EXDIS
TREASURY FOR HARVEY SHAPIRO
E.O. 12356: DECL: OADR
TAGS: EFIN, FR, PL
SUBJECT: POLISH CREDITORS' MEETING
REF: STATE 305225

1. ENTIRE TEXT - ~~SECRET~~

2. SUMMARY:

- - - "ND MET OCTOBER 26 AND
- PARIS CLUB TASK FORCE ON POLAND MET OCTOBER 26 AND
AGREED TO RESUME RESCHEDULING NEGOTIATIONS ON POLISH DEBT
AND INVITE POLES TO MEET WITH CREDITORS IN PARIS IN
NOVEMBER (TENTATIVELY NOVEMBER 17-18). CREDITORS WENT
ALONG WITH FRENCH CHAIR (CAMDESSUS) PROPOSAL TO HOLD LET-
TER OF INVITATION FOR ONE WEEK TO ALLOW US TIME TO CONFIRM
ITS AD REFERENDUM AGREEMENT. CREDITORS ALSO ACCEPTED
US' AND OTHERS' VIEW THAT FIRST ORDER OF BUSINESS SHOULD
BE COMPLIANCE WITH 1981 AGREEMENT, ALTHOUGH SOME DELE-
GATIONS CLEARLY ANXIOUS TO GET TO 1982. GROUP ALSO
AGREED THAT PRESS GUIDANCE WOULD BE QUOTE NO COMMENT END
QUOTE. INTENSIVE CORRIDOR DISCUSSIONS BY US DEL (CONSTA-
BLE) CRUCIAL TO ACHIEVE THIS RESULT IN ABSENCE OF CONSUL-
TATIONS IN WASHINGTON OR CAPITALS. EARLIER IN THE WEEK
A FIVE-COUNTRY GROUP, INCLUDING US, MET TO DRAFT TASK
FORCE REPORT ON WARSAW VISIT.

END SUMMARY

3. PRIOR TO OCTOBER 26 TASK FORCE MEETING, USDEL (CON-
STABLE) MET PRIVATELY WITH CHAIRMAN OF MORNING SESSION
(TRICHET) AND KEY DELS TO EXPLAIN ABSENCE OF INSTRUCTIONS
DUE TO DELAYS IN TRANSMISSION). US URGED OTHERS TO
JOIN IN AD REFERENDUM PROCEDURE, WHEREUPON US DEL PRO-
POSED THAT CHAIR OFFER TO HOLD LETTER TO KARCZ FOR ONE
WEEK, WHICH TRICHET AGREED TO DO. HE ALSO AGREED TO
DEFER NEXT STEPS DISCUSSION TO AFTERNOON SESSION TO GIVE
US MORE TIME TO OBTAIN FINAL INSTRUCTIONS.

4. MORNING SESSION WAS DEVOTED TO REVIEW OF DRAFT REPORT
PREPARED BY ABBREVIATED TASK FORCE GROUP (US, UK, FRG,

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NLRR M434/3# 142779

BY RW NARA DATE 7/8/15

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PARIS 0586

DTG: 282125Z OCT 83

PSN: 000813

FRANCE AND CANADA) ON OCTOBER 21 AT FRENCH TREASURY. TRICHET SUMMARIZED WARSAW MEETINGS FOR THE BENEFIT OF BELGIAN, NORWEGIAN AND SPANISH DELEGATES WHO WERE NOT REPRESENTED ON TASK FORCE. IN GENERAL DISCUSSION, SEVV ERAL DELS (DUTCH, UK, CANADA) NOTED THAT REPORT WAS LARGE- LY A PRESENTATION OF FACTS AND URGED THAT A SECTION BE ADDED WITH CONCLUSIONS AND RECOMMENDATIONS. US DEL AGREED BUT THOUGHT THIS SHOULD BE SECOND STAGE. TRICHET REMINDED GROUP OF THE TASK FORCE'S LIMITED MANDATE: FACT-FINDING ONLY. CREDITORS THEN DECIDED TO DRAFT A GEN- ERAL STATEMENT OF CONCLUSIONS OVER LUNCH WHICH WAS AP- PROVED DURING THE AFTERNOON SESSION.

5. CREDITORS REVIEWED DRAFT "PROVISIONAL" REPORT, CHAPTER- BY-CHAPTER, AND A LIMITED NUMBER OF BASICALLY CLARIFYING CHANGES WERE ADOPTED. THE SWISS DELEGATE WAS CONCERNED THAT THE REPORT IMPLICITLY INDICATED THAT OFFICIAL CREDI- TORS COULD NOT GET PAID ON A COMPARABLE BASIS WITH THE BANKS. TRICHET AGREED, BUT SAID HE PREFERRED TO LEAVE THIS STATEMENT OUT OF THE REPORT BECAUSE HE DID NOT BE- LIEVE IT COULD BE KEPT CONFIDENTIAL. THE SWISS DEL ALSO ASKED WHY THE POLES WERE GIVING THE BANKS FAVORABLE TREATMENT. TRICHET REPEATED KARCZ COMMENT THAT BANKS HAD THREATENED TO CUT OFF ALL TRADE WITH POLAND IF THEY DID NOT GET PAID. TRICHET THOUGHT THE POLES WERE MORE CONCERNED ABOUT ACCOMMODATING THE BANKS THAN THE OFFICIAL CREDITORS.

6. M. CAMDESSUS CHAIRED THE AFTERNOON SESSION WHICH TOOK UP NEXT STEPS. HE SUGGESTED THAT THE TWO DISCUSSION TOPICS FOR A MEETING WITH THE POLES WOULD BE FIRST, COM- PLIANCE WITH THE 1981 AGREEMENT AND SECOND, POLISH ECO- NOMIC OBJECTIVES, BUILDING ON THE WORK OF THE TASK FORCE.

AFTER A BRIEF DISCUSSION, A DRAFT LETTER TO KARCZ WAS DISTRIBUTED.

7. BEFORE TAKING UP THE LETTER, THE US DEL EXPLAINED US POSITION PER REFTEL (WHICH BY THEN HAD ARRIVED) IN- DICATING THAT SHE COULD AGREE TO A KARCZ INVITATION ONLY AD REFERENDUM. SHE SUPPORTED DUTCH, CANADIAN AND ITALIAN VIEW THAT PAYMENTS OF 1981 MONEY DUE WOULD BE REQUIRED BEFORE ANY 1982 AGREEMENT COULD BE SIGNED. (SHE ALSO RE- NOTE BY OC/T: UPGRADED TO EXDIS PER S/S-O-MR. AHMED 10/30/83 BT

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NATIONAL SECURITY COUNCIL
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PAGE 01 OF 02 PARIS 0586
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~~SECRET~~ SECTION 02 OF 02 PARIS 40586

EXDIS
TREASURY FOR HARVEY SHAPIRO
E.O. 12356: DECL: OADR
TAGS: EFIN, FR, PL
SUBJECT: POLISH CREDITORS' MEETING
MINDED CREDITORS PRIVATELY OF POLITICAL CONDITIONS IN
PRESIDENT'S STEP-BY-STEP APPROACH.) SHE EMPHASIZED THAT
THE POLES WOULD HAVE TO AGREE TO A 1981 PAYMENT SCHEDULE
BEFORE 1982 COULD EVEN BE DISCUSSED WITH THEM. THE
SWEDISH AND AUSTRIAN DELS SUGGESTED THAT THE TEXT OF THE
LETTER CONFORM TO THE EARLIER (JULY) LETTER TO KARCZ,
AND THIS WAS AGREED. CAMDESSUS SUGGESTED THAT HE NOT SEND
THE LETTER TO KARCZ UNTIL NOVEMBER 4 TO ALLOW THE US
TIME TO FORMALLY AGREE TO PROCEDURES, AND NO DELS OBJECTED.
SWISS AND SWEDISH DELS WANTED 1981 PAYMENTS AND 1982
RESCHEDULING NEGOTIATIONS TO BE LINKED, AND UK UNHELPFULLY
SUGGESTED SECRETARIAT DISTRIBUTE A PAPER ON POSSIBLE 1982
TERMS. PROPOSAL WAS KILLED BY FRG DEL IN A SHARPLY
WORDED INTERVENTION. NOVEMBER 17-18 DATES ARE TENTA-
TIVELY BEING CONSIDERED FOR MEETING WITH THE POLES.

8. A DRAFT LIST OF POSSIBLE PERFORMANCE CRITERIA WAS DIS-
TRIBUTED AND DISCUSSED. SOME COMMENTS WERE PROVIDED AT
THE MEETING AND THE SECRETARIAT WILL ACCEPT WRITTEN SUG-
GESTIONS OVER NEXT WEEKS, BEFORE PREPARING A FINAL DRAFT.

9. AFTER LEARNING THAT A REUTERS CORRESPONDENT WAS PACING
THE CORRIDOR OUTSIDE THE MEETING ROOM. CREDITORS DIS-
CUSSED PRESS GUIDANCE AND ALL AGREED THAT QUOTE NO COM-
MENT END QUOTE WAS APPROPRIATE. USDEL INSISTED ON THIS
POINT.

10. COMMENT:

USDEL HAD ALMOST CONTINUOUS PRIVATE CONSULTATIONS
WITH KEY DELS AND NEUTRALS, EXPLAINING DELAY IN INSTRU-
CTIONS, REMINDING THEM OF POLITICAL CONDITIONS WHICH STILL
APPLY, AND EMPHASIZING OUR FIRM POSITION ON 1981 REPAY-
MENT. OTHER CREDITORS WERE PREPARED TO BE ACCOMMODATING,
NO DOUBT IN ANTICIPATION OF AN EARLY POSITIVE US DECISION
TO INVITE KARCZ TO PARIS AND RESUME NEGOTIATIONS. SEV-
ERAL DELS, PARTICULARLY NEUTRALS, ARE OBVIOUSLY EAGER TO
BEGIN NEGOTIATIONS ON 1982 RESCHEDULING AND WE CAN AN-

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NATIONAL SECURITY COUNCIL
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PAGE 02 OF 02 PARIS 0586

DTG: 282125Z OCT 83 PSN: 000817

TICIPATE STRONG RESISTANCE AS WE SEEK TO CONFINE DISCUS-
SIONS TO COMPLIANCE WITH 1981 AGREEMENT. HOWEVER, UK,
FRG, DUTCH AND ITALIAN DELS SHARE US VIEW, AT LEAST AT
THIS STAGE, AND NO DELS ARE PREPARED TO ACCEPT POLISH
INSISTANCE ON NEW CREDITS AS A PRECONDITION FOR A 1981
RESCHEDULING.

GALBRAITH

NOTE BY OC/T: UPGRADED TO EXDIS PER S/S-O MR. AHMED 10/30/83
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November 2, 1983

POLISH DEBT

- We would resume discussions with the Polish government concerning a rescheduling of its 1981 debt to the U.S. and other industrialized nations.
- Poland would be invited to meeting with the Club of Paris (15 industrialized countries with loans to Poland) on November 16-17 in Paris.
- 1981 debt to U.S.: Approximately \$420 million.
- In 1981, Poland agreed to pay 10 percent of this by the end of the year: \$42 million. Approximately \$14 million was paid, leaving an outstanding total of about \$28 million.
- The remaining 90 percent -- approximately \$380 million -- was to be repaid over 8 years, with the first 4 years interest free. Interest the last 4 years would be calculated according to prevailing rates at the two U.S. institutions providing the loans: The Export-Import Bank and the Commodities Credit Corporation.
- If Poland accepts our invitation, we will discuss the repayment of the \$380 million loan and the \$28 million cash payment previously agreed to.
- The advantage to Poland is that this rescheduling could lead to renewed access to Western credit markets, i.e., they could borrow more money.
- The advantage to the U.S. would be that we would receive payment on the loans.
- Politically, we would only consider expanding the rescheduling discussion to 1982-82 debt if more political improvement is shown in Poland.
- Total debt to industrialized nations by Poland: \$16-17 billion.
- Total debt to the U.S. government: \$2.0 billion.

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POLAND
DEBT

- 3 -

11/15/83

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3. POLAND: RETURN TO THE PARIS CLUB

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On November 16, Paris Club governments will meet with Polish negotiators for the first time since the imposition of martial law in December 1981 to discuss Poland's official debts. Most club members agree with the US approach of limiting the initial sessions to dealing with Poland's arrearages under the 1981 rescheduling agreement. Warsaw's desire for a more comprehensive agreement could lead to protracted negotiations.

* * *

Western governments are eager to collect the more than \$400/million which Warsaw declined to pay under the 1981 agreement after the West imposed sanctions in response to martial law. In the view of some Western governments, the impasse on official debt allowed Western commercial banks to lock up all of Poland's repayment capacity in 1982 and 1983. A Paris Club agreement presumably would allow the official creditors to obtain a share of Warsaw's future debt-service capacity.

Warsaw will seek an agreement including a generous repayment schedule for its official debts, plus new credits and Western support for its membership in the IMF. The 1981 agreement rescheduled 90 percent of that year's principal and interest obligations. Without substantial new credits, the Poles do not have the payment capacity to make a similar arrangement for their remaining official obligations. A finance ministry official told the members of a Paris Club working group last month that Poland would need \$6-8 billion in new credits over a three-year period. IMF membership could lead to several hundred million dollars in new credits, with drawings beginning in 1984.

In an effort to secure more favorable terms, the Polish negotiators are likely to raise the issue of the losses Poland has suffered as a result of Western sanctions. Warsaw reportedly has estimated these losses at more than \$12 billion. Western negotiators could counter that the Poles' failure to service official debts amounting to more than \$7.6 billion offsets a large portion of any losses alleged to have resulted from the sanctions.

A hard Polish line in Paris could exacerbate divisions among the official creditors. While most club members favor resolving the question of the 1981 debt first, because it is covered by an existing Paris Club agreement, there is little consensus on other issues. Faced with large outstanding non-performing loans to Poland, many club members feel compelled to normalize the situation, and some could break with the step-by-step US approach if the talks are not productive. Little support exists for extending new credits, but the neutrals and some allies favor IMF membership for Poland.

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MEMORANDUM

NATIONAL SECURITY COUNCIL

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March 20, 1984

ACTION

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM: PAULA DOBRIANSKY ⁷

SUBJECT: Poland Debt Rescheduling

Secretaries Shultz and Regan sent the President a memorandum (Tab A) which recommends that in the upcoming March 21 Paris Club meeting, the U.S. should continue to insist on upfront repayment of non-rescheduled 1981 debt arrears and agreement on a repayment schedule for 1981 interest arrears, in return for agreeing to negotiate a 1982-84 rescheduling agreement. They contend that this step would prevent a rift in the Alliance and would enable us to receive some debt payments from Poland which, thus far, has enjoyed a virtual moratorium on debt service. Their memorandum would modify U.S. strategy as enunciated in the May 13 paper on Poland (Tab B) which links movement on our part on debt rescheduling to measured improvement in the human rights/political situation in Poland.

At Tab I is a memorandum from you to the President which supports State/Treasury's recommendation but sets forth clearly our position not to extend Poland new credits or support its IMF membership. At Tab II is a memorandum to Secretaries Shultz and Regan apprising them of the President's decision.

Jack Matlock ^{SW} and Dave Wigg concur.

RECOMMENDATION

That you sign the memorandum to the President at Tab I.

Approve _____ Disapprove _____

Attachments:

- Tab I Memorandum to the President
- Tab A Memorandum from Secretaries Shultz and Regan, dated March 17, 1984.
- Tab B Strategy paper on Poland
- Tab II Proposed memorandum to Secretaries Shultz and Regan

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BY lw NARA DATE 3/2/18

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THE WHITE HOUSE

WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT C. McFARLANE

SUBJECT: Poland Debt Rescheduling

Issue: Should the U.S. agree at the March 21 Paris Club meeting to support the German proposal to reschedule Poland's debt unconditionally.

Facts: In February 1984, the Germans proposed at the Paris Club meeting to agree to reschedule the 1982-84 Polish debt in return for Polish repayment of arrearages under the 1981 rescheduling agreement. This proposal has the support of our Allies and the neutrals. In fact, there is mounting European pressure on the U.S. to accept such a rescheduling agreement. At Tab A is a memorandum from Secretaries Shultz and Regan recommending that the U.S. support the German proposal.

Discussion: The State/Treasury memorandum asserts that our endorsement of the German proposal is necessary to avoid a rift in the Paris Club, to thwart potential bilateral rescheduling arrangements with the Poles, and to force the Poles to pay some of their debt. Since 1981, Poland has enjoyed a virtual moratorium on debt service. The State/Treasury position would modify the approach set forth in the May 13, 1983 strategy paper on Poland (Tab B) which links movement on our part on debt rescheduling with measured, continual improvement in the human rights/political situation in Poland.

In examining the issue of Poland's debt rescheduling, several considerations should be kept in mind: a) The Polish Government has no interest in rescheduling as such, but is clearly interested in securing new credits and IMF membership; and b) even though the German proposal refrains from addressing either new credits or IMF membership, there are clear indications that Western Europe is interested in extending new credits to Poland in the long term and seeks to return to "business as usual" with Poland.

From our standpoint, to grant the Poles new credits without significant progress in economic/political reform would be certainly undesirable. Therefore, the key issue is how to maintain Allied unity but also stem West European interest in granting new credits to Poland in the near term.

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In light of these considerations, NSC agrees with the State/-Treasury recommendation, but would instruct our representative to the Paris Club to explicitly state, "Our support for the German proposal is a discrete decision untied to any future concessions. We do not view our acceptance of this proposal as participation in a process that will lead to the extension of new credits to Poland or support for Poland's IMF membership. Our position remains that new credits and IMF membership will not be considered unless major political/economic reforms in Poland occur."

U.S. agreement on this issue will maintain Allied unity, is a relatively "cost-free" concession, and yet, could provide an opportunity to improve our bargaining leverage vis-a-vis the Europeans on new credits and IMF membership and perhaps on other East-West matters as well (i.e., London Summit).

RECOMMENDATION

Ok No

— — Endorse the German proposal and reaffirm our position that the extension of new credits and support for Poland's IMF membership will remain outside the rescheduling process and will not be considered unless major political/economic reforms in Poland occur.

Prepared by:
Paula Dobriansky

Attachments:

Tab A Memorandum from Secretaries Shultz and Regan,
 March 17, 1984
Tab B Strategy Paper on Poland

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THE SECRETARY OF STATE
WASHINGTON

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March 17, 1984
SITUATION ROOM

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MEMORANDUM FOR THE PRESIDENT

FROM: Secretary Shultz
Secretary Regan

SUBJECT: Polish Debt Rescheduling

We need to respond to an Allied proposal for rescheduling Polish debt. We recommend modifying our policy on Polish debt in order to maintain Allied solidarity and increase our leverage with the Poles.

In October you agreed to reopen discussions with the Poles in the Paris Club. The U.S. delegate was instructed to negotiate repayment of 1981 arrearages, but new rescheduling agreements for 1982 and beyond were subject to political as well as economic conditions. This tactic has resulted in an impasse in the Paris Club.

To recapture the initiative in the Paris Club, the Germans have now proposed moving ahead with rescheduling of 1982-84 debts in return for Polish repayment of arrearages under the 1981 rescheduling agreement. The German proposal has solid Allied and neutral support. Allied pressure on us to modify our position is mounting now that we have an indication, through the British, that the Poles are prepared to adopt a more flexible position on rescheduling and 1981 repayments. If the U.S. refuses to join the creditor consensus at the next meeting March 21, and continues to insist on political as well as economic preconditions for rescheduling, we will focus Allied criticism on U.S. sanctions policy rather than where it belongs -- on bankrupt Polish economic policies. The Allies agreed in January 1982 to postpone rescheduling "for the time being"; they now believe that rescheduling has been postponed long enough. Because we have not rescheduled official debt, the Poles have enjoyed a virtual moratorium on debt service to

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Western governments since sanctions were imposed in January 1982. The Allies are tired of not collecting anything on their Polish debts while private Western banks, which have now concluded three rescheduling agreements, continue to receive sizeable net payments from Poland (\$2.6 billion in 1982 and 1983). If the U.S. refuses to join the consensus at the next creditor meeting in March, a split in the Alliance is once again a strong possibility and we risk becoming observers as the rescheduling process continues without us.

We propose to strengthen the German rescheduling proposal by continuing to insist on upfront repayment of non-rescheduled 1981 debt arrears and agreement on a repayment schedule for 1981 interest arrears, in return for agreeing to negotiate a 1982-84 rescheduling agreement. This approach maintains our leadership role, avoids an Alliance split and preserves the linkage between the key economic sanctions (new credits, IMF) and Poland's human rights situation. Once we agree to the German proposal, the ball is in the Polish court. If they reject the new Paris Club offer, the onus is clearly on the Poles and Allied unity is preserved. If they accept, the creditors improve their chances of repayment and deprive the Poles of the free ride that they have enjoyed since December 1981.

The Poles will certainly continue to press for new credits and IMF membership, but the German proposal refrains from addressing either issue. If you agree to support the German approach, we will reiterate to our allies that new credits and the IMF question, which we continue to oppose, remain outside of the rescheduling process. As long as the U.S. is participating in the Paris Club process, rather than sitting on the sidelines, we are in a position to establish the conditions for any eventual Western movement in these key policy areas.

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Next Steps on Poland

This paper sets forth an illustrative scenario, linking movement on our part on debt rescheduling with measured, continual improvement in the human rights/political situation in Poland. This scenario reflects the desire of the NSC Planning Group for the United States to regain control of this negotiating situation, to reconstitute Allied solidarity on the question of Polish debt rescheduling, and to develop a balanced approach to this question, bearing in mind our numerous other interests which will be affected by an approach to the Polish debt question. The paper also proposes that multilateral movement on debt rescheduling be complemented with unilateral carrots (fisheries, etc.).

This proposed strategy is two-phased: Short-term -- Steps 1 - 3 (debt rescheduling, fisheries, etc.); Long-term -- Step 4 (economic normalization). Assuming that each of the first three steps proposed have been successfully implemented, only then will we consider moving into the second, long-term phase. That is, the more long-term proposal (Step 4) would not be implemented unless the Polish Government meets the required human rights/political conditions. Step 4 recommends that if the Polish Government restores the workers' rights to form free labor unions, the USG will engage in economic normalization with the Poles (e.g., MFN, new credits, etc.). Contingent upon economic/political circumstances at the time Step 4 is being considered, economic normalization may include these examples and/or others.

At the Paris Club meeting on April 12, the U.S. agreed to a British proposal that a members' working group be constituted and tasked with preparing an evaluation of Poland's performance of its financial obligations under the 1981 rescheduling agreements. The working group is to report to the next Paris Club meeting in mid-May. We have, meanwhile, told the Allies that our review of the situation in Poland is nearing completion.

If you approve the scenario outlined in this paper, we will plan to begin consultations with the Allies on May 9 and seek their agreement in time for the next Paris Club meeting of Poland's creditors (May 13-18). Specifically, in these discussions before the U.S. agrees to rescheduling, we will insist that our Allies join us in ensuring that the proposed human rights and political conditions are met. Assuming there is Allied agreement on the proposed strategy, we will approach the Poles at the end of May.

The key elements of the rescheduling scenario are:

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-- A step-by-step approach: We will not proceed from one step to the next until the preceding step has been fully implemented to our satisfaction. 40

-- Flexibility: The steps are tailored so that they may be altered to adapt to change. Specifically, parts of steps may be combined to accelerate the process in the event that human rights/political change proceeds at a pace more rapidly than we envisaged, or steps may be stretched out to allow more time for economic/human rights conditionality to be fully implemented.

-- Fail-safe points: The process is conceived so as to allow a unilateral or multilateral cessation of the process should events so warrant (tank clause).

Steps for Debt Rescheduling
(Note: Rescheduling (Steps 1 - 3) will not entail any new credits by the USG.)

Human Rights/Political Conditionality

1. Assuming Allied agreement, tell the Poles that the Paris Club agrees to meet with Poles after July 1 to evaluate compliance with 1981 re-scheduling agreement; reach agreement on payment schedule for 1981 debt not rescheduled (principal and interest) and interest on the rescheduled debt. Indicate to Poles at that time willingness to discuss 1982 rescheduling provided Poles have agreed to the above repayment schedules.

Peaceful, successful completion of Pope's visit (e.g., travel and statements are not thwarted by regime); release of the vast majority of political prisoners (includes top Solidarity leadership, detainees, those arrested under martial law provisions, those conscripted unfairly into military internment camps).

Finally, make it clear to the Poles and Allies that the outcome of the talks will be governed by Polish performance on the political conditions in column 2. *

Bilateral step: Inform the Poles that following a peaceful, successful Papal visit and the release of the vast majority of political prisoners, we would be prepared to grant Poland a modest fishing allocation in U.S. waters.

* Treasury believes the Europeans will insist on rescheduling even if the vast majority of political prisoners are not released. Such a U.S. precondition might, however, delay the date for such a rescheduling.

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2. Activate Polish Creditors Group to obtain necessary economic information prior to entering into debt rescheduling talks and, when they have completed their work, begin 1982 debt rescheduling negotiations, provided principal and interest on 1981 debt not rescheduled is paid in full and a down payment is received on interest pursuant to 1981 rescheduling.

Cease harassment of Walesa; cessation of harassment and the reemployment of released political prisoners; progress on mutually agreed package of economic reform (for example, establishment of workers' councils, guaranteed support by the GOP for private sector agriculture).

3. Begin discussions on 1983 rescheduling conditioned on adherence to 1981 and 1982 agreement.

Continued human rights and economic reform progress.

4. Engage in economic normalization with the Poles (e.g., MFN, new credits, etc.).

Restore workers' rights to form free labor unions.

Implementation

Plan to begin consultations with our Allies on May 9 and, assuming they agree, tell the Poles that we agree to a Paris Club meeting with them after July 1 on debt rescheduling.

At some point, the question of Poland's pending application for membership in the IMF may arise. While we will need to deal with this issue at some future time in the context of our overall approach to Poland, a Presidential decision is not necessary at this time.

Footnote: OSD believes "We should make clear to the Europeans that the U.S. believes that any new credits will be, in fact, Western grants and that we foresee no likelihood that the U.S. would grant new credits to the Jaruzelski regime."

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THE WHITE HOUSE

WASHINGTON

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MEMORANDUM FOR THE HONORABLE GEORGE P. SHULTZ
The Secretary of State

THE HONORABLE DONALD T. REGAN
The Secretary of the Treasury

SUBJECT: Poland Debt Rescheduling

The President has reviewed and concurs with your recommendation that in the March 21 Paris Club meeting we should continue to insist on upfront repayment of non-rescheduled Polish 1981 debt arrears and agreement on a repayment schedule for 1981 interest arrears in return for agreeing to negotiate a 1982-84 rescheduling agreement. To indicate clearly to the Paris Club members our position that new credits and IMF membership should remain outside of the rescheduling process and would not be considered unless major political/economic reforms in Poland occurred, our representative should explicitly state:

"Our support for the German proposal is a discrete decision untied to any future concessions. We do not view our acceptance of this proposal as participation in a process that will lead to the extension of new credits to Poland or support for Poland's IMF membership. Our position remains that new credits and IMF membership will not be considered unless major political/economic reforms in Poland occur."

FOR THE PRESIDENT:

Robert C. McFarlane

cc: The Secretary of Defense

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