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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
142787	MEMO	PAULA DOBRIANSKY TO ROBERT MCFARLANE RE. POLAND DEBT RESCHEDULING [COPY OF DOC. 142782] ***R 10/24/2018 M1748/1***	1	3/20/1984	B1
142788	MEMO	MCFARLANE TO RR RE. POLAND DEBT RESCHEDULING [COPY OF DOC. 142783] ***R 10/24/2018 M1748/1***	2	ND	B1
143069	MEMO	SECRETARY SHULTZ AND SECRETARY REGAN TO RR RE. POLISH DEBT RESCHEDULING [COPY OF DOC. 142784] ***R 10/24/2018 M1748/1***	2	3/17/1984	B1
143070	PAPER	RE. NEXT STEPS ON POLAND [COPY OF DOC. 142785] ***R 10/24/2018 M1748/1***	3	ND	B1
143071	MEMO	ROBERT MCFARLANE TO SHULTZ AND REGAN RE. POLAND DEBT RESCHEDULING [COPY OF DOC. 142786] ***R 10/24/2018 M1748/1***	1	ND	B1
143072	MEMO	ROBERT MCFARLANE TO SHULTZ AND REGAN RE. POLAND DEBT RESCHEDULING [COPY OF DOC. 142786] ***R 10/24/2018 M1748/1***	1	3/20/1984	B1

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143073	MEMO	MCFARLANE TO RR RE. POLAND DEBT RESCHEDULING [COPY OF DOC. 142783] ***R 10/24/2018 M1748/1***	2	3/20/1984	B1
143074	PAPER	RE. POLAND: FINANCIAL NEGOTIATIONS [PG. 3 ONLY] ***PAR 4/11/2016 M434/4; R 10/24/2018 M1748 #143074***	1	ND	B1
143075	NOTE	DON FORTIER TO MCFARLANE RE. POLAND ***R 4/8/2016 M434/4***	1	3/23/1984	B1
143076	MEMO	ROGER ROBINSON AND DAVID WIGG TO MCFARLANE RE. THE ARGENTINE ARREARAGE PROBLEM	5	3/23/1984	B1
143077	MEMO	REGAN TO MCFARLANE RE. ARGENTINA INTEREST ARREARS ***R 4/8/2016 M434/4***	2	3/13/1984	B1
143078	NOTE	RE. PARIS CLUB MEETING ***R 4/8/2016 M434/4***	1	3/23/1984	B1
143079	CABLE	PARIS 11792 ***R 4/8/2016 M434/4***	4	3/23/1984	B1
143080	CABLE	STATE 084751 ***R 4/8/2016 M434/4***	1	3/23/1984	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]
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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
143081	REPORT	[PG. 2 ONLY] *R 5/10/2017 M1748/1*	1	3/24/1984	B1
143082	CABLE	WARSAW 4638 *R 4/8/2016 M434/4*	2	4/26/1984	B1
143084	CABLE	WARSAW 3773 *R 4/8/2016 M434/4*	1	4/27/1984	B1

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

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Poland/debt

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MEMORANDUM

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NATIONAL SECURITY COUNCIL

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March 20, 1984

ACTION

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: PAULA DOBRIANSKY PD

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 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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MEMORANDUM

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THE WHITE HOUSE

WASHINGTON

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ACTION

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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BY RW NARA DATE 10/24/18

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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 WHITE HOUSE SITUATION ROOM

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MEMORANDUM FOR THE PRESIDENT

FROM: Secretary Shultz GPS
Secretary Regan DTR

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.

-- 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 rescheduling 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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THE WHITE HOUSE

WASHINGTON

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March 20, 1984

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 (S)

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." (S)

FOR THE PRESIDENT:

Robert McFarlane

Robert C. McFarlane

cc: The Secretary of Defense

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MEMORANDUM

THE WHITE HOUSE

WASHINGTON

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March 20, 1984

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BY RW NARA DATE 10/24/18

ACTION

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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cc Vice President

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." 12

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	
✓ RR	__	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

POLAND
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3. POLAND: FINANCIAL NEGOTIATIONS AT IMPORTANT JUNCTURE

Western governments are waiting for a Polish response to a Paris Club proposal for dealing with Warsaw's official debt. A positive response from the Poles would be a first step toward establishing a constructive dialogue with their official creditors. Meanwhile, Warsaw appears closer to agreement with its commercial-bank creditors on a multi-year rescheduling agreement.

* * *

Paris Club governments are waiting for Poland to respond to a March 20 proposal that 1982-84 debts be rescheduled on generous terms in exchange for the Poles immediately paying 20 percent of delinquent obligations under the 1981 Paris Club rescheduling agreement and dropping a demand for new credits. The remaining arrearages would be paid before the three-year agreement is signed. According to Embassy Paris, the French on April 11 received a response that "appeared to be an attempt to be positive," but returned it to the Poles for clarification.

Warsaw's refusal to meet its obligations under the 1981 agreement with Paris Club creditors in the aftermath of martial law and Western sanctions placed Poland in a category apart from other debtor countries. Arrearages owed under the agreement now amount to more than $700 million, technically placing Poland in default. Payment of the 1981 arrearages and the initiation of rescheduling negotiations on obligations due in later years would be important steps toward reestablishing a constructive relationship with its official creditors. Warsaw hopes the issues of new credits and IMF membership will be subjects of future negotiations.

In recent months some elements in the Polish leadership have advocated in the press that a hard line be taken at the official-debt talks. One aim of such a tactic would be to produce a split in Paris Club ranks. Polish negotiators do not appear to have adopted this approach, however, and Warsaw's apparent effort to respond positively to the creditors' proposal indicates that those advocating a more moderate stance have prevailed.

In separate negotiations last month, Warsaw and the representatives of more than 500 Western banks were in substantial accord on rescheduling Poland's commercial debt. While final agreement is likely to be delayed until the outcome of the Paris Club talks is known, tentative proposals provide for rescheduling 95 percent of 1984-87 maturities (approximately $600 million). Each year's obligations would be rescheduled over ten years, with a five-year grace period. Warsaw also would receive a new short-term credit facility, although its size remains a contentious issue.

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MEMORANDUM

NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL~~

March 23, 1984

NOTE FOR BUD MCFARLANE

Bud:

I support this approach and have discussed it with Roger and Dave at some length. Although we are not on the verge of doomsday -- as Harry Rowen notes in his own retrospective on Polish defaults -- we do have a problem that needs to be taken quite seriously. The key is that we not slide unthinkingly across the line of limited relief and panic-avoidance into creating conditions that appear to once again make sloppy lending safe. In persuading Regan to permit this complex issue to be treated in a broader forum, this is a point you will want to make.

Finally, with a view toward doing what I think I am supposed to in my new job -- namely, enforcing connections between the international economic and political-military spheres -- let me make one final suggestion. Some of what we do to protect ourselves will have the spillover impact of providing an easement for Argentina. For tactical purposes, we ought to highlight this where possible and convert it into political gain. Alfonsin recently put out the word that he would be prepared to move on NPT or Tlateloco in return for help. (He, too, is playing a double game in my view, since he needs to find a clever way of curbing the military's control over the nuclear weapons program.) We ought to take him up on this. This probably makes me sound like a "Charlie One-Note," but this does seem to be one of the better available quids around. Moreover, the only way to make progress in this area is to seize concrete opportunities when they arise.

Don

Don Fortier

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ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restric-tions*
143076	MEMO ROGER ROBINSON AND DAVID WIGG TO MCFARLANE RE. THE ARGENTINE ARREARAGE PROBLEM	5	3/23/1984	B1

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

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March 13, 1984

SPECIAL
It is Important that this Paper be given Special Attention
TD F 10-01.5 (8-77) Replaces OS 2131 which may be used.

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143077

MEMORANDUM FOR THE HONORABLE ROBERT C. McFARLANE
ASSISTANT TO THE PRESIDENT
FOR NATIONAL SECURITY AFFAIRS

SUBJECT: Argentina Interest Arrears

It appears highly unlikely that the Government of Argentina will reduce interest arrears to less than 90 days by March 31. By that date, there will be approximately $750 million in public sector interest arrears more than 90 days overdue--about $250 million of which is owed to U.S. banks. Argentina does have some reserves ($800-900 million) and has been paying off selected trade finance arrears, but they have paid little interest since October 13.

If interest arrears of more than 90 days continue, our bank regulators, in accordance with their policies, will almost certainly classify Argentine loans as "substandard" in mid-April. As a result, the 24 largest U.S. banks would suffer earnings losses totalling $300-350 million on fourth quarter 1983/first quarter 1984 income. The "substandard" classification also means that banks should voluntarily begin to establish reserves against the loans. An additional risk of the "substandard" classification is that some regional banks will probably refuse to lend additional money to Argentina. Regulatory penalties on U.S. banks will dramatically increase if interest arrears continue and exceed 180 days.

We consider Argentina's willingness to let matters develop to this March 31st deadline a major financial event. Neither Mexico nor Brazil was prepared to take such a confrontational position with the banks. We believe important financial and psychological implications might flow from this challenge to the U.S. banks. Other debtor nations may follow with a possible "domino" effect.

President Alfonsin has so far failed to take the necessary actions required to resolve the inconsistencies in his economic program. His government has also failed to make significant progress to reach agreement with the Fund on a new standby. With the right prodding there may eventually be an agreement with the IMF, although this looks doubtful before June. Without a Fund agreement, disbursement of new commercial bank funds is highly doubtful.

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In order to be certain the Argentines understand the seriousness of their failure to address the arrears problem of more than 90 days, I have sent the attached letter to Minister of Economy Grinspun. The substance of this letter has been approved by State. We will continue to monitor this situation and will keep you apprised of significant developments.

DTR

Donald T. Regan

Attachment

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

March 12, 1984

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Dear Mr. Minister:

I have been following closely your efforts to improve economic conditions in Argentina and to bring to a successful conclusion your negotiations with the IMF. We have said, and I would like to repeat, that we support your efforts to make economic changes in Argentina on the basis of growth and productive economic relationships with the rest of the world and within the context of an IMF program. However, problems are arising which if not resolved will affect our ability and that of others to assist you.

Your government has taken the position that it cannot pay interest on its public sector debt to foreign commercial banks until the banks disburse withheld credits. At the same time, progress on bank lending is dependent upon your progress with the IMF. Yet to those of us here, little progress with the IMF has been apparent as Argentina seeks to reform its economic and political systems. I am concerned that if Argentina fails to make interest payments by March 31, bank regulators, which are independent of the Administration in the United States, will take action to classify Argentina's loans as substandard, making new commitments and negotiation of terms more difficult.

If this situation continues during the second quarter, our regulators would be forced to take additional classification steps which would seriously impair your ability to obtain additional funds from U.S. and other banks around the world. Such a classification would add Argentina to a small list of countries whose creditworthiness is no longer accepted by the banking community.

For a country with the stature of Argentina to fail to make any effort whatsoever to resolve this situation would have far-reaching and negative implications. Neither Mexico nor Brazil, both of whom have successfully negotiated IMF programs and rescheduling agreements, allowed matters to reach this state despite their more acute cash flow problems at the time of their negotiations.

If Argentina does not deal as a matter of urgency with its arrears problem, I believe this lack of progress will be regarded here and elsewhere as a decision on the part of Argentina to flout established financial practices. I am sure you appreciate that such a development would make U.S. support for your efforts appreciably more difficult.

I would appreciate hearing from you as soon as possible.

Sincerely,

Donald T. Regan

Donald T. Regan

His Excellency
Bernardo Grinspun
Minister of Economy
of the Argentine Republic
Buenos Aires

MEMORANDUM

~~SECRET~~

THE WHITE HOUSE

WASHINGTON

POLAND DEBT

PD 143078

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SITUATION ROOM NOTE

March 23, 1984

~~SECRET~~

Paris Club Meeting

Instructions to our delegation to join the consensus and accept the German proposal allowed the one day meeting of creditors and Polish officials to focus on Polish intransigence rather than the U.S. view.

- o Key creditors (France, UK, Germany) were most appreciative of the U.S. position which enabled the group to preserve creditor unity.

The Poles presented three scenarios for balance of payments and debt service through 1995, all of which required new credits. While emphasizing the impossibility of accepting the idea of new credits, the chairman of the creditors offered an elaboration of the German proposal designed to set the stage for serious negotiation. The creditors accepted the approach and the Polish delegation agreed to take it back to Warsaw. The proposal includes:

- o A global approach.
- o The need for a "generous" rescheduling in view of difficult balance of payments situation and impossibility of offering new credits.
- o A phased repayment of 1981 arrears.

The Poles would have to agree to abandon their demand for new credits in the Paris Club and agree to a firm payment schedule on 1981 arrears. (S)

Paris 11792, PSN 60651, 60668, 60666, 60665

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POLAND DEBT

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S E C R E T SECTION Ø1 OF Ø4 PARIS 11792

E.O. 12356: DECL: OADR
TAGS: EFIN, PL
SUBJECT: MEETING OF POLISH CREDITORS GROUP - MARCH 2Ø

1. ENTIRE TEXT - S.

2. SUMMARY:

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\- PARIS CLUB CREDITORS HELD ONE-DAY MEETING WITH POLISH OFFICIALS TO DISCUSS DEBT RESCHEDULING AND POLISH ECONOMIC PERFORMANCE. LAST MINUTE BUT TIMELY ARRIVAL OF INSTRUCTIONS ENABLED US DEL TO JOIN CONSENSUS AND FOCUS ATTENTION OF GROUP ON POLISH POSITION. AFTER LENGTHY AND NOT VERY ENLIGHTENING EXCHANGE ON POLISH ECONOMY, CHAIRMAN OFFERED AN ELABORATION OF GERMAN PROPOSAL DESIGNED TO SET THE STAGE FOR SERIOUS NEGOTIATIONS. CREDITORS ACCEPTED APPROACH AND POLISH DEL KARCZ AGREED TO TAKE IT BACK TO WARSAW. PROPOSAL WOULD OFFER POLES A MULTI-YEAR RESCHEDULING WITH GENEROUS TERMS IN EXCHANGE FOR THEIR AGREEMENT TO REPAY ALL '81 ARREARS BEFORE RESCHEDULING AGREEMENTS APPROVED AND ABANDON DEMAND FOR NEW CREDITS IN CONNECTION WITH RESCHEDULING.

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3. CREDITOR DISCUSSION OPENED WITH USDEL (CONSTABLE) STATEMENT THAT US WAS WILLING TO JOIN THE CONSENSUS TO CONSIDER A THREE-YEAR RESCHEDULING PACKAGE IN EXCHANGE FOR POLES HONORING FULLY OBLIGATIONS UNDER 1981 AGREEMENT. SHE EMPHASIZED THAT THERE COULD BE NO CONSIDERATION OF NEW MONEY. THE SUCCEEDING INTERVENTIONS FOCUSSED ON THEMES THAT SHOULD BE DISCUSSED WITH THE POLES IN THE MEETING TO FOLLOW. SEVERAL DELEGATES EXPRESSED THANKS TO THE US FOR BEING ABLE TO MAINTAIN CREDITOR SOLIDARITY. THE CANADIAN DELEGATE SUGGESTED THAT THE MEETING FOCUS ON THE TASK FORCE'S FINDINGS ON THE POLISH ECONOMY WITH EMPHASIS ON DEFICIENCIES OF ECONOMIC MANAGEMENT. THE GERMAN ADDED THE THOUGHT THAT THE POLES SHOULD BE PRESSED ON THE QUESTION OF REPAYMENT OF 1981 ARREARS RIGHT FROM THE FIRST.

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4. THE SESSION WITH THE POLISH DELEGATION (HEADED BY KARCZ AND INCLUDING KALINOWSKI FROM THE FOREIGN TRADE MINISTRY, KOSINSKI FROM FINANCE AND GOLEBIEWSKI FROM THE BANK HANDLOWY) BEGAN WITH AN INTERMINABLE RECITAL OF ECONOMIC STATISTICS READ BY DEPUTY FINANCE MINISTRY DEPARTMENT HEAD KOSINSKI FROM A BOOKLET ("INFORMATION NUMBER 7") THAT HAD BEEN DISTRIBUTED TO CREDITORS. (SUMMARY BEING HANDCARRIED TO WASHINGTON BY CONSTABLE.) FOLLOWING THIS PRESENTATION, THE DUTCH DELEGATE QUESTIONED THE POLES AGRESSIVELY ON THE PRESENTATION, RAISING QUESTIONS CONCERNING THE USE OF THE PRICE MECHANISM, THE QUALITY OF THE DATA, QUALITATIVE ASPECTS OF ADJUSTMENT AND ECONOMIC DECENTRALIZATION. KARCZ MADE A PRO FORMA REBUTTAL.

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5. THE MEETING PICKED UP AS THE POLES PASSED AROUND A THREE-PAGE DOCUMENT (BEING HANDCARRIED TO WASHINGTON BY CONSTABLE) DEPICTING THREE SCENARIES, A, B AND C, FOR THE BALANCE OF PAYMENTS AND DEBT SERVICE THROUGH 1995. THE POLES EXPLAINED THAT ALL THREE REPRESENTED POSITIVE SCENARIOS AND HAD THE SAME ASSUMPTIONS FOR IMPORTS AND EXPORTS WITH YEARLY INCREASES AVERAGING ON THE ORDER OF 14 TO 13 PERCENT AND A GROWING MERCHANDISE TRADE SURPLUS. ALL THREE ASSUME NEW CREDITS. SCENARIO A ASSUMES AGREEMENT ON RESCHEDULING OF '82-84 MATURITIES OF GUARANTEED CREDITS OVER 12 YEARS WITH 6 GRACE AT 95 PERCENT OF PRINCIPAL AND INTEREST. THE SAME TERMS WOULD BE GIVEN FOR A RESCHEDULING IN 1985. IN 1986 AND THROUGH 1989, PRINCIPAL ONLY WOULD BE RESCHEDULED (95 PERCENT) AND INTEREST WOULD BE PAID. BEGINNING IN 1989, PRINCIPAL AND INTEREST WOULD BE PAID AS DUE. SCENARIO A ALSO ASSUMES IMF MEMBERSHIP IN 1984 AND DRAWING ON IMF AND IBRD RESOURCES IN SUBSEQUENT YEARS PLUS A BIS BRIDGE LOAN IN 1984. SCENARIO B IS SIMILAR TO SCENARIO A, BUT DOES NOT ASSUME IMF MEMBERSHIP. NEW MONEY FLOWS, HOWEVER, ARE SIMILAR IN MAGNITUDE, WITH GOVERNMENTS OFFERING LARGER GUARANTEED CREDITS. SCENARIO C ASSUMES IMF MEMBERSHIP, A MORE GENEROUS RESCHEDULING AND SMALLER FLOWS OF GUARANTEED CREDITS.

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6. CREDITORS PROCEEDED TO GRILL THE POLISH DELEGATION
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S E C R E T SECTION Ø2 OF Ø4 PARIS 11792

E.O. 12356: DECL: OADR
TAGS: EFIN, PL
SUBJECT: MEETING OF POLISH CREDITORS GROUP - MARCH 2Ø ON DETAILS, DEFINITIONS AND ASSUMPTIONS. IN RESPONSE TO A QUESTION BY THE FRG, THE POLES CONFIRMED THAT ALL THREE SCENARIOS ASSUMED PAYMENT OF ALL ARREARS AND MORATORIUM INTEREST DUE UNDER THE 1981 RESCHEDULING. BEFORE BREAKING FOR LUNCH, THE POLES WERE ASKED TO PREPARE A BREAKDOWN OF THEIR PLANS FOR REPAYMENT OF ARREARS BETWEEN GOVERNMENT AND OTHER CREDITORS.

7. AFTER BREAK CREDITORS MET AND SEVERAL DELEGATES TRIED -- WITHOUT GREAT SUCCESS -- TO RECONCILE THE POLISH FIGURES WITH CREDITORS' FIGURES. IT WAS OBVIOUS THAT THE POLES, IN PRESENTING ALTERNATE SCENARIOS, WERE WILLING TO BACK AWAY FROM PUSHING THE QUESTION OF IMF MEMBERSHIP, BUT WERE STICKING TO THE REQUEST FOR NEW CREDITS. AT THIS POINT, CAMDESSUS OFFERED WHAT HE TERMED A "HERETICAL" SUGGESTION: IT IS CLEAR THAT THE POLES WILL NOT BE ABLE TO MEET THEIR OBLIGATIONS UNDER A NORMAL 1982-84 RESCHEDULING WITHOUT NEW MONEY; CREDITORS ARE ALL AGAINST GIVING NEW MONEY. THE ONLY WAY OUT WILL BE PARTIAL CAPITALIZATION OF MORATORIUM INTEREST.
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8. CREDITOR RESPONSE TO THIS SUGGESTION WAS SKEPTICAL, ALTHOUGH SEVERAL DELEGATES SAID THAT THEY COULD CONSIDER SUCH A STEP AT THE APPROPRIATE TIME. USDEL SAID THAT IT WAS PREMATURE TO TAKE ANY POSITION ON THIS QUESTION; ALL OTHER ASSUMPTIONS AND VARIABLES SHOULD FIRST BE CAREFULLY ANALYZED. FRG SUGGESTED ASKING THE POLES TO PREPARE A "SCENARIO D" WITH THE HYPOTHESIS OF NO NEW CREDITS BUT WITH FULL REPAYMENT OF 1981 ARREARS. IN THIS WAY, THEY WOULD HAVE TO COME UP WITH AN ALTERNATIVE PROPOSAL ON RESCHEDULING TERMS.
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9. THE POLES WERE THEN INVITED TO REJOIN CREDITORS. THEY PRESENTED THEIR REPAYMENT ESTIMATES BROKEN DOWN AMONG DIFFERENT CREDITORS. AS DICTATED ORALLY BY THE POLISH DELEGATION, THEIR 1984 REPAYMENTS ARE AS FOLLOWS:
-

	PRINCIPAL	INTEREST	TOTAL
GOVERNMENTS OF 16	594	1,7Ø7	2,3Ø5
SOCIALIST COUNTRIES	39	197	236
BANKS	118	645	763
OTHERS (BRAZIL, ARAB COUNTRIES, ETC.)	419	2Ø1	62Ø
REPAYMENT ON NEW CREDITS	1ØØ	24Ø	34Ø

- THE FRG DELEGATE TOOK THE LEAD IN EMPHASIZING TO POLES IMPOSSIBILITY OF ACCEPTING THE IDEA OF NEW CREDITS FOR THE TIME BEING, AND ASKED THE POLES TO PRODUCE A TABLE D. HE SAID THAT CREDITORS HAVE BEEN GIVEN A FORTHCOMING ANSWER ON 1981 ARREARS, AND TABLE D SHOULD ALSO INCLUDE THIS ASSUMPTION.
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1Ø. KARCZ AGREED TO PRODUCE SUCH A TABLE FOR A FUTURE MEETING, BUT MADE SEVERAL POINTS TO PROTECT HIMSELF: 1) IT MIGHT NOT INCLUDE ALL ARREARS PAYMENTS IN 1984; 2) "YOU ASKED ME; IT WASN'T MY IDEA"; 3) NO NEW CREDITS DID NOT REFLECT A "RETURN TO NORMAL COMMERCIAL RELATIONS"; 4) AT THIS POINT, WE ARE EXCHANGING IDEAS RATHER THAN NEGOTIATING. HE CLOSED WITH A PLEA TO KEEP POLISH TRADE WITH THE OECD COUNTRIES FROM DECLINING.
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11. CHAIRMAN CAMDESSUS THEN ASKED FOR A SECOND CREDITOR CAUCUS TO DISCUSS STRATEGY, GIVEN INCONCLUSIVE RESULTS OF DISCUSSIONS SO FAR. HE OFFERED A PERSONAL PROPOSAL WHICH HE WOULD, IF CREDITORS AGREED, PUT TO KARCZ IN A HEADS OF DELEGATION MEETING LATER THAT EVENING. HE SUGGESTED HE OPEN BY OBSERVING THAT THIS MEETING HAS BEEN CHARACTERIZED ON BOTH SIDES BY INCREASED GOOD WILL AND FLEXIBILITY, E.G.. CREDITOR WILLINGNESS TO MEET IN ABSENCE OF ANY '81 PAYMENTS AND POLISH RECOGNITION OF NEED TO
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S E C R E T SECTION 03 OF 04 PARIS 11792

E.O. 12356: DECL: OADR
TAGS: EFIN, PL
SUBJECT: MEETING OF POLISH CREDITORS GROUP - MARCH 20

REPAY '81 ARREARS AND RE-ESTABLISH EQUALITY OF TREATMENT OF PUBLIC AND PRIVATE CREDITORS. HE WOULD THEN PROPOSE A "PACKAGE" DEAL WHICH, BUILDING ON THIS GOOD WILL, COULD SET THE STAGE FOR SERIOUS NEGOTIATIONS. HE WOULD ASK CREDITORS TO ACCEPT: (1) A GLOBAL APPROACH (GERMAN PROPOSAL); (2) THE NEED FOR A "GENEROUS" RESCHEDULING IN VIEW OF DIFFICULT BALANCE OF PAYMENTS SITUATION AND IMPOSSIBILITY OF OFFERING NEW CREDITS, AND (3) A PHASED RATHER THAN IMMEDIATE REPAYMENT OF 1981 ARREARS. FOR THEIR PART POLES WOULD BE ASKED (1) TO ABANDON DEMAND FOR NEW CREDITS IN PARIS CLUB, AND (2) TO AGREE TO A FIRM PAYMENT SCHEDULE ON '81 ARREARS -- 20 PERCENT BY APRIL 15, 30 PERCENT WHEN A RESCHEDULING ACCORD IS INITIALED AND THE REMAINDER WHEN PARIS CLUB AGREED MINUTE IS FORMALLY SIGNED.

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12. IN ENSUING DISCUSSION USDEL CAUTIONED CHAIR NOT TO DISCUSS SPECIFIC RESCHEDULING TERMS WITH KARCZ, EMPHASIZED US REQUIREMENT THAT NON-CONSOLIDATED ARREARS BE PAID QUICKLY, AND JOINED NETHERLANDS DEL IN URGING THAT CHAIRMAN ALSO PRESS KARCZ ON ECONOMIC REFORM. SHE ALSO REITERATED US POSITION ON NEW CREDITS AND IMF MEMBERSHIP. CREDITORS WERE UNANIMOUS IN APPROVING CHAIRMAN'S PROPOSAL.

13. HEADS OF DELEGATIONS THEN MET IN CAMDESSUS' OFFICE WHERE HE PUT PROPOSAL TO KARCZ. HE SUGGESTED THAT CREDITORS WOULD NO DOUBT HAVE GREAT DIFFICULTY WITH ONE OR ANOTHER ELEMENT AS WOULD POLES BUT EMPHASIZED THAT IT WAS A "PACKAGE DEAL" AND ASKED FOR TELEX ACCEPTANCE FROM CREDITORS AND POLES BY APRIL 15 (A TACTICAL MOVE TO GIVE KARCZ IMPRESSION THAT CREDITORS WERE INDEED MAKING DIFFICULT NEW CONCESSIONS). CANADIAN DEL, IN PRE-COOKED EXCHANGE, ASKED IF THIS WAS A "TAKE IT OR LEAVE IT" PROPOSAL AND CAMDESSUS SAID YES. KARCZ WAS NON-COMMITTAL BUT SAID SITUATION WOULD BE DIFFICULT WITHOUT NEW CREDITS. CAMDESSUS SAID HE MUST ACCEPT "FACTS OF LIFE". GROUP AGREED TO RECONVENE POLISH TASK FORCE SOMETIME AFTER APRIL 15, DEPENDING ON KARCZ RESPONSE.

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14. PRESS GUIDANCE WAS RAISED AND ALL AGREED THE LESS SAID THE BETTER. COMMON LINE WAS TO BE THAT GROUP HELD USEFUL DISCUSSIONS WHICH WILL CONTINUE WITH NO REPEAT NO DETAILS. HOWEVER, ON MARCH 23 FINANCIAL TIMES ARTICLE (BYLINE DAVID BUCHAN) CARRIED DETAILED, IF MISLEADING, ACCOUNT OF MEETING SUGGESTING THAT CREDITORS HAD REACHED AGREEMENT ON MUTLI-YEAR RESCHEDULING AND WITH US BEING REPORTED AS HAVING DROPPED OUR INSISTENCE ON A YEAR-BY-YEAR RESCHEDULING. IN BRIEF DISCUSSION MARCH 23 CREDITORS LAMENTED LEAK AND INACCURACY OF ARTICLE BUT WERE UNABLE TO IDENTIFY SOURCE. (NOTE: SHIFT IN US POSITION WAS NOT REPEAT NOT DISCUSSED IN PRESENCE OF POLES.)

15. TEXT OF CAMDESSUS PROPOSAL FOLLOWS:

-

CHAIRMAN'S PROPOSAL

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- IN ORDER TO PAVE THE WAY FOR THE FAVOURABLE PURSUANCE OF THE NEGOTIATION, SOME MOVES WOULD HAVE TO BE MADE BY BOTH THE POLISH SIDE AND THE CREDITOR COUNTRIES.

-

- - ON THE ONE HAND THE CREDITOR COUNTRIES SHOULD AGREE TO CONSIDER POSITIVELY THE FOLLOWING POINTS:

- 1. THEY SHOULD ADMIT A GLOBAL APPROACH OF THE POLISH DEBT PROBLEMS AND ACCEPT A SIMULTANEOUS EXAMINATION OF ALL DEBTS DUE IN 1982, 1983 AND 1984, INSTEAD OF CONCLUDING SUCCESSIVE AGREEMENTS FOR EACH,

-

- 2. THEY SHOULD BE PREPARED TO ADMIT GENEROUS RESCHEDULING TERMS, THAT IS MORE FAVOURABLE THAN THE 1981 AGREEMENT, IN ORDER TO MEET THE REQUIREMENTS OF THE SITUATION AND ACHIEVE A MUTUALLY ACCEPTABLE SOLUTION OF THE PROBLEM,

- 3. THEY SHOULD ABANDON THEIR PREREQUISITE FOR AN EXHAUSTIVE AND IMMEDIATE PAYMENT OF THE ARREARS ON THE 1981 AGREEMENT BEFORE AGREEING ON ANY PROGRESS IN THE NEGOTIATIONS; THEY SHOULD ACCEPT, INSTEAD, PARTIAL PAYMENTS IN CONNECTION WITH THE PROGRESS OF THE NEGOTIATION.

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S E C R E T SECTION Ø4 OF Ø4 PARIS 11792

E.O. 12356: DECL: OADR
TAGS: EFIN, PL
SUBJECT: MEETING OF POLISH CREDITORS GROUP - MARCH 2Ø
- - ON THE OTHER HAND, THE POLISH SIDE SHOULD AGREE
TØ CONSIDER POSITIVELY THE FOLLOWING POINTS:
-
- 1. THEY SHOULD AGREE ON A REPAYMENT OF ARREARS
ON THE 1981 AGREEMENT ACCORDING TO THE FOLLOWING SCHEME:
- A) IMMEDIATE PAYMENT OF 2Ø PERCENT OF THE ARREARS
CONCERNED, I.E. PAYMENT AS SOON AS THE POLISH AUTHORITIES
ARE GIVEN BY THE CHAIR NOTIFICATION OF THE APPROVAL BY
THE CREDITOR COUNTRIES OF THE 3 POINTS MENTIONED ABOVE;
-
- B) 3Ø PERCENT TO BE PAID AS SOON AS AN AGREEMENT
FOR THE 1982, 1983, 1984 RESCHEDULING IS INITIALLED;
- C) THE REMAINING 5Ø PERCENT TO BE PAID ON THE
DATE OF THE SIGNATURE.
-
2. THE POLISH SIDE SHOULD AGREE TO DISCUSS THE RE-
SCHEDULING TO COME ON THE BASIS OF COMPLETE (TABLE D)
BALANCE OF PAYMENTS PROJECTIONS WHICH WOULD NOT BE BASED
ON ANY COMMITMENT BY THE GROUP OF CREDITOR COUNTRIES
TO RESUME COMMERCIAL CREDITS.
-
- THE NEGOTIATIONS WOULD TAKE INTO ACCOUNT THE RESULTS
OF THE WORKS COMPLETED BY THE TASK FORCE AND THE POLISH
AUTHORITIES ON THE PROSPECTS OF THE POLISH ECONOMY AND
ON THE WAYS AND MEANS TO IMPROVING ITS EFFICIENCY AND
RESULTS.
-
- THE CREDITOR COUNTRIES AND THE POLISH AUTHORITIES
SHOULD CONVEY TO THE CHAIR THEIR RESPONSE TO THIS PRO-
POSAL -- WHICH CONSTITUTES A PACKAGE -- BEFORE APRIL 1Ø,
1984.
-
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16. COMMENT:
- -------
- IN PARIS CLUB SESSION ON METHODOLOGY EARLIER IN
WEEK, US DEL (CONSTABLE) BESIEGED BY OTHER CREDITORS FOR
INFORMATION ON US POSITION ON GERMAN PROPOSAL. TIMELY
ARRIVAL OF INSTRUCTIONS AVERTED WHAT COULD HAVE BEEN AN
EXTREMELY EMBARRASSING AND DIFFICULT SESSION. OUR
ABILITY TO ACCEPT GERMAN PROPOSAL ENABLED GROUP TO FOCUS
ON POLISH INTRANSIGENCE RATHER THAN US VIEW. CAMDESSUS
PROPOSAL IS ESSENTIALLY A DEFT PACKAGING OF GERMAN
GLOBAL APPROACH. THE REFERENCE TO A "GENEROUS" AND
"FAVOURABLE" (PARIS CLUB TERMS OF ART) RESCHEDULING IS
REALISTIC GIVEN LIMITED POLISH ABILITY TO REPAY AND FIRM
CONSENSUS (WHICH IS HELPFUL) AGAINST NEW CREDITS. KEY
CREDITORS (FRANCE, UK, FRG) WEREMOSTAPPRECIATIVE OF
US POSITION WHICH ENABLED GROUP TO PRESERVE CREDITOR
UNITY. NEXT MOVE IS UP TO POLES.
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C O N F I D E N T I A L STATE 084751

E.O. 12356: DECL: OADR
TAGS: EFIN, IMF, PREL, US, PL
SUBJECT: PALMER-LUDWICZAK MEETING ON DEBT RESCHEDULING

1. (C - ENTIRE TEXT)

2. DEPUTY ASSISTANT SECRETARY OF STATE MARK PALMER CALLED IN POLISH CHARGE ZDZISLAW LUDWICZAK ON MARCH 22 TO DISCUSS DEBT RESCHEDULING AND THE ARMS SEIZURE CASE (SEPTEL). HE TOLD LUDWICZAK THAT THE PROPOSAL FOR A GLOBAL SOLUTION PRESENTED BY THE WESTERN CREDITORS TO THE POLISH DELEGATION AT THE MARCH 21 MEETING OF THE PARIS CLUB REPRESENTS A DECISION BY PRESIDENT REAGAN, MADE IN CONSULTATION WITH THE ALLIES, TO ADOPT A CONSTRUCTIVE APPROACH TO THE PROBLEM OF DEBT RESCHEDULING FOR POLAND. PALMER SAID THE PROPOSAL TO THE POLISH DELEGATION WAS MADE IN SOME DETAIL BUT NOTED THAT MUCH REMAINED TO BE WORKED OUT.

3. LUDWICZAK SAID THAT PERHAPS THIS DECISON BY THE WESTERN CREDITORS REFLECTS THE IMPROVED ECONOMIC SITUATION IN POLAND. HE POINTED OUT POLAND'S FAVORABLE BALANCE OF PAYMENTS SITUATION AND SAID THAT THE PROCESS OF REFORM, WHILE SLOW, HAS PRODUCED CLEARCUT IMPROVEMENTS. HE SAID THAT IF POLAND WERE A MEMBER OF THE INTERNATIONAL MONETARY FUND (IMF), OFFICIALS OF THE IMF WOULD PROBABLY RECOMMEND THE SORT OF ECONOMIC MEASURES THAT THE GOP IS ALREADY IMPLEMENTING. LUDWICZAK ASKED UNOFFICIALLY WHETHER THE U.S. WOULD BE WILLING TO RECONSIDER ITS OPPOSITION TO POLAND'S MEMBERSHIP IN THE IMF, NOTING THE ASTONISHMENT OF THE GOP THAT THE U.S. POSITION ON POLISH ENTRY INTO THE IMF WAS INCLUDED ON THE LIST OF SANCTIONS FOR THE FIRST TIME IN NOVEMBER 1983, AS THE U.S. ANNOUNCED MODEST MEASURES TO RELAX SANCTIONS.

4. PALMER, OBSERVING THAT THE PRESIDENT FEELS VERY CLOSE TO THE POLISH PEOPLE, TOLD LUDWICZAK THAT ONLY IF MAJOR ECONOMIC AND SOCIAL REFORMS ARE PUT INTO EFFECT IN POLAND, WOULD THE U.S. BE PREPARED TO REVIEW THE QUESTION.

5. LUDWICZAK SAID THAT, AFTER CONVERSATIONS WITH PROFESSOR JOZEF SOLDACZUK, IN WASHINGTON FOR DISCUSSIONS AT COMMERCE ON THE CARBON STEEL ROD CASE AND A REVIEW AT THE POLISH EMBASSY OF THE RESULTS OF THE MARCH 16-18 PARTY CONFERENCE, HE IS MORE CONVINCED THAN EVER THAT MAJOR REFORMS ARE TAKING PLACE IN POLAND. HE SAID THAT POLISH ECONOMISTS AND GOVERNMENT LEADERS ARE PAYING ESPECIALLY CLOSE ATTENTION TO THE HUNGARIAN EXPERIENCE WITH ECONOMIC REFORM. HE SAID THAT THE GOP DESIRES IMF MEMBERSHIP NOT SO MUCH TO OBTAIN NEW CREDITS AS SUCH BUT PRIMARILY TO IMPROVE POLAND'S FINANCIAL STANDING IN THE WORLD AS WELL AS FOR THE PSYCHOLOGICAL BOOST FOR THEGOPTHAT MEMBERSHIP IN A FINANCIAL INSTITUTION DOMINATED BY THE WEST WOULD PROVIDE.

6. PALMER NOTED LUDWICZAK'S COMMENTS ABOUT POLAND'S EXPLORATION OF HUNGARIAN IDEAS FOR ECONOMIC REFORMS AND SAID HE HOPED POLISH ECONOMISTS SUCH AS SOLDACZUK MIGHT COME BY THE DEPARTMENT FOR A CHAT IN THE FUTURE. HE REEMPHASIZED THE PRESIDENT'S POSITION THAT THE U.S. IS READY TO REVIEW ECONOMIC RELATIONS WITH POLAND IF MAJOR ECONOMIC AND SOCIAL REFORMS ARE UNDERTAKEN THERE. SHULTZ
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3. USSR: PEDDLING AN INF DEPLOYMENT FREEZE

Soviet officials are suggesting that a freeze or pause in deployment might facilitate resumption of the INF talks, according to three separate reports. Two Soviet diplomats in Washington listed a pause in deployment and US agreement that French and UK systems should be included at some point in the negotiations as conditions for resumption of INF talks this year. A British newspaper reported that a visiting official of the USA Institute said Moscow might return to Geneva if NATO agreed to a freeze.

INR Comment: The notion of a freeze is not new in unofficial conversations with Soviet academics or junior officials. Despite the hard line that more senior officials took with the Dartmouth Group, there now seems to be a concerted effort to spread the idea widely. The Soviets want to appear flexible about their demand for a return to the status quo ante deployment, without going so far as to put themselves on record with a proposal. (SECRET/NOFORN/NOCONTRACT/ORCON)

4. POLAND: PARIS CLUB PROPOSAL

Paris Club creditors have given Poland a proposal for debt rescheduling negotiations, according to Embassy Paris. The proposal offers the Poles multi-year debt rescheduling with generous terms provided Poland agrees to a firm repayment schedule for 1981 arrears and drops demands for new credits. A response is expected by April 10. (SECRET)

5. EL SALVADOR: INSURGENTS PLAN HOTEL BOMBING ON ELECTION DAY

The FMLN has formulated plans to destroy Central Election Commission computers located in the Sheraton Hotel in San Salvador. The attack is scheduled to take place during the early hours of Sunday, March 25, the day of the elections.

INR Comment: The Sheraton Hotel is popular with American civilian and military personnel, and private citizens reside there as well. Insurgent groups, whose attacks have been increasing prior to the elections, could attempt such a spectacular attack. (SECRET/NOFORN)

6. WESTERN EUROPEAN UNION: POLITICAL DIRECTORS MEET

The political directors of the seven Western European Union (WEU) countries met informally in Brussels March 19 to discuss a French memorandum on reviving the WEU, a Belgian diplomat told Embassy Brussels. They agreed that the WEU should be revamped as a European forum on security and defense within NATO. WEU directors will meet again March 30 to discuss their governments' responses.

Embassy Brussels Comment: The French memorandum has generated considerable interest, which may reflect Western European governmental concern about trends toward neutralism. (CONFIDENTIAL/EXDIS)

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~~C O N F I D E N T I A L~~ SECTION 01 OF 02 PARIS 16765

STATE FOR EB-DAS CONSTABLE; TREASURY FOR CANNER
E.O. 12356: DECL: OADR
TAGS: EFIN, PL
SUBJECT: PARIS CLUB: KARCZ LETTER TO CAMDESSUS

1. ENTIRE TEXT - ~~C~~.

2. FOLLOWING IS TEXT OF KARCZ LETTER TO CAMDESSUS:

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QUOTE:
DEAR MR. CHAIRMAN,

- I WOULD LIKE TO CONFIRM RECEIVING YOUR LETTER OF APRIL 10, 1984 AND IN ORDER TO MEET YOUR REQUEST TO PRESENT AGAIN THE FOLLOWING POSITION OF THE POLISH SIDE TOWARDS YOUR PROPOSAL OF MARCH 21, 1984.

- 1. THE POLISH SIDE GENERALLY ACCEPTS YOUR PROPOSAL TO BE A BASIS FOR FUTURE NEGOTIATIONS.

- YOUR APPROACH TO EXAMINE POLISH DEBT PROBLEMS GLOBALLY THE POLISH SIDE VIEWS AS A RIGHT APPROACH, WHICH SHOULD RESULT IN A RESTRUCTURING AGREEMENT COVERING OBLIGATIONS FALLING DUE IN 1982, 1983 AND 1984.

- READINESS SHOWN ON PART OF THE CREDITOR COUNTRIES TO RESTRUCTURE THESE DEBTS ON MORE GENEROUS TERMS THAN THOSE IN THE 1981 AGREEMENT, CREATES NECESSARY CONDITIONS FOR WORKING OUT SUCH A FUTURE AGREEMENT WHICH COULD MEET INTERESTS OF ALL PARTIES CONCERNED. THE POINT OF VIEW OF THE POLISH SIDE ON THESE TERMS IS PARTLY EVIDENT FROM THE PRESENTED BALANCE OF PAYMENTS TABLES. WE UNDERSTAND THAT THESE MATTERS WILL BE DISCUSSED OVER AT FURTHER PARIS CLUB MEETINGS.

- IN VIEW OF THE DIFFICULT PAYMENTS SITUATION OF POLAND, WHICH HAS BEEN DISCUSSED IN THE COURSE OF PARIS CLUB MEETINGS, THE PROPOSAL OF PARTIAL REPAYMENTS OF OVERDUE 1981 AGREEMENT OBLIGATIONS IS UNDERSTANDABLE.

- 2. TAKING INTO ACCOUNT, AS WE HAVE UNDERSTOOD, THAT ALL POINTS OF YOUR PROPOSAL ARE INTERRELATED THAT IS CONSTITUTE A PACKAGE DEAL, THE POLISH SIDE DECLARES ITS READINESS TO REPAY OVERDUE 1981 AGREEMENT OBLIGATIONS ACCORDING TO THE SCHEDULE PROPOSED BY YOU ON MARCH 21, 1984, DESPITE OF THE FACT THAT THIS DECISION WILL SERIOUSLY AGGRAVATE OUR BALANCE OF PAYMENTS THIS YEAR. WE CAN NOT HOWEVER TREAT LITERALLY THE TERM "IMMEDIATE PAYMENT", AS WE DO NOT HAVE FREE DISPOSABLE AMOUNT OF CASH KEPT AS A STAND-BY, ON WHICH WE WOULD BE ABLE TO DRAW IN ORDER TO REPAY 20 PERCENT OF ARREARS IN THE COURSE OF FEW DAYS.

THE POLISH SIDE UNDERSTANDS THAT THE CONDITION PUT FORWARD BY YOU WOULD BE FULFILLED, IF WE MADE REPQYMENTS OF 20 PERCENT OF ARREARS BY THE END OF MAY, 1984.

-

- SIMULTANEOUSLY, LET ME STRESS THAT THE POLISH SIDE EXPECTS YOUR, MR. CHAIRMAN, NOTIFICATION OF APPROVAL OF THE WHOLE PACKAGE BY ALL C REDITOR COUNTRIES AND PURSUANCE THE NEGOTIATIONS WITHOUT FURTHER DELAY. IT WOULD BE UNACCEPTABLE FOR THE POLISH SIDE TO INTERPRET YOUR PROPOSAL IN SUCH A WAY THAT THE NEGOTIATIONS ARE TO BE RESUMED ONLY AFTER THE TOTAL AMOUNT OF 20 PERCENT OF ARREARS WILL HAVE BEEN PAID - BESIDE OTHER CONSEQUENCES, IT WOULD MEAN A FURTHER, ABOUT 6 WEEKS DELAY IN WORK, WHAT SHOULD NOT SERVE INTERESTS OF ANY SIDE.

-

- 3. THE POLISH SIDE HAS PREPARED A LONG-TERM PROJECTION OF THE BALANCE OF PAYMENTS /"TABLE D"/. TRADE RELATED GUARANTEED CREDITS INCLUDED IN THIS TABLE IN 1984, RESULT FROM THE ESTIMATIONS OF THE POLISH SIDE MADE ON THE BASIS OF OUR BILATERAL CONTACTS.

-

- HAVING PRESENTED CLEARLY A FAVOURABLE ANSWER OF THE POLISH SIDE TO THE PROPOSAL OF MARCH 21, LET ME SIMULTANEOUSLY DEAL WITH SOME OTHER MATTERS RAISED IN YOUR LETTER, MR. CHAIRMAN, OF APRIL 10, 1984.

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- 1. PROBLEMS RAISED IN POINT 2 OF MY LETTER OF APRIL 9, 1984 CONSTITUTE AN IMPORTANT PART OF THE POLISH SIDE'S
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C O N F I D E N T I A L SECTION 02 OF 02 PARIS 16765

STATE FOR EB-DAS CONSTABLE; TREASURY FOR CANNER
E.O. 12356: DECL: OADR
TAGS: EFIN, PL
SUBJECT: PARIS CLUB: KARCZ LETTER TO CAMDESSUS
POSITION TOWARDS YOUR PROPOSAL OF MARCH 21, 1984.

-

- POSITIVE AND QUICK SOLUTION TO THESE PROBLEMS WILL AFFECT POLAND'S ACTUAL ABILITY TO MEET PAYMENTS OBLIGATIONS TAKEN ANEW AND SHOULD CONSTITUTE A SUBSTANCE OF GRADUAL NORMALIZATION OF MUTUAL RELATIONS BETWEEN POLAND AND ITS CREDITOR COUNTRIES. I UNDERSTAND THAT FROM THE PROFESSIONAL POINT OF VIEW YOU SHARE THIS OPINION.

- 2. THE BANK FOR INTERNATIONAL SETTLEMENTS "BRIDGE FINANCING" IN 1984 INCLUDED IN THE PRESENTED BALANCE OF PAYMENTS TILL 1990 /TABLE D/ WAS TREATED AS ONE OF POSSIBLE ALTERNATIVES. INFLOW OF NEW CREDITS IN THAT OR OTHER FORM IS INDISPENSABLE IN 1984 TO MAKE A BALANCE BETWEEN REPAYMENTS OF FINANCIAL OBLIGATIONS AND ABILITY TO DO IT, TAKING INTO ACCOUNT ALL OTHER ITEMS OF THE BALANCE OF PAYMENTS. YET, WE WERE NOT ABLE TO PREPARE A FULL BALANCE OF PAYMENTS TABLE TOTALLY WITHOUT NEW CREDITS IN 1984, AS IN THAT CASE A DEFICIT WOULD EMERGE ON THE SIDE OF FINANCIAL RESOURCES WITH NO POSSIBILITY TO COVER IT. THEREFORE, NOT JUDGING BEFOREHAND AS TO THE FORM NOW, WE WILL HAVE TO SEEK TOGETHER, IN THE INDICATED DIRECTION, THE MOST SUITABLE SOLUTION.

-

- 3. THE POLISH SIDE HOPES, THAT THE ABOVE MENTIONED POSITION WILL BE TREATED BY YOU, MR. CHAIRMAN, AND BY THE REPRESENTATIVES OF THE CREDITOR COUNTRIES AS SERVING THE PURPOSE OF QUICK PURSUANCE OF CONSTRUCTIVE TALKS IN THE PARIS CLUB.

-

- THEREFORE, I WOULD BE MUCH OBLIGED FOR YOUR PROPOSAL, MR. CHAIRMAN, OF A NEW DATE FOR THE MEETING OF THE TASK FORCE. WE THOUGHT THAT THE MEETING OF THE TASK FORCE IN WARSAW WOULD PROVIDE BETTER OPPORTUNITY FOR THEM TO OBTAIN DIRECTLY NECESSARY INFORMATION, BUT OF COURSE WE MAY ALSO AGREE ON MEETING IN PARIS.

-

- WAITING YOUR NOTIFICATION, MR. CHAIRMAN, OF THE APPROVAL BY THE CREDITOR COUNTRIES OF THE PROPOSAL OF MARCH 21, 1984.

-

- - - I REMAIN,

-

- - -

MR. M. CAMDESSUS -	YOURS SINCERELY Z. KARCZ
CHAIRMAN OF THE GROUP OF 17 CREDITOR COUNTRIES	CHAIRMAN OF THE POLISH DELEGATION

-

ENG QUOTE

CAMDESSUS HAS CONVEYED TO KARCZ CREDITORS' ACCEPTANCE OF THE MARCH 21 PROPOSAL. THE FRENCH HAVE PROPOSED A TASK FORCE MEETING IN PARIS ON MAY 21. GALBRAITH

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C O N F I D E N T I A L WARSAW 3941

E.O. 12356: DECL: OADR
TAGS: EFIN, PL
SUBJECT: POLAND REACHES AGREEMENT WITH WESTERN BANKERS
REF: PARIS 16765

1. CONFIDENTIAL ENTIRE TEXT.

2. SUMMARY: THE POLES HAVE REACHED AGREEMENT WITH WESTERN BANKERS ON A 1984 - 1987 RESCHEDULING PACKAGE WHICH INCLUDES 95 PERCENT OF PRINCIPLE DUE, TEN YEAR TENOR WITH FIVE YEARS GRACE, REVOLVING CREDIT FACILITIES FOR THE POLES OF 700 MILLION DOLLARS, AND A NET OUTFLOW TO THE BANKS OVER THE NEXT TWO YEARS. BOTH SIDES SEEMED MOST PLEASED WITH THE OUTCOME. FINAL DOCUMENTS SHOULD BE READY FOR SIGNING IN JULY. MEANWHILE, GOP HAD PARIS CLUB DEVELOPMENTS IN MIND AS THEY WORKED OUT THE MODALITIES OF THE BANKERS' CREDITS. END SUMMARY.

3. RESCHEDULING: ACCORDING TO WESTERN BANKING SOURCES, THE AGREEMENT REACHED APRIL 26 BETWEEN GOP NEGOTIATORS AND THE TASK FORCE OF WESTERN BANKERS INCLUDES THE FOLLOWING REPAYMENT FEATURES:
--95 PERCENT OF PRINCIPLE DUE IN THE YEARS 1984 - 1987 WILL BE RESCHEDULED.
--THE RESCHEDULING IS FOR TEN YEARS, WITH A GRACE PERIOD OF FIVE.
--THE INTEREST RATE ON THE ENTIRE RESCHEDULED PRINCIPLE WILL BE ONE AND THREE-QUARTERS PERCENT OVER LIBOR.
--THE BANKS WILL RECEIVE A ONE PERCENT FEE UP FRONT.
--THERE WILL BE NO ROLL-OVER OF INTEREST DUE UNDER PREVIOUS RESCHEDULING.

4. NEW CREDITS: THE IMMEDIATE PAYOFF FOR THE POLES CONTAINS THE FOLLOWING ELEMENTS:
--THEY WILL RECEIVE APPROXIMATELY $700 MILLION IN SHORT TERM CREDIT FACILITIES COMPRISED OF TWO ELEMENTS: A 100 PERCENT RECYCLING OF THE $374 MILLION FACILITY FROM 1982 AND A NEW FACILITY OF $330 - 350 MILLION DERIVED AS THE EQUIVALENT OF FOUR AND ONE-HALF PERCENT OF THE MORE THAN SEVEN BILLION DOLLARS TOTAL OUTSTANDING DEBT TO WESTERN BANKERS. THE LATTER PORTION WILL BE MADE AVAILABLE IN TWO TRANCHES, THE EQUIVALENT OF THREE AND ONE-HALF PERCENT IN 1984 AND THE REMAINING ONE PERCENT IN 1985.
--INPUT INTO THIS FACILITY WILL COME FROM INDIVIDUAL BANKS IN PROPORTION TO THEIR SHARES OF THE RESCHEDULING.
-- THE POLES MUST REPLENISH THE FACILITY EVERY SIX MONTHS.
-- NO CREDITS WILL BE FOR MORE THAN THAT PERIOD.
-- THE FACILITY WILL CONTINUE TO REVOLVE FOR FOUR (OR FIVE) YEARS.

5. QUID PRO QUO: IN ORDER TO BEGIN THE PROCES, THE GOP MUSY FIRST PAY THE APPROXIMATELY $100 MILLION ARREARS OF RELEVANT INTEREST DUE SO FAR THIS YEAR. OVERALL, BANKERS SAID, IN BOTH 1984 AND 1985, POLISH PAYMENTS OF INTEREST AND UNRESCHEDULED PRINCIPLE WILL BE HIGHER THAN THE BANKS' COMMITMENTS TO THE NEW CREDIT FACILITY, YIELDING A NET OUTFLOW FROM POLAND TO THE BANKS.

6. COMMENT: BOTH THE BAN KAND GOP SIDES SEEMED EMINENTLY PLEASED WITH THE RESULTS OF THEIR EFFORTS. WESTERN BANKERS NOTED THAT THE FORMULA DESCRIBED ABOVE AVOIDS ANY CAPITALIZATION OF INTEREST. THEY WOULD HAVE BEEN MOST RELUCTANT TO SET SUCH A PRECEDENT IN VIEW OF OUTSTANDING PROBLEMS WITH EVEN HEAVIER LATIN AMERICAN DEBTORS. THE SHORT TERM CREDIT FACILITY, MEANWHILE, APPEARS TO FINESSE THE ISSUE OF INCREASED RESERVE REQUIREMENTS FOR U.S. BANKS WHICH OTHER COMMITMENTS, ESPECIALLY LONGER TERM, WOULD HAVE ENTAILED.

7. PARIS ON THE MIND: ONE SENIOR NEGOTIATOR NOTED THAT THE POLES APPEARED DEFINITELY TO HAVE PARIS CLUB ON THEIR MINDS AND THE POSSIBILITY THAT THEY WOULD BE REQUIRED TO MAKE SOME SIGNIFICANT PAYMENT TO WESTERN GOVERNMENTS. THIS SEEMS LOGICAL IN VIEW OF MAY 21 PLANNED PARIS CLUB MEETING.
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