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TALKING PAPER FOR THE DEPUTY SECRETARY OF DEFENSE FOR THE NSC MEETING, 3:30 P.M., THURSDAY, DECEMBER 10, 1981, THE WHITE HOUSE

SUBJECT: Assistance to Poland (U)

INTRODUCTION

(S) The meeting will take up a paper on "Assistance to Poland," drafted by State over the weekend (Tab A). State has discussed its paper with Treasury, Agriculture, and the Office of Management and Budget, but not yet with Defense. Clearances, however, had not been obtained from those agencies as of noon, Monday. Defense obtained an advanced copy of the paper through JCS channels.

KEY ISSUES (See Page 8, Tab A)

(S) The meeting will consider two recommendations made by State. These are as follows:

1. (S) That the President approve an earlier State recommendation at last week's CCEA for a \$100 million emergency assistance program for Poland, chiefly in CCC-held corn financed by USDA.

NOTE: State's paper asserts that the CCEA made this decision at its November 30 meeting. We learned from Norm Bailey of the NSC Staff that Secretary Haig left the meeting before it ended and that the CCEA did not formally accept this proposal last week, but agreed to consider it.

2. (S) That the President authorize the State Department to consult with the allies on a \$2-2.5 billion multilateral assistance package; between 15 and 25 percent to be provided by the U.S. (for details see Tab A).

DISCUSSION

(S) The Polish Deputy Prime Minister, Mr. Madej, plans a visit to Washington soon. The NSC has confirmed this. Mr. Madej is expected to come "hat in hand." He and other Polish leaders have been in touch with many of our major allies this past week seeking both financial and food aid. Last week, a delegation from the Polish Parliament was warmly received by the British House of Commons, which passed a resolution focusing on the current political developments.

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(S) Polish representatives also visited Australia and New Zealand seeking food aid and have succeeded in those countries in promoting active private "aid for Poland" drives among those populations. The reason for this activity is that Poland came close to defaulting on its December external debt payments and expects acute food shortages this winter. There are unconfirmed rumors circulating in the international banking community that the U.S.S.R. may be planning a loan to Poland to prevent it from defaulting on its interest payments and to avoid problems with the debt rescheduling plans of the Western banks. The Soviet loan to Poland is rumored to amount to \$500 million in hard currency, but all reports remain unconfirmed. Nevertheless, Poland will continue to experience problems with its external debt service, which will amount \$10 billion in 1982.

(S) TALKING POINTS:

- We believe that food aid to Poland's civilian population is sound policy. Such aid strengthens Solidarity and decreases the likelihood of a total economic and political breakdown in Polish society which could lead to a Soviet intervention. The Solidarity movement is welcome as a democratizing force and a long-term development weakening the cohesion of the Warsaw Pact.
- Our chief caveat on food aid to Poland is that it cannot be financed from Defense resources of any kind.
- We favor food aid to Poland only if there are reasonable assurances that it will reach the civilian population. It would be best to funnel food aid through Solidarity or the church.
- We believe food aid should be withheld or stopped at any time when the regime uses military force against Solidarity or against the civilian population.

(S) Talking Points: Item No. Two: The Proposed U.S./Allied Multilateral Assistance Package:

- We have no objection to having the negotiating authority on the Polish debt remain with State in close consultation with Treasury, but this must be carefully hedged to prevent any commitment to a major bailout of European banks which became financially overextended in Poland. This is a particularly important point at this time because the Europeans are now in the posture of committing themselves to \$10 billion in exposure to the Soviet Union for the West Siberian pipeline,

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- No funds should be taken from the Defense budget, nor should any funds be taken from programs designed to support our allies and friends in the Western world. We cannot and should not show preference for a Communist state by reducing American aid to Turkey, Morocco, Egypt, and others.
- It is almost certain Poland is going to have to default on its Western loans and that no "assistance package" will be ready in the near term. We might better concentrate on what the repercussions of the default are and how we are going to manage it. For example, one of the consequences of the default is that the banks may be obliged to seize Polish assets, such as ships and airplanes, which would also complicate food distribution.

Attachments

- State Paper "Assistance to Poland," dtd. Dec 5, 1981, Tab A
- ISP Memo "CCEA Meeting," Nov 30, 1981, Tab B
- CCEA Meeting paper, Nov 30, 1981, Tab C

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