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Record Group/Collection:	George H.W. Bush Presidential Records
Collection/Office of Origin:	Scowcroft, Brent, Collection
Series:	USSR Chronological Files
Subseries:	Soviet Power Collapse in Eastern Europe Files
OA/ID Number:	91124
Folder ID Number:	91124-007

Folder Title:
Soviet Power Collapse in Eastern Europe (September 1989)

Stack:	Row:	Section:	Shelf:	Position:
G	34	3	3	3

Withdrawal/Redaction Sheet
(George Bush Library)

Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01a. Memo	Robert D. Blackwill to Brent Scowcroft Re: Strategy toward Poland and Hungary (3 pp.)	9/19/89	(b)(1)	S
01b. Report	Re: Key Elements of a Successful US Program for Poland (3 pp.)	n.d.	(b)(1)	S
02a. Memo	Deane E. Hoffman to Robert Gates Re: Economic Assistance to Poland (1 pp.)	9/19/89	(b)(1)	C
02b. Paper	Re: Options Paper The Bush Plan: An International Recovery Program for Poland and Hungary (8 pp.)	n.d.	(b)(1)	
03a. Memo	Deane E. Hoffman to Brent Scowcroft Re: Next Steps in Economic Assistance to Poland and Hungary (2 pp.)	9/22/89	(b)(1)	C
03b. Paper	Re: Concept Paper Next Steps in the Recovery Program for Poland and Hungary (6 pp.)	n.d.	(b)(1)	S
04a. Memo	Timothy E. Deal to Brent Scowcroft Re: Principals' Meeting on Poland (Tuesday, September 26, 1989, 9:00 a.m.) (2 pp.)	9/25/89	(b)(1)	S
04b. Talking Points	Re: Points To Be Made for Meeting with Principals on Poland (3 pp.)	n.d.	(b)(1)	S

Collection:

Record Group: Bush Presidential Records
Office: Scowcroft, Brent, Files
Series: USSR Chronological Files
Subseries: Soviet Power Collapse in Eastern Europe Files
WHORM Cat.:
File Location: Soviet Power Collapse in Eastern Europe (September 1989)

Pinksheet Number: cap1050
OA/ID Number: 91124-007
Date Closed: 3/18/2009
FOIA/Sys Case #: 2009-0275-S
Re-review Case #:
P-2/P-5 Review Case #:

Withdrawal/Redaction Sheet
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Doc. No. / Type	Subject/Title	Date	Restriction	Classification
04c. Draft	Re: Draft Remarks for President Bush (3 pp.)	n.d.	(b)(1)	
04d. Paper	Re: Concept Paper Next Steps in the Recovery Program for Poland (5 pp.)	n.d.	(b)(1)	S
04e. Draft	Re: Poposed Speech Insert for Poland (1 pp.)	n.d.	(b)(1)	
05a. Memo	G. Philip Hughes to J. Stapleton Roy Re: Telephone Call from the President to President Francois Mitterrand of France, August 26, 1989 (1 pp.)	9/25/89	(b)(1)	S
05b. Telcon	Re: Telephone Conversation with President Francois Mitterrand of France (3 pp.)	8/26/89	(b)(1)	S
05c. Memo	Adrian A. Basora to G. Philip Hughes Re: Memorandum of Telephone Conversation with President Francois Mitterrand of France (1 pp.)	9/1/89	(b)(1)	S
06a. Letter	President Bush to Lech Walesa (1 pp.)	9/28/89	(b)(1)	
06b. Memo	Brent Scowcroft to POTUS Re: Letter to Lech Walesa (1 pp.)	9/13/89	(b)(1)	
06c. Letter	Senator and Secretary Dole to President Bush (3 pp.)	8/28/89	(b)(1)	
06d. Letter	Lech Walesa to President Bush (1 pp.)	8/26/89	(b)(1)	

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Doc. No. / Type	Subject/Title	Date	Restriction	Classification
06e. Talking Points	Re: Meeting with the President (2 pp.)	8/28/89	(b)(1)	
07a. Memo	Robert M. Gates to Distribution List Re: [Classified Subject] (1 pp.)	9/29/89	(b)(1)	S
07b. Report	Re: Poland's Economic Plight:... (7 pp.)	n.d.	(b)(1)	S
07c. Memo	Timothy E. Deal/Condoleezza Rice to Brent Scowcroft Re: [Classified Subject] (1 pp.)	9/28/89	(b)(1)	S
07d. Report	Re: September 27, 1989 (3 pp.)	9/27/89	(b)(1)	
08. Letter	Jeffrey Sachs to General Scowcroft (4 pp.)	9/27/89	(b)(1)	
09a. Profile Sheet	Gates [Robert] to Baker, J [James] Re: [Classified Subject] (2 pp.)	9/29/89	(b)(1)	S
09b. Memo	Robert M. Gates to Distribution List Re: [Classified Subject] (1 pp.)	9/30/89	(b)(1)	S
09c. Draft	Re: Draft Remarks for the President (5 pp.)	n.d.	(b)(1)	
09d. Distribution Sheet	Re: National Security Council Distribution Record (2 pp.)	9/30/89	(b)(1)	S
09e. Memo	Eric D. Melby/Robert L. Hutchings to Robert M. Gates Re: [Classified Subject] (1 pp.)	9/28/89	(b)(1)	S

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Doc. No. / Type	Subject/Title	Date	Restriction	Classification
10a. Profile Sheet	From the President (2 pp.)	9/28/89	(b)(1)	C
10b. Cable	Secstate WashDC to RuehWR AmEmbassy Warsaw (3 pp.)	10/4/89	(b)(1)	C
11a. Memo	Robert L. Hutchings to Brent Scowcroft Re: Press Release on Poland (1 pp.)	9/30/89	(b)(1)	C
11b. Memo	G. Philip Hughes to James W. Cicconi Re: Press Release on Poland (1 pp.)	n.d.	(b)(1)	C

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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September 19, 1989

ACTION

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MEMORANDUM FOR BRENT SCOWCROFT

FROM: ROBERT D. BLACKWILL RB

Natl Sec Advisor has seen

SUBJECT: Strategy toward Poland and Hungary

As you asked this morning, I have urgently prepared this set of suggestions with regard to our policies toward Poland and Hungary.

These policies were seen as successful from Hamtramck through the Paris Summit and even as late as Mazowiecki's selection as Prime Minister. Since early September, however, the Administration has been under increasing attack for failing to respond adequately to the historic moment. Although the immediate focus in this memo is on Poland, our strategy must also embrace a rapidly changing situation in Hungary.

Our current plan for Poland has faltered for several reasons. The Administration's public statements did not fully meet public and Congressional needs for a strategic vision capturing what has taken place in Poland. Nor have we yet made an all-out case for the importance of the assistance we are already delivering. Above all, we failed to signal our intent to render substantially greater assistance to the new Solidarity-led government once it has a solid economic program in place. We are thus being accused of fumbling an historic opportunity, perhaps a short-lived one, for a democratic transition in Poland toward overcoming the division of Europe. In the process, we have lost bipartisan support in Congress and have begun to lose credibility within Poland and among our Allies.

To recapture the initiative, we must now move quickly to develop and announce a winning strategy. Tab I lists the key elements of such a strategy, directed mainly toward Poland but applicable in many respects to Hungary as well. It embraces the idea of a Presidential experts' mission and subsequent investment missions developed by Bob Gates, as well as his proposal for a senior U.S. coordinator. However, it stops short of abrogating the mandate for "Concerted Action" agreed to just two months ago by the Paris Economic Summit, and avoids trying to impose a "Made in USA" scheme for Poland upon our Allies. Instead, it aims to reassert strong U.S. leadership and enlist the international backing needed to solve Poland's severe problems by developing a clear and credible plan for our own efforts in support of Poland and backing it up with substantial U.S. resources.

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To succeed, the strategy will require a clear Presidential commitment to extending substantial new U.S. economic assistance. As Ginny Lampley has told you, Congress inevitably will be adding major new funding to the legislative package for Poland, along the lines of Senator Simon's three-year package of $400 million per year. This strategy avoids having the Administration argue against more money for Poland and of opening further the breach of bipartisan controversy. Rather, it seeks to recapture the initiative, and gives the Administration credit for what Congress will do in any case.

Our assistance must be firmly linked, however, to the Mazowiecki government's expressed determination to reach agreement with the IMF and implement an economic reform program in order to avoid the errors of the 1970's. It must also be linked to our leadership in the Western alliance.

What is needed is for the President to announce his intention to propose $1 billion in grants over the next three years. Such funds would be contingent upon Poland's agreement with the IMF and thus conceptually different from those on the Hill who only want to throw resources at Poland's problems. This would be the foundation for developing, in concert with our economic partners and the international financial institutions, a Multilateral Assistance Initiative for Poland. As with the Philippines MAI, we could then take credit for a total recovery package much larger than our individual contribution.

The $1 billion figure is essentially political: it is an amount designed to promote Presidential leadership, gain agreement for a bipartisan approach and put the U.S. back in a leadership role internationally. But there is also an economic rationale. Poland faces a financing gap of $3.5 billion this year and $4.8 billion next year. Something on the order of $2-3 billion per year of new money would be needed to increase imports of the investment and intermediate goods required to enhance exports, and the consumer goods required to dampen the current 200% inflation, increase worker incentives, and ease the overall economic restructuring. A U.S. contribution on the order of $3-400 million per year would be the minimum necessary to stimulate other donors to do enough to meet such an overall target.

The exact allocation of the $1 billion grant as between balance of payments financing, the Enterprise Fund, or other uses would be determined only after the Presidential experts' mission had filed its report. (We have commissioned the CIA to do a more refined analysis of Poland's financing needs by c.o.b. tomorrow, in order to better respond to your question this morning.)

A clear statement of Presidential intent, followed closely by a Presidential Mission to Poland, would give us a chance to regain bipartisan consensus in Congress and assert stronger leadership

in the Concerted Action Group. The statement would also need a Hungarian component, explaining the rationale for an extraordinary effort for Poland and signalling strong (but not necessarily proportionate) support for the ongoing process of reform in Hungary.

As to the source of funding, we could pursue your suggestion of reprogramming some percentage of currently earmarked funds in the foreign assistance budget.

RECOMMENDATION

That you meet with Bob Gates, Deane Hoffmann, Ginny Lampley and myself to discuss this matter.

Approve _____ Disapprove _____

Attachment
Tab I Key Elements of a Successful U.S. Program for Poland

KEY ELEMENTS OF A SUCCESSFUL US PROGRAM FOR POLAND

1. US willingness to commit major resources. The Administration's approach will only regain its credibility with Congress, with the Polish-Americans, and with the media if there is a public commitment to provide major new financial resources. The $1 billion in grants would constitute our contribution to a much larger Multilateral Assistance Initiative involving other major donors and the IFI's.

2. Presidential Experts' and Investment Missions. A Presidential mission along the lines proposed by Bob Gates would be sent to Poland in October to evaluate Poland's needs and recommend how best to deploy the $1 billion in grants. The mission would include experts in those areas in which the US has comparative advantage, such as agriculture, food processing and finance. It would also include a macroeconomist, a development economist, a debt specialist and an expert in industrial restructuring, along with others who could help evaluate the overall Polish economic reform plan, modify it if necessary, and recommend the appropriate U.S. role. The Experts' Mission would be followed by a series of Presidential Investment Missions composed of US executives interested in joint ventures and other forms of investment in Poland and in Hungary.

3. A clear and credible US plan for **its** assistance to Poland. Many of the details of such a plan for the use of the $1 billion would emerge from the Presidential experts' mission that would be sent to Poland in October. The basic thrust would be set in advance, however. It would address Poland's urgent needs in managing the disruption of economic restructuring and in balance of payments financing, as well as helping to lay the groundwork for a more competitive economy. The US would concentrate its own bilateral help in those areas in which it does best: agriculture, food processing, and financial intermediation and perhaps one or two other areas. Local proceeds from the food aid already committed would from the start be used to stimulate Polish production.

4. Rapid movement by the IMF and the Poles towards an agreement. This would require that you or Nick Brady talk to IMF Director Camdessus, after having lined up the UK, FRG, France and Japan. The idea would be to have the IMF take accelerated action, but not that it be excessively lenient. We and the other key IMF shareholders would at the same time have to make it clear to the

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Poles that the political thrust we were putting behind the IMF was to assure speed, not to let them off the hook for a serious economic program. The Poles too would need to work fast and hard on their economic plan, but we could help them starting with the experts on the Presidential mission.

5. Rapid and innovative debt rescheduling. This is what we have talked about repeatedly but not yet done. To have a real psychological and financial impact, the rescheduling will have to break new ground by focusing from the start on a multi-year period even before the IMF program has been concluded and a track record established. The current British proposal for a 20-year focus on future maturities, rather than the traditional 12 years may have merit. But any real departure from the normal can only be done if we get the concurrence of the French and other major creditors, which in turn may require ministerial-level or possibly Presidential intervention. Once Poland's official debt has been put in proper order, we could explore the possibility of limited Ex-im Bank guarantees for new credits. As Mrs. Thatcher has pointed out, we will also need to lean, and have the Europeans lean, heavily on the Poles and the commercial banks to provide comparable relief, probably going beyond the Mexican example. To the arguments of precedent that Treasury and others will raise, the answer must be that the transition away from a centrally-planned economy is clearly a special case. Analogous treatment for Hungary may prove to be inescapable, however.

6. Rapid initiation of World Bank and IMF lending. This can be done more quickly if we succeed in pushing the IMF and the Poles into accelerated discussions. The Bank is willing to lend once there is an agreed and sensible macroeconomic plan in place, even if the actual signature has not yet taken place. As bait to the Poles to settle quickly with the IMF, we should get the Bank to begin talking informally about several hundred million dollars in additional loans (including an eventual structural adjustment loan) beyond the $325 million that the President mentioned in July. The IMF itself would of course also become an important source of transitional financing, once its agreement with Poland is signed. At the appropriate moment, we might wish to propose an Extended Fund Facility.

7. Presidential initiative to assure an effective multilateral approach and a Ministerial-level donors' conference in November. Starting with Presidential letters this week to his G-7 colleagues and to Delors, and using the September 26 Concerted Action Group (CAG) meeting in Brussels, we would seek to invigorate the CAG and to draw attention to our success so far in building multilateral support for Poland and Hungary. One important goal would be to get agreement to a Ministerial donors' conference to which Mazowiecki and his key ministers would be invited. The target date would be November, contingent on Mazowiecki's being far enough along in developing the appropriate economic plan.

8. Appointment of a senior US coordinator for assistance to Poland and Hungary. The individual would be lodged at the State Department, with Ambassador-at-Large rank and a clear Presidential mandate to coordinate and drive both the US and the multilateral assistance program, and to be the USG's primary interlocutor on this issue with the Poles, the Hungarians, the EC and the main donors.

9. Congressional strategy. Congress has responded positively to our legislative package except for the level of funding. Senator Simon, for example, proposes to funnel new money into the Enterprise Fund. The President should arrange an early meeting with the Congressional leadership to lay out his proposals, accept whatever sensible ideas they may have, and seek a bipartisan consensus on the general approach he will announce.

10. Public affairs strategy. We would prepare an early speech or White House statement, in which the President projects his appreciation of the historic changes in Poland and articulates a strategy embracing the elements outlined above. This would be supplemented by a speech by Secretary Baker, Congressional testimony, and/or backgrounders to the press. We have also begun working on detailed Q's and A's, as well as a White Paper tracing Administration policy beginning with the preparations for Hamtramck and concluding with the approach the President decides to take toward the new Solidarity-led government.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506
September 19, 1989

Deputy Natl Sec Advisor has seen

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ACTION

MEMORANDUM FOR ROBERT GATES

FROM: DEANE E. HOFFMANN DH

SUBJECT: Economic Assistance to Poland

Following up on our discussion last Friday, attached are initial thoughts on a new U.S. initiative to assist Poland. The paper has not been discussed outside the NSC. Before doing so, we need your guidance on some basic elements.

While both the Economics and European Directorates are in broad agreement on the objectives of the initiative, there are differences in style and tone. These are noted in the memo.

You also have a separate memo from Bob Blackwill which contains useful, complementary ideas. Working from these two papers, I believe we can put together a bold initiative which meets all our objectives.

A draft Presidential Statement can be prepared quickly once the key elements of the concept are settled.

Concurrence by: Bob Blackwill

RECOMMENDATION

That you meet with Brent, Bob Blackwill, Virginia Lampley and me to discuss this issue.

Approve _____ Disapprove _____

Attachment
Tab A Options Paper

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Options Paper

The Bush Plan

An International Recovery Program for Poland and Hungary

I. Introduction

Eastern Europe is in the throes of dramatic change. The success of the move towards democracy in Poland and Hungary will depend in large measure on the ability to bring about fundamental economic reform which lifts rather than depresses living standards. The special case of Yugoslavia aside, Poland and Hungary are the first countries to attempt a radical shift from a communist economy to a market economy. If they fail to complete the course, it may set back political reform in the communist world. The U.S., and particularly its President, will be criticized severely for timid support of Poland and Hungary. However, if Poland and Hungary are successful in shifting to a market economy, it will serve as a beacon to others.

The world expects bold leadership from the U.S. Foreign leaders like Margaret Thatcher have urged additional action. Congressional leaders appear determined to assert U.S. leadership, setting out a plan for the Administration.

The Economics Directorate believes that asserting U.S. leadership is made more difficult by the widely held perception that the U.S. ceded leadership on Eastern Europe to the EC Commission at the Paris Economic Summit. The Commission likely would resist any lessening of its role; indeed, it is seeking to enhance its role beyond the scope and timetable agreed in Paris. Other countries may question U.S. attempts to re-assert leadership.

The European Directorate believes that the decision in Paris to set up the Concerted Action Group (CAG) showed U.S. leadership and that we can work effectively with the EC to continue that leadership.

The Economics Directorate believes that the President should lead by announcing the Bush Plan, a U.S.-inspired international recovery program for Poland that goes beyond food aid. He would make clear that while the U.S. is taking the first steps, it is his hope that the U.S. plan would serve as the framework for multilateral efforts.

This version of the Bush Plan would represent a fresh start. It would be both bipartisan and have an important multilateral dimension. It would concentrate initially on learning what can be done to expedite economic reform, relying mainly on private sector resources. It would establish a team to work with Poland to evolve a game plan for progress. It would not preclude the possibility of substantial U.S. and Western funding down the road as part of a long-term political and economic reform program.

The plan would be premised on Europe and Japan, the beneficiaries of the Marshall Plan, making major substantive, and ultimately, financial contributions. The U.S. would, however, provide the political leadership and the economic blueprint to carry economic reform through.

In the view of the European Directorate, the President's new initiative on Poland should build upon the foundations already laid. To jettison now the EC-coordinated multilateral approach agreed on two months ago in Paris would severely cripple our attempt to engage other donors in a major effort to assist reform in Poland and Hungary. Instead, using Presidential missions to develop the plan for U.S. assistance and to highlight the President's strong commitment, we should work from within the current G-24 mechanism to establish U.S. intellectual and political leadership. The EC Commission has already agreed and put into practice a special U.S.-EC bilateral relationship in managing the CAG.

II. Key Elements

Both versions of the Bush Plan would have the following key elements:

(a) strong U.S. leadership;
(b) phased implementation (90 days, 1 year and 3 year);
(c) a focus on developing free markets and small enterprises while modernizing basic infrastructure;
(d) substantial private and international funding.

The key sectors to be addressed in the Bush Plan are:

-- agriculture (transport, seeds, fertilizer, marketing)
-- banking/financial services
-- energy
-- environment
-- telecommunications
-- medical
-- worker services (re-training, unemployment assistance)

The President should announce next week, either separately or as part of his address to the IBRD/IMF Annual Meeting, that he is launching an initiative for economic recovery in Poland and that he is sending a Presidential Mission to Poland to report to him within 3 weeks on the types of assistance Poland needs in each sector.

Key elements of the initiative are:

-- Presidential Mission to Poland to ascertain broad needs;
-- follow-on sectoral experts' missions to develop detailed programs;
-- Senior USG coordinator for Poland;
-- U.S. leadership at meetings of industrialized democracies to coordinate private and public investment and aid.

Prior to the public announcement, the President would brief the Congressional leadership, the Economic Summit heads and the Polish leadership. We would also have had preliminary contact with the businessmen and experts we would want on the Mission.

(A) Presidential Mission

The Presidential Mission should be led by senior government officials but be comprised mainly of persons from business and academia recognized as experts in each of the sectors mentioned above (see Tab A for illustrative list). The Mission should be limited to no more than 25 persons. The members of the Mission would serve without pay (travel and per diem would be covered) and commit to see the program through (although not on a full-time basis).

The Economics Directorate believes that, to demonstrate the President's personal commitment to the plan, and to ensure it remains the Bush Plan, he should consider designating the Vice President to lead the mission, assisted by the Deputy Secretary of State, the Deputy Secretary of the Treasury and the Deputy National Security Adviser. We need to consider whether it would be desirable to include representatives of the Congressional leadership or key legislators of Polish descent.

The European Directorate supports the high-level Presidential mission, but believes it should focus on developing a U.S. strategy, which would be the basis for executing stronger international leadership. It believes that an overt U.S. effort to impress an international strategy on its allies is doomed to fail.

The Mission would spend several days in Poland, meeting with the Government and other key leaders and experts. It would assess the economic needs in broad terms. Its report should identify, for each priority sector:

- immediate needs (next six months);
- 1 year action program;
- 3 year action program;
- follow-up missions of experts and potential investors.

As the Mission returns home, senior USG officials (possibly the Deputy Secretary of State, the Deputy Secretary of the Treasury and the Deputy National Security Adviser or lower level officials) would give a preliminary briefing to key allies and to get their reactions so that these could be incorporated in the report as appropriate.

The Mission should report to the President within 7 days of its return. The President would then brief Congress and selected world leaders and make his recommendations.

In order to lay the groundwork for the Mission, a small advance team would have to visit Poland soon to make arrangements. Members would include NSC, State, Agriculture and possibly

Commerce. If the Vice President were to lead the mission, other White House offices would have to be included in the advance visit.

(B) International Conference

There are two options to following up on the Presidential Mission, one which gives the lead to the U.S., the other leaving the E.C. as the prime coordinator.

The President could convene an international conference to consider the Mission's recommendations and the proposals of other countries. The conference would be at the Foreign/Finance Minister level and include the heads of key international organizations. Participants would include Poland, Hungary, the Summit Seven, and other countries involved in Polish aid. We need to consider how to involve business leaders in the conference.

The second option would be to feed the Mission's recommendations into a follow-on meeting to the September 26 Concerted Action Group (CAG), chaired by the EC. This meeting would have similar participants as a U.S.-hosted meeting.

(C) USG Coordinator

The President should appoint a senior-level USG Coordinator for Poland. The person would report to the Secretary of State, or his designee. He would be responsible for coordinating U.S. public and private sector efforts and be the main contact with Poland, other countries and international organizations. The person must be of high international stature, demonstrated accomplishments, and have the ability to work smoothly with senior international officials. The person should be brought on board soon to be able to shape the process. A high profile coordinator would call for someone like George Shultz or Walter ~~Ristwon,~~ Wriston a lower profile coordinator could be a senior FSO or a retired business executive with international and government experience.

(D) Experts' Missions

Teams of sectoral experts, mainly from the private sector and/or academia, would follow up on the Presidential Mission's recommendations. The experts' missions would vary in number, duration and scope, depending on the sector being examined. It may be desirable to have representatives from other countries or international organizations. These missions would be coordinated by the USG Coordinator and should be completed by the end of December.

Follow-up conferences of a new donors group, or of the EC-led CAG, would be necessary to coordinate implementation of the experts' recommendations.

Involvement of the Economic Summit Countries

While the U.S. can provide much of the intellectual foundation and political leadership for the new initiative for Poland and Hungary, the current policy guidelines are that we will not be able to provide much public money in the present budget environment. Thus, Europe and Japan, the beneficiaries of the Marshall Plan, must be called upon to make major financial contributions to the Polish recovery program, using both public and private funds.

The European Directorate believes that this strategy simply will not work, either with Congress or our allies. None of our major allies would accept an approach in which we establish, and take credit for, an international recovery program and call on them to fund it. We must also be willing to pledge substantial new money -- on the order of $1 billion over the next three years -- for either plan to succeed. But the U.S. pledge would be contingent upon an IMF program in order to ensure the money is well used.

Either option will require skillful diplomacy and substantial Presidential involvement, as we will in effect to trying to achieve now what we did not get at the Paris Economic Summit, i.e. U.S. leadership of the Polish and Hungarian recovery effort. The President will need to work with Mitterrand, Kohl, Thatcher, Kaifu and Delors to bring about the desired result under either option.

The European Directorate believes the chances for success are much better if we continue with the CAG for now and incorporate the Presidential Missions and U.S. Coordinator within this framework.

Options

I. Program Concept

1. That the U.S. take the lead in formulating a new international recovery program for Poland, outside the CAG.

   Approve _____ Disapprove _____

2. Alternatively, that the U.S. develop a strong U.S. plan for Poland and use this to exert leadership in building concerted Western action using the Concerted Action Group.

   Approve _____ Disapprove _____

3. That the new initiative focus on Poland.

   Approve _____ Disapprove _____

4. Alternatively, that the new initiative also include Hungary.

   Approve _____ Disapprove _____

II. Presidential Announcement

1. That the President use his address to the IMF/IBRD to announce the new U.S. initiative.

   Approve _____ Disapprove _____

2. Alternatively, that President issue a statement from the White House.

   Approve _____ Disapprove _____

3. Alternatively, that the President give a separate speech devoted to Poland.

   Approve _____ Disapprove _____

III. Presidential Mission

1. That the Presidential Mission be a very high level one (e.g. led by the Vice President with the Deputy Secretaries of State and the Treasury, the Deputy National Security Adviser and CEOs from business).

   Approve _____ Disapprove _____

2. Alternatively, that the Presidential Mission be lower level (e.g. led by Under/Assistant Secretary or senior businessman).

   Approve _____ Disapprove _____

IV. USG Coordinator

1. That the USG Coordinator be a high-level official, reporting to the Secretary of State, i.e. a person like George Shultz or a senior businessman like Walter Wriston.

Approve _____ Disapprove _____

2. Alternatively, that the USG Coordinator be a senior official or retired businessman, reporting to an Assistant Secretary.

Approve _____ Disapprove _____

V. Coordination with Allies

1. That the U.S. attempt to assert leadership by convening follow-up conferences on Poland.

Approve _____ Disapprove _____

2. Alternatively, that the U.S. work within the Concerted Action Group, chaired by the EC, on any follow-up.

Approve _____ Disapprove _____

VI. Additional U.S. Funding

1. The European Directorate believes that the President, after discussion with the Congressional leadership, should signal his willingness to provide up to $1 billion in new resources over 3 years, contingent upon an IMF program. This would be our contribution to a much larger Multilateral Assistance Initiative developed in concert with our allies and the IFIs.

Approve _____ Disapprove _____

The Bush Plan

An International Recovery Program for Poland

Presidential Mission to Poland

(Illustrative list for high level mission)

Vice President Quayle
Deputy Secretary Eagleburger
Deputy Secretary Robson
Deputy National Security Adviser Gates
[Hill Representatives]

Agriculture	-	Prof. Ray Goldberg, Harvard
		Dr. Gale Johnson, Chicago
		Cargill or Conagra representative
Macro	-	Herbert Stein, AEI
Banking	-	John Reed, Citibank
		James Robinson, American Express
Industry	-	David Rodereck, USX
Transport	-	Drew Lewis, Union Pacific
Environment	-	William Ruckelshaus, CEO, BFI
Management	-	John Rhoads, Booz, Allen
		National Association of Manufacturers rep.
Energy	-	William Lhota, CEO, American Electric Power
		Roger Sant, President, Applied Energy Systems
Telecom	-	(ATT rep.)
Medical	-	Pharmaceutical Manufacturers Association rep.
Labor	-	Lane Kirkland

(Illustrative list for lower-level mission)

Under Secretary of Agriculture
Under Secretary of Commerce
Under Secretary/Counselor of State
[Hill Representatives]

Businessmen
Experts

National Security Council
The White House

PROOFED BY: _____ LOG # 7387

URGENT NOT PROOFED: ✓ SYSTEM (PRS) NSC INT

BYPASSED WW DESK: _____ DOCLOG ✓ A/O _____

	SEQUENCE TO	HAS SEEN	DISPOSITION
Dep Exec	1	W	A
Philip Hughes	2	APH	
Bob Gates	3	✓	
Brent Scowcroft	#		
Philip Hughes			
Situation Room			
West Wing Desk	4		
NSC Secretariat			

(A = Action) ! = Information D = Dispatch R = Retain N = No further Action

cc: VP Sununu Other _____

Should be seen by: _____ (Date/Time)

COMMENTS Pol mil / Econ
Mtg ?

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

September 22, 1989

NSA Has Seen

4

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

FROM: DEANE E. HOFFMANN DH

SUBJECT: Next Steps in Economic Assistance to Poland and Hungary

At Tab I is a concept paper outlining an expanded U.S. effort to provide economic assistance to Poland and Hungary. It focusses on Poland although later phases also include Hungary. The plan builds on current efforts and is designed to thrust the President into a recognized leadership role in Western economic assistance to Poland.

The plan calls for a Presidential Mission to Poland, follow-on experts' and investment missions and a U.S. Coordinator for Poland.

The plan was discussed at a Deputies Committee yesterday and will be reviewed again at a Deputies Committee on Monday. The plan, as described in the paper meets with broad approval from all agencies, although Treasury (John Robson) remains uneasy about our appearing to promise more than we can deliver.

Because of the tight schedule, we need to get your views before the Deputies Committee. You may wish to broach the concept with the President this weekend to get his initial reaction. Bob Gates has spoken with Secretary Mosbacher about the plan; Mosbacher may have additional thoughts when he briefs the President.

Should the concept meet with the President's approval, one suggestion is that he announce the expanded effort next Wednesday, September 27, during his speech before the Bank/Fund.

Bob Blackwill and Ginny Lampley believe it would be a mistake to launch this "Presidential Mission to Poland" initiative before we have worked out an agreed Administration approach to the Democratic legislation on the Hill. They believe that you should discuss the broad issue of U.S. aid to Poland with interested Cabinet members and Republicans on the Hill before deciding when to unveil the Presidential Mission initiative.

Concurrences by: Robert Blackwill and Virginia Lampley.

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Declassify on: OADR

RECOMMENDATION

That you review the attached memo and discuss it with the President if appropriate.

Approve _____ Disapprove _____

Attachment
Tab I Concept Paper

~~SECRET~~

Concept Paper

Next Steps in the Recovery Program for Poland and Hungary

I. Introduction

Eastern Europe is in the throes of dramatic change. The success of the move towards democracy in Poland and Hungary will depend in large measure on the ability to bring about fundamental economic reform which lifts living standards. The special case of Yugoslavia aside, Poland and Hungary are the first countries to attempt a radical shift from a communist economy to a market economy. If they fail to complete the course, it may set back political reform in the communist world. The U.S., and particularly its President, will be criticized severely for timid support of Poland and Hungary. However, if Poland and Hungary are successful in shifting to a market economy, they will serve as a beacon to others.

The Administration has already announced important aid efforts for Poland. More can and must be done, particularly for Poland now that a non-Communist led government is in place. To bolster and provide a coherent framework for the Administration's expanded assistance efforts, the President should announce on September 27, during his speech to the Bank/Fund meeting, the next phase in our efforts to assist recovery in Poland and Hungary.

Prior to the public announcement, the President would inform the Congressional leadership, and communicate with the Economic Summit heads and EC President Delors, with other countries involved in helping Poland and with the Poles and the Hungarians.

Presidential Mission

The centerpiece of the next phase would be a high-level Presidential Mission to Poland. Its mandate would be to:

-- Make contact with economic leaders in the private and public sectors and further relationships already established by recent delegations led by the Departments of Commerce and Agriculture;

-- Establish the cooperative framework for channeling U.S. expertise, public and private, into the sectors where it is most needed and likely to be most productive.

-- Establish mechanisms and organizational arrangements to facilitate the gathering of reliable data from which

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priorities for the sectors key to Poland's economic growth can be established and specific opportunities for technical assistance and investment of private capital can be identified;

-- Recommend a follow-through program with specific timelines and goals under which the appropriate experts will develop necessary data, identify specific technical assistance needs and investment opportunities.

The Presidential Mission would have both symbolic and substantive objectives. It would symbolize enhanced U.S. commitment to assist Poland in the most effective way possible and demonstrate the President's continuing personal involvement. It would:

-- Meet the need to respond positively and concretely to the opportunity provided by political change in Poland;

-- Allow the President to continue his leadership role;

-- Pursue a practical effort that establishes mechanisms to make sound assessments of economic needs and investments;

-- Offer an approach that is complementary to IMF programs;

-- Avoid raising unrealistic expectations and overpromising.

The Mission is not intended to replace, or compete, with the IMF. The Mission will want to discuss its findings with the IMF and World Bank. However, we continue to look to the IMF to work with Poland to develop a broad economic policy program.

Other countries have bilateral programs planned or underway for Poland. Internationally, assistance efforts are being coordinated through the Concerted Action Group (CAG), chaired by the E.C. The Presidential Mission, and its follow-on activities, would complement efforts of other countries and the CAG, and better equip the U.S. to continue its informal leadership within the CAG. The Mission should aim to encourage additional multilateral cooperation in providing assistance to Poland and Hungary.

Key Sectors

The key sectors to be addressed are:

-- agriculture (production, processing & marketing)
-- financial services
-- energy
-- environment
-- telecommunications

-- medical
-- worker services (re-training, unemployment assistance)

USDA has already developed a program for the agriculture sector. However, given the importance of agriculture to Poland, it must be included in the Mission's mandate. It is expected that the Mission will rely heavily on the USDA report for its recommendation on agriculture. The Mosbacher Mission has stimulated U.S. business interest in other sectors and its findings will be folded into planning for the Mission.

Other sectors may be identified by the Mission.

Mission Composition

The President would designate the Secretary of Agriculture and the Secretary of Commerce as his personal representatives to lead the mission. Senior officials from State, Treasury, Labor, CEA and the NSC would be included.

Most of the Mission would be comprised of prominent representatives from business and academia recognized as experts in each of the sectors mentioned above (see Tab A for **illustrative** list). The Mission members need not be announced by the President next week. However, they will have to be selected soon afterwards.

The President would ask these people to make a substantial commitment, without public compensation, to the Mission and its follow-up. Working with U.S. officials, they would organize, but not necessarily lead, follow-on experts' missions in their sectors.

The Presidential Mission should be limited to no more than 25-30 official members. The private sector members of the Mission would serve without pay (travel and per diem would be covered) and commit to see the program through (although not on a full-time basis). Given the level of the private sector participants, they would select an assistant to be the principal contact with U.S. officials.

Mission Duration

The Mission would spend several days in Poland in October, meeting with the Government and other key leaders and experts. It would assess the economic needs in broad terms. Its report should identify ways to develop plans for follow-up missions of experts and potential investors, for each priority sector in term of:

- short term action (next six months);
- 1 year action program;
- 3 year action program.

The Mission should report to the President within 7 days35Xofts return. The President would then brief Congress and selected

world leaders and make his recommendations. At that time he would announce that he is naming a senior-level U.S. coordinator for Poland to coordinate follow-on activities.

In order to lay the groundwork for the Mission, a small advance team would have to visit Poland soon after the President makes his announcement to make arrangements. Members would include NSC, State, Agriculture and Commerce.

Investment Missions

An investment mission would be sent to Poland to follow up on the Presidential Mission's recommendations. A separate investment mission would be sent to Hungary. These would be led by the President of OPIC. At present, neither the public nor private sectors are organized effectively to support large increases in private investment. The investment missions would help identify projects and develop a set of programs to facilitate the flow of investment (e.g. the establishment of a U.S. bank in Poland).

Experts Missions

The businessmen and experts on the Presidential Mission would be responsible for suggesting follow-up experts' missions in their respective sectors. These would be coordinated by the USG Coordinator and should be completed by the end of December.

USG Coordinator

The Coordinator would report to the Secretary of State, or his designee. The Coordinator would be responsible for coordinating U.S. public and private sector efforts and be the main contact with Poland, Hungary and other countries and international organizations, as well as with Congress and the media. The person must be of high international stature, demonstrated accomplishments in economics and business, and have the ability to work smoothly with senior international officials. The person should be brought on board soon to be able to shape the process.

The Coordinator will need the help of a small staff of USG officials. The budgetary implications should not be great, as only the Coordinator's salary and travel would be new expenditures. The staff would come from current USG employees, most likely in State with possible detail from other agencies.

Presidential Mission to Poland

Leaders
Secretary of Agriculture
Secretary of Commerce

Other USG Representatives

State, Treasury, Labor, CEA, NSC

Private Sector Representatives (**Illustrative list**)

Agriculture	-	Ray Goldberg, Harvard
		Gale Johnson, Chicago
		Michael Harper, ConAgra
Economics	-	Herbert Stein, AEI
		Arnold Harberger, Chicago
Financial	-	John Reed, Citibank
Industry	-	David Rodereck, USX
		Paul O'Neill, CEO, Alcoa
		John Akers, CEO, IBM
Transport	-	Drew Lewis, Union Pacific
Environment	-	William Ruckelshaus, CEO, BFI
Management	-	John Rhoads, Booz, Allen
		National Association of Manufacturers rep.
Energy	-	William Lhota, CEO, American Electric Power
		Roger Sant, President, Applied Energy Systems
Medical	-	Hospital Chain representative
Telecom	-	?
Labor	-	Lane Kirkland, AFL-CIO

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Attachment

RECOMMENDATION

That you discuss the attached memo with the President this weekend.

Approve _____ Disapprove _____

Attachment
Tab I Concept Paper

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IMMEDIATE

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FROM/LOCATION

1. WHITES HOUSE SITUATION ROOM

TO/LOCATION/TIME OF RECEIPT

1. GENERAL SCOWCROFT/KENNEBUNKPORT/TOR:
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INFORMATION ADDEE/LOCATION/TIME OF RECEIPT

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2.

SPECIAL INSTRUCTIONS/REMARKS:

DELIVER TO NSC OFFICE AT NEXT SCHEDULED DELIVERY TIME

NSC #7519

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White House Guidelines
E.O. 12958, SEC 3.4 (B) September 11, 200
By Cop NARA, Date 3/18/09

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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September 25, 1989

Natl Sec Advisor has seen

4

INFORMATION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: DEANE E. HOFFMANN

FROM: TIMOTHY E. DEAL

SUBJECT: Principals' Meeting on Poland (Tuesday, September 26, 1989, 9:00 a.m.)

You will chair a meeting tomorrow of principals (Brady, Yeutter, Mosbacher, Dole, Darman, Eagleburger, Attwood, and Boskin) to consider the next phase in our efforts to provide economic and technical assistance to Poland.

Our objectives for this meeting are to:

-- Underscore the need for a coordinated approach within the Administration on our policy toward helping Poland.

-- Develop a sustainable legislative strategy.

-- Discuss the proposed Presidential mission to Poland and the designation of a U.S. Coordinator for follow-up activities in Poland.

-- Decide when and where to make the announcement of such a mission and our legislative proposals.

The legislative strategy is especially tricky, given Sen. Simon's proposal to add $1 billion to the enterprise funds bill, financed by matching cuts in the SDI program. We need to seize the initiative back from Democrats in Congress and give the Republican leadership something with which to work. We believe that the President should suggest that, in response to the Poles' recent request for stabilization loans in connection with an IMF program, the U.S. is prepared to provide $200 million of the $1 billion Poland has requested if other members of the G-7 put up the rest. Reallocation of funds from whatever source will be painful. But we need to put forward an alternative to the Simon plan which is responsive to Polish realities, which promises the Poles near-term relief, but which does not throw long-term money at a short-term balance of payments problem. The President can make the announcement in whatever forum is chosen.

Proposed talking points for your use are at Tab A. A draft Presidential statement for incorporation into the World Bank/IMF

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speech or for issuance separately is at Tab B. The concept paper regarding the proposed Presidential mission, which we have distributed to principals, is at Tab C.

Concurrence by: Condoleezza Rice, Robert Hutchings, and Bret Coulson

Attachments
Tab A Proposed Talking Points
Tab B Draft Presidential Statement
Tab C Concept Paper

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POINTS TO BE MADE FOR MEETING WITH
PRINCIPALS ON POLAND

-- We are here to discuss the next phase in the Administration's efforts to provide economic assistance to Poland.

-- The President thrust the U.S. into the leadership role with his Hamtramck speech, the initiatives announced in Warsaw, and the suggestions for concerted action at the Paris Summit.

-- Secretaries Dole and Mosbacher have visited Poland recently and underscored U.S. interest in Polish developments and demonstrated our willingness to help.

-- For their part the Poles have signaled that they are willing to take bold action in concert with us.

-- Still, many in the Congress and the press regard what we have done as inadequate.

-- The President is not getting credit for the measures the U.S. has already taken.

-- We need to regain the initiative, to give rightful credit to the President for launching this effort well before the Congress, the press and our allies entered the fray.

-- We must demonstrate that we do have an overall strategy and that what each of you has done -- or will do -- is part of a coordinated effort to bolster Poland's move toward democracy and a market economy.

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-- We have three issues for decision today: (a) legislative strategy, (b) the proposed Presidential mission to Poland, and (c) the possible timing and venue for announcement of these initiatives.

Legislative Strategy

-- On legislation, we need to respond to Sen. Simon's proposal to add $1 billion to our enterprise fund legislation for Poland.

-- A possible alternative would be for the President to state that in response to a recent Polish request for $1 billion in stabilization funds in connection with an IMF program he would be prepared to offer $200 million on the understanding that other members of the G-7 would put up the remainder.

-- If we don't take the initiative, we may end up with legislation that is more costly, cuts across other Administration priorities, does not address Poland's needs, and may trigger a politically costly Presidential veto.

Presidential Mission

-- The second issue is covered in the concept paper: a proposed Presidential mission to Poland and, ultimately, a U.S. Coordinator for Poland.

-- I would first like your reactions to that paper and the idea of a Presidential mission. In short, is this the right move at the right time?

-- The third issue concerns the timing and venue for the announcement of any such initiatives.

-- We have at least two possibilities:

  - o An announcement during the President's speech tomorrow to the World Bank/IMF annual meeting.
  - o A separate announcement by the President before the White House press corps perhaps early next week.

-- In either case, the presentation would:

  - o Note what the Administration has already done to further the process of peaceful change in Poland and Hungary.
  - o Affirm that the Administration wants to be responsible to Poland's call for economic assistance, and that we are prepared to extend substantial new economic support.
  - o Outline the mandate and objectives of the Presidential mission.
  - o Make clear that the mission is not a substitute for an IMF program or Poland's own reform efforts.

DRAFT REMARKS FOR PRESIDENT BUSH

Finally, I want to take a few minutes to discuss the challenges we see ahead in Poland.

The United States, and its Summit-7 partners have already undertaken new initiatives toward Poland. But now, in light of clearly growing needs, the recent accession of a Solidarity-led government, and our self-evident stake in its success, we must do more. The United States intends to work with the IMF, World Bank and other governments to respond to this new necessity.

The Polish state-run economy is like a rusty, creaking vehicle which has run out of power. We want to help revitalize that economy and get our good friends back on the road to prosperity by helping spark their own innate energies and talents and initiative.

Poland, like the rest of Eastern Europe, is the victim of failed political and economic philosophies. Its economy has been deprived of the key ingredients of success: individual initiative; free enterprise; the incentives of a free marketplace. Such vital sectors as banking, agriculture, communications, and transportation are moribund. There are not even valid statistics on which to base our recovery efforts.

It is in these precise areas that the U.S., our economic partners, and these institutions have so much to offer the people of Eastern Europe in the way of expertise and practical experience.

We believe that any nation's strength is based on its people -- their education, their skills, their creativity, and their courage. We know these human resources are already present in Poland. We need only to help point in the right direction -- away from the dead hand of central planning and statist structures and toward a free market system which rewards private initiative. Such a wholesale structural transformation requires know-how, advice, technical skills, and financial expertise, as well as Western economic assistance.

We are encouraged by the steps Poland is taking to address its economic challenges. This week the new Polish government presented an outline of its economic reform program, which calls for strong anti-inflationary measures and rapid movement toward a market economy. In the context of a successful conclusion of an IMF agreement, the Polish government has called for $750 million from the IMF and $1 billion from the industrialized countries in stabilization loans to assist in this major economic transformation.

We want to be responsive to that request. We are prepared to extend $200 million in new economic assistance, and will encourage our leading economic partners to follow our example. The countries that benefited from the Marshall Plan and other forms of postwar U.S. economic assistance also have a strong stake in the success of Poland's economic recovery and its democratic transition.

coordination w/ Euro (EC)

To determine how we can best and most effectively meet this call for help, I am instructing my Secretaries of Agriculture and Commerce, labor and the Chairman of the Council of Economic Advisers to lead a mission of prominent businessmen and other experts to Poland. This Presidential Mission will comprise experts from finance, agriculture, industry, business, transportation, communications, and labor. Drawing from the best in our society -- public and private; business, labor, and academia -- these individuals will work with their Polish counterparts to develop short- and long-term plans of action.

The Mission's objective will be to establish as soon as possible a cooperative framework for channeling U.S. assistance, public and private, directly into sectors where it is most needed and likely to be most productive. I look to it to recommend a follow-on program, with specific timetables and goals, under which appropriate experts, after developing the necessary data, will identify specific technical assistance needs and investment opportunities.

In connection with While undertaking this major bilateral initiative, we will continue to coordinate closely with your institutions, the EC Commission, and the Concerted Action Group set up at the Economic Summit. Poland's future depends on concerted and sustained Western action. Together with our economic partners and the international financial institutions, we can help Poland move toward a more prosperous future within a democratic system.

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Concept Paper

Next Steps in the Recovery Program for Poland

I. Introduction

Eastern Europe is in the throes of dramatic change. The success of the move towards democracy in Poland and Hungary will depend in large measure on the ability to bring about fundamental economic reform which lifts living standards. The special case of Yugoslavia aside, Poland and Hungary are the first countries to attempt a radical shift from a communist command economy to a market economy. If they fail to complete the course, it may set back political reform in the communist world. The U.S., and particularly its President, will be criticized severely for timid support of Poland and Hungary. However, if Poland and Hungary are successful in shifting to a market economy, they will serve as a beacon to others.

The Administration has already announced important assistance efforts for Poland, beginning with the President's speech in Hamtamck last April and his July visit to Poland. The President's initiatives have been followed up on by a USDA team which has developed an agriculture assistance program based on its visit to Poland, Secretary Dole's August visit to Poland and Secretary Mosbacher's mission this month. Each of these visits has identified specific areas where the U.S. Government and the private sector can cooperate with Poland. In addition, the Paris Economic Summit endorsed the President's proposal for concerted Western Action in support of Poland and Hungary.

To bolster and provide a coherent framework for the Administration's expanded assistance efforts, it is proposed that the President announce soon the next phase in our efforts to assist recovery in Poland. The next phase would be a direct response to Finance Minister Balcerowicz' recently announced economic reform program and his request for international assistance in carrying it out.

It may be necessary to increase substantially U.S. assistance for Poland, once Poland has concluded an IMF program and we have a clearer indication of Poland's specific needs.

Prior to the public announcement, the President would inform the Congressional leadership of the additional steps he is taking and of his strategy to deal with various proposals on the Hill. In addition, he would communicate with the Economic Summit heads and EC President Delors, with other countries involved in helping Poland and with the Poles and the Hungarians.

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Presidential Mission

The centerpiece of the next phase would be a high-level Presidential Mission to Poland. Its mandate would be to:

-- Make contact with economic leaders in the private and public sectors and further relationships already established by recent delegations led by the Departments of Commerce and Agriculture;

-- Establish the cooperative framework for channeling U.S. expertise, public and private, into the sectors where it is most needed and likely to be most productive.

-- Establish mechanisms and organizational arrangements to facilitate the gathering of reliable data from which priorities for the sectors key to Poland's economic growth can be established and specific opportunities for technical assistance and investment of private capital can be identified;

-- Recommend a follow-through program with specific timelines and goals under which the appropriate experts will develop necessary data, identify specific technical assistance needs and investment opportunities.

The Presidential Mission would have both symbolic and substantive objectives. It would symbolize enhanced U.S. commitment to assist Poland in the most effective way possible and demonstrate the President's continuing personal involvement. It would:

-- Meet the need to respond positively and concretely to the opportunity provided by political change in Poland;

-- Allow the President to regain his leadership role;

-- Pursue a practical effort that establishes mechanisms to make sound assessments of economic needs and investments;

-- Offer an approach that is complementary to IMF programs;

-- Avoid raising unrealistic expectations and overpromising.

The Mission is not intended to replace, or compete, with the IMF. The Mission will want to discuss its findings with the IMF and World Bank. However, we continue to look to the IMF to work with Poland to develop a broad economic policy program.

Other countries have bilateral programs planned or underway for Poland. Internationally, assistance efforts are being coordinated through the Concerted Action Group (CAG), chaired by the E.C. Commission. The Presidential Mission, and its follow-on

activities, would complement efforts of other countries and the CAG, and better equip the U.S. to continue its informal leadership within the CAG. The Mission should aim to encourage additional multilateral cooperation in providing assistance to Poland.

Key Sectors

The key sectors to be addressed are:

-- agriculture (production, processing & marketing)
-- financial services
-- energy
-- environment
-- telecommunications
-- medical
-- transportation
-- industry
-- construction (housing)
-- worker services (re-training, unemployment assistance)

USDA has already developed a program for the agriculture sector. However, given the importance of agriculture to Poland, it must be included in the Mission's mandate. It is expected that the Mission will rely heavily on the USDA report for its recommendation on agriculture. Mosbacher's mission has stimulated U.S. business interest in other sectors and its findings will be folded into planning for the Mission.

Other sectors may be identified by the Mission.

Mission Composition

The President would designate the Secretary of Agriculture and the Secretary of Commerce as his personal representatives to lead the mission. Senior officials from State, Treasury, Labor, CEA and the NSC would be included.

Most of the Mission would be comprised of prominent representatives from business and academia recognized as experts in each of the sectors mentioned above (see Tab A for illustrative list). The Mission members need not be announced by the President next week. However, they will have to be selected soon afterwards.

The President would ask these people to make a substantial commitment, without public compensation, to the Mission and its follow-up. Working with U.S. officials, they would organize, but not necessarily lead, follow-on experts' missions in their sectors.

The Presidential Mission should be limited to no more than 25-30 official members. The private sector members of the Mission would serve without pay (travel and per diem would be covered) and commit to see the program through (although not on a full-time basis). Given the level of the private sector

participants, they would select an assistant to be the principal contact with U.S. officials.

Mission Duration

The Mission would spend several days in Poland in October, meeting with the Government and other key leaders and experts. It would assess the economic needs in broad terms. Its report should identify ways to develop plans for follow-up missions of experts and potential investors, for each priority sector in term of:

- short term action (next six months);
- 1 year action program;
- 3 year action program.

The Mission should report to the President within 7 days of its return. The President would then brief Congress and selected world leaders and make his recommendations. At that time he would announce that he is naming a senior-level U.S. coordinator for Poland to coordinate follow-on activities.

USG Coordinator

The Coordinator would report to the Secretary of State, or his designee. The Coordinator would be responsible for coordinating U.S. public and private sector efforts and be the main contact with Poland and other countries and relevant international organizations, as well as with Congress and the media. The person must be of high international stature, demonstrated accomplishments in economics and business, and have the ability to work smoothly with senior international officials. The person should be brought on board soon to be able to shape the process.

The Coordinator will need the help of a small staff of USG officials. The budgetary implications should not be great, as only the Coordinator's salary and travel would be new expenditures. The staff would come from current USG employees, most likely in State with possible detail from other agencies.

Experts Missions

The businessmen and experts on the Presidential Mission would be responsible for suggesting follow-up experts' missions in their respective sectors. These would be coordinated by the USG Coordinator and should be completed by the end of December.

Next Steps

In order to lay the groundwork for the Mission, a small advance team would have to visit Poland soon after the President makes his announcement to make arrangements. Members would include NSC, State, Agriculture and Commerce.

Presidential Mission to Poland
(Illustrativ list)

Leaders

Secretary of Agriculture
Secretary of Commerce

Other USG Representatives

State, Treasury, Labor, CEA, NSC

Private Sector Representatives

Agriculture	-	Ray Goldberg, Harvard
		Gale Johnson, Chicago
		Michael Harper, ConAgra
Economics	-	Herbert Stein, AEI
		Arnold Harberger, Chicago
Financial	-	John Reed, Citibank
Industry	-	David Rodereck, USX
		Paul O'Neill, CEO, Alcoa
		John Akers, CEO, IBM
Transport	-	Drew Lewis, Union Pacific
Environment	-	William Ruckelshaus, CEO, BFI
Management	-	John Rhoads, Booz, Allen
		National Association of Manufacturers rep.
Energy	-	William Lhota, CEO, American Electric Power
		Roger Sant, President, Applied Energy Systems
Medical	-	Hospital Chain representative
Telecom	-	?
Labor	-	Lane Kirkland, AFL-CIO
Construction	-	James Rouse

26 Sept 0845
0900

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

September 25, 1989

[redacted]

Honorable Robert M. Gates
Deputy Assistant to the President
& Deputy National Security Advisor
The White House
Washington, D. C. 20500

Dear Bob:

Per our discussion of Sunday regarding action on Poland, please find attached a proposed insert for the President's remarks.

Commerce would be most comfortable with this approach and we are convinced it will meet the President's objectives. Perhaps it would be helpful to have a discussion on this language at the 9 a.m. meeting tomorrow.

Many thanks for your consideration.

Sincerely,

J. Michael Farren

Attachment

cc: Deane Hoffman

PROPOSED SPEECH INSERT FOR POLAND

Poland needs financial relief, and I urge quick action on the approach I proposed in July -- consisting of World Bank loans, debt rescheduling by the Paris Club, and an agreement with the IMF.

But what Poland needs most of all is private investment. We must not repeat the mistakes of the 1970s and provide huge amounts of new Western government lending that would be allocated in Poland by government decision-makers instead of the market place.

In truth, the only road to economic health in Poland is the development of a strong private sector. And only private investment in Poland, free to follow market signals, can place capital where it will generate the most bang for the buck. This is the essence of our approach to Poland, and it is the only one that can work.

I propose an ambitious goal -- nothing less than generating at least $1 billion of investment in Poland by the private sector of the United States and our allies. Not government money, but private funds attracted to Poland because they will earn a profitable return. While ambitious, this goal is achievable if we and the Polish government both take the steps necessary to create the structure and the foundation for profitable investment.

The first steps have already been taken. We have asked Congress for quick action on extending OPIC investment guarantees to Poland and to giving Polish products preferential treatment in the U.S. markets through the Generalized System of Preferences (GSP), and on authorizing a $100 million Private Enterprise Fund. I call on Congress to act on these immediately.

Last week, Commerce Secretary Mosbacher led a Commerce/OPIC/TDP (State) fact-finding mission to Poland and Hungary, accompanied by a large delegation of U.S. executives. The agreements that were concluded and the comprehensive bilateral Business and Economic Agreement proposed and initialled by Secretary Mosbacher and the Minister of Foreign Economic Relations of Poland are further steps laying the foundation for achieving our ambitious and worthy goal.

Early next month Mosbacher's business mission, with additions I will appoint, will report personally to me with the private sector's recommendations on the next steps to take. Based on their recommendations, and upon Congressional action on the legislative package we have already proposed, I will send a second Presidential mission to Poland and Hungary.

Led by Commerce Secretary Mosbacher and Agriculture Secretary Yeutter, this mission will begin the process of generating actual contracts and investment in those areas where our work in Poland has already shown us the need and the opportunity is greatest -- especially agriculture, telecommunications, banking, and development of an efficient distribution system.

9-25-89:1720

~~SECRET~~

~~SECRET~~

6857

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

CHRON FILE

September 25, 1989

4

MEMORANDUM FOR J. STAPLETON ROY
Executive Secretary
Department of State

SUBJECT: Telephone Call from the President to President Francois Mitterrand of France, August 26, 1989 (U)

Distribution of the attached Memorandum of Telephone Conversation must be handled via NODIS channels and at the Deputy Assistant Secretary (DAS) level. If the item is to be sent to Embassy Paris, it should be sent to the Ambassador and Deputy Chief of Mission (DCM) only. (Ø)

G. Philip Hughes
Executive Secretary

Attachment
Tab A Memorandum of Telephone Conversation

DECLASSIFIED
PER E.O. 13526
2009-1002-MR
SCS 1/22/13

THE WHITE HOUSE

WASHINGTON

DECLASSIFIED
PER E.O. 12958,
AS AMENDED
00.0429.F
8/21/09 CAP

MEMORANDUM OF CONVERSATION

SUBJECT: Telephone Conversation with President Francois Mitterrand of France (U)

PARTICIPANTS: The President
President Mitterrand
Interpreter: Alec Toumayan
Notetaker: Adrian Basora, NSC

DATE, TIME AND PLACE: August 26, 1989, 10:33 - 10:45 a.m. EDT
Kennebunkport, Maine

The President opened by saying he was in Kennebunkport and had thought about President Mitterrand. (U)

President Mitterrand said Kennebunkport brought back pleasant memories. (U)

The President said he wanted President Mitterrand to know that he understood what Mitterrand was doing on Lebanon and that Mitterrand had the President's strong support. ~~(S)~~

President Mitterrand said he had taken good note of the President's statement and appreciated it very much; it contributed to the French position. President Mitterrand stressed that the French position was not an aggressive one. France was prepared for the very worst while hoping for the very best. President Mitterrand asked if the President had any suggestions. ~~(S)~~

The President said he was very concerned about what more could be done. He agreed a ceasefire was needed and that the pressure should be kept on Assad and Aoun. Obviously there also had to be internal reforms and the withdrawal of foreign forces. ~~(S)~~

President Mitterrand said that, as simple as it may sound, the first step is to extend the ceasefire. That is a must before the indispensable diplomatic approaches can be effectively made. These should be carried out through the exercise of pressure by the United States, the Soviet Union, and the Arab countries on Syria. ~~(S)~~

The President agreed and said that France had influence with the Tripartite Group. Their efforts had hit a stumbling block and they should be gotten back into the game. (S)

President Mitterrand agreed and added that it was also necessary to push the Christians behind Aoun toward institutional reforms; these are the key to more peaceful relations with the Muslims. (S)

The President asked whether Mitterrand had much influence with Aoun; he did not think the United States had much. (S)

President Mitterrand said that France was pushing institutional reform with Aoun as much as it could. There could be no solution unless this was achieved first. It was absolutely basic to buy time and that meant to extend the ceasefire. (S)

The President agreed and added that some Muslims had been critical of recent French moves. But the US agreed and understood what France had to do. (S)

President Mitterrand said that the Muslims had a very complex mind set and were skilled at using language and playing with words; they have made up a French thesis that is not the French position, it is their own propaganda. (S)

The President expressed frustration with the hostage situation and the lack of progress on returning the body of Colonel Higgins. The US did not seem to be making headway with Iran. (S)

President Mitterrand said he fully understood, but felt that France and the US should stay the course as long as possible and work to keep the guns silent. (S)

The President agreed and said the frustration would continue. (S)

The President then turned the subject to Poland, saying he was reminded of their earlier discussions in Maine and Paris. Things were moving faster than they had anticipated. (S)

President Mitterrand agreed and added that things had been going in the direction they had hoped. It was important to determine what Mazowiecki's position was. (S)

The President said that the only thing he wanted to suggest was that he and Mitterrand stay in contact with each other and with the Germans and the British on what to do next in Poland. Many US Congressmen would be coming back from trips to Warsaw and urging more money for Poland. He did not want the money to go down the drain. It was thus important to stay in touch among the Allies on how to treat Poland. He did not know whether France

was considering more aid for Poland, but he wanted to be able to say that the US was in close touch with its Allies. France and the US were working toward solutions for Poland and it was important to stay in close touch. (S)

President Mitterrand replied that the President could count on him in that respect. He was speaking both as President of France and President of the European Community. He would make the President aware of any new initiatives. (S)

The President said he expected the new Polish Prime Minister might want to come to Washington and other capitals in the near future. It would be important to coordinate on this subject. (S)

President Mitterrand fully agreed that it would be necessary to consult and coordinate to the fullest. (S)

The President referred to their decision in Paris to put together the Concerted Action group. Perhaps Mazowiecki should be encouraged to meet first with the Concerted Action group before visiting capitals. (S)

President Mitterrand replied that this was the thing to do. (S)

The President commented that it had been nice to talk, and reiterated his respect for what Mitterrand was doing in Lebanon. (S)

President Mitterrand said he was touched that the President had called and very pleased to speak with him. He had fond memories of his stay in the house from which the President was calling, as well as of the people who lived in that house. He had received the President's letter about Panama and had prepared his reply. He was fully ready to state what needed to be stated, on record: that one can't tolerate drug traffickers and threats to democracy. The President should be receiving his reply very soon, and Mitterrand would avail himself of the first opportunity that arose to address the matter publicly himself. He would also call the President soon; this was a very good procedure between the two of them. (S)

The President hoped he had not interrupted an important meeting, and hoped Mitterrand was getting a vacation. (U)

President Mitterrand said he had gotten a little vacation, but not too much. He was making a speech in an hour and a half, but the President had not interrupted anything; on the contrary, it was good to talk to him. (U)

~~SECRET~~ SECRET 6857

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

September 1, 1989

ACTION

SIGNED

MEMORANDUM FOR G. PHILIP HUGHES

FROM: ADRIAN A. BASORA AAB

SUBJECT: Memorandum of Telephone Conversation with President Francois Mitterrand of France

Attached at Tab I is a memorandum from you to the Department of State transmitting the Tab A Memorandum of Telephone Conversation.

Concurrence by: Robert D. Blackwill RDB

RECOMMENDATIONS

That the Tab A Memorandum of Telephone Conversation be filed for the record.

Approve ✓ Disapprove _____

That you sign the memo at Tab I transmitting the Memorandum of Telephone Conversation at Tab A.

Attachment
Tab I Hughes Memorandum to Roy
Tab A Memorandum of Telephone Conversation

DECLASSIFIED
White House Guidelines
E.O. 13526, SEC 3.4 (b), September 11, 2006
By CAP NARA, Date 4/26/12

~~SECRET~~
Declassify on: OADR SECRET

UNCLASSIFIED
NSC/S PROFILE

RECORD ID: 8907685
RECEIVED: 27 SEP 89 20

TO: SCOWCROFT
GATES

CHRON FILE

FROM: BREEDEN, R

DOC DATE: 26 SEP 89
SOURCE REF:

KEYWORDS: POLAND ECONOMIC ASSISTANCE

4

PERSONS:

SUBJECT: RECOMS RE SECURITIES MARKETS FOR AID TO POLAND STRATEGY

ACTION: NFAR PER HUTCHINGS DUE DATE: 30 SEP 89 STATUS: C

STAFF OFFICER: HUTCHINGS LOGREF:

FILES: WH NSCP: CODES:

D O C U M E N T D I S T R I B U T I O N

FOR ACTION	FOR CONCURRENCE	FOR INFO
		BLACKWILL
		DEAL
		DYKE
		HUTCHINGS
		RICE

COMMENTS: _____

DISPATCHED BY _____ DATE _____ BY HAND W/ATTCH

OPENED BY: NSJWF CLOSED BY: NSJRP DOC 1 OF 1

UNCLASSIFIED

THE WHITE HOUSE

WASHINGTON

7685

September 26, 1989

CHRON FILE

MEMORANDUM FOR GENERAL SCOWCROFT
ROBERT GATES

FROM: RICHARD C. BREEDEN RCB

SUBJECT: POLAND - SECURITIES MARKETS

In developing the strategy for aid to Poland, one option that should be considered is a program to encourage the development of a securities market in Poland. There is traditionally an emphasis on bank lending in a development situation. However, bank loans usually do not encourage the necessary structural adjustments to create productivity.

Productivity in Poland can be created only if they move toward a market-based economy. Privatization of industry will be essential in turning the Polish economy in this direction. However, companies cannot be easily privatized, even if the will to do so exists, unless there is a mechanism for transferring state ownership into private hands.

An innovative approach to this issue would be for the U.S. to offer to help Poland establish a stock market. A domestic securities exchange would be a mechanism for helping to transfer ownership into private hands, as well as to permit joint ventures operating in Poland to raise some of their operating capital through debt issuances.

Creation of a Polish securities market would require a relatively modest investment in data processing and telecommunications equipment, as well as a domestic regulatory system to oversee a market. The Polish government would also have to agree to allow private property rights to be created, and to be protected through a legal system.

The SEC has experts in the technical operations of markets, and it would be able to lead a technical assistance program directed at establishing a low-volume securities exchange as part of a broader Polish structural reform package. Indeed, on several previous occasions, the SEC has assisted less developed countries in creating or improving securities markets. The SEC could also enlist participation by the NASD and NYSE. Major U.S. brokerage firms could also provide training and employment for local personnel.

Once a market was created, it would serve as a mechanism that could facilitate ongoing privatization, as well as creating the means through which Americans could invest in mutual funds focused on investments in Poland. This would give individuals a channel for helping Poland in a manner that would at the same time reinforce our structural objective of creating a market-driven economy with private property rights. Once that channel of investment was opened, it would be a purely private sector source of funds for privately owned Polish companies.

A coordinated program could probably be operated at a cost to the SEC of approximately $4-7 million over 3 years, depending on the degree of participation by private sector organizations. This amount would have to be added to the SEC's proposed budget. At very low cost, this program could provide powerful assistance to structural economic reform that the President has insisted must be a part of our plan of assistance to Poland. For their part, the Polish Government would have to be willing to accommodate development of a market, especially through creation and protection of private ownership rights, and by privatizing at least several major state-owned firms.

# # #

6827

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CHRON FILE

THE WHITE HOUSE

WASHINGTON

September 28, 1989

Dear Lech:

Thank you for your recent letter, which was delivered to me by Senator Dole and Secretary Dole. I discussed with them their trip to Poland and ways that the United States might further support democratic change as your country enters a hopeful new period under Prime Minister Mazowiecki.

So much has happened since you hosted Barbara and me at your home last July. I want you to know that we are looking for ways to help you further. As you know, and have often said, our ability to help will depend to a large degree on steps toward economic reform that the new Polish government undertakes, but please be assured that Poland is not alone. You will have our continued strong support as you meet the challenges ahead.

I look forward to seeing you again during your visit to the United States in November and to returning the wonderful hospitality you showed me in Gdansk.

Sincerely,

George Bush

Mr. Lech Walesa
ul. Polanki 54
80-308 Gdansk
Poland

[redacted]

6827

PD 7/85

THE WHITE HOUSE

WASHINGTON

September 13, 1989 89 SEP 13 P3:10

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: Letter to Lech Walesa

Purpose

To reply to the Walesa's letter of August 26, delivered to you by Senator Dole and Secretary Dole.

Background

Senator Dole and Secretary Dole wrote just after their stop in Kennebunkport to expand upon their comments on Poland and to enclose a letter to you from Lech Walesa. You have acknowledged the Doles' letter and stop in Kennebunkport among the letters you sent to Congressional leaders regarding the Administration's legislative submissions for Poland and Hungary.

Walesa's letter focuses particularly on the need for emergency food aid; he argues that an airlift of American food supplies would have a "spectacular demonstration effect." Your reply expresses sympathy and support for the Polish cause and notes that the Administration is reviewing further measures to provide food aid and other assistance. It adds that you are looking forward to seeing Walesa during his trip to the U.S. in November.

RECOMMENDATION

That you sign the letter at Tab A.

Attachments
Tab A Letter to Walesa
Tab B Incoming

cc: Vice President
Chief of Staff

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

September 6, 1989

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: ROBERT D. BLACKWILL

FROM: ROBERT L. HUTCHINGS RLH

SUBJECT: Letter to Lech Walesa

At Tab I is a memorandum from you to the President attaching a letter for his signature to Lech Walesa. This replies to the Walesa letter that Senator Dole delivered personally to the President. The letter thanks Walesa for his comments and assures him that the Administration is reviewing its economic assistance measures for Poland, including food aid.

In a package forwarded separately (log #6861) of Presidential letters to Congressional leaders, we have included in the letter to Senator Dole the President's acknowledgement of the Walesa letter. It also acknowledges a separate letter sent by the Doles just after their stop in Kennebunkport.

Concurrences by: Condoleezza Rice, Tim Deal.

RECOMMENDATION

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

Attachments
Tab I Memorandum for the President
Tab A Letter to Walesa
Tab B Incoming

KANSAS

United States Senate

OFFICE OF THE REPUBLICAN LEADER
WASHINGTON, DC 20510

6327

DATE: _____

COVER SHEET -- TELECOPY

TO: Bob Gates
Deputy Nat. Sec. Adviser

FROM: Al Lehn
Sen. Dole's Office

NUMBER OF PAGES TO FOLLOW: 6

Please deliver. IMMEDIATELY

To: BOB GATES
Four items: (1) the Doles' letter to the President; (2) the Walesa letter to the President; (3) our off-the-top-of-our-heads list of ideas on how to go about signalling U.S. support for the Mazowiecki Government; and (4) the talking points I did for Dole for the meeting at Kennebunkport.

Best regards,

Am

AL LEHN

Sent By: _____

Time: _____

ALFRED M. LEHN
NATIONAL SECURITY AFFAIRS ADVISOR
TO THE REPUBLICAN LEADER

U. S. SENATE
SH-141, HART SENATE OFFICE BLDG. (202) 224-6552
S-230, THE CAPITOL (202) 224-3135

United States Senate

OFFICE OF THE REPUBLICAN LEADER
WASHINGTON, DC 20510

August 28, 1989

The President
Kennebunkport

Dear Mr. President:

Twelve days ago, on the eve of our visit to Morocco, Soviet Armenia, Poland and the Netherlands, you asked that we bring back a firsthand report on our impressions. We return from that trip today, convinced that events in Poland, in particular, are so critical that we ought to offer you our observations and thoughts immediately. We appreciate your seeing us today in Kennebunkport for that purpose.

Mr. President, as you know, one of the most exciting political adventures of the 20th century is unfolding in Poland. We arrived in Warsaw on the day that Poland elected its first democratically-chosen leader in a half century. We met Prime Minister Mazowiecki the next day. We met, too, with Lech Walesa, who has led the fight for freedom in Poland. We spent more than two hours with Bronislaw Geremek, Solidarity's parliamentary leader, and visited with several other key players in the democratization movement.

One of our most extraordinary experiences was observing a Solidarity parliamentary caucus -- watching freely elected Poles publicly and openly discuss the future of the people and country they represent.

We also called on Polish President Jaruzelski. We are convinced he is acting sincerely and responsibly to help Poland through these critical times.

Each of the leaders we met expressed deep appreciation for the important initiatives you have already taken for Poland. And from each of them we also received one compelling message. The next weeks and months will be critical to Poland's political and economic future. Poland's cry for political freedom has been answered, but that nation's daunting economic and social problems

remain. Every Polish leader we met agrees: the new government's "honeymoon" will be brief -- at most, a few months. During that period, the Mazowiecki government must respond effectively -- and, equally important, be seen by the Polish people as responding effectively -- to the country's critical problems. Unless the Polish people see some concrete results, to give them hope that democracy will bear not only political but economic fruits, the high hopes of the moment could pass quickly.

If the new government stumbles, if it loses its momentum and popular support, it will be unable to make the difficult choices that lie ahead, and powerless to implement needed reforms. Should all that happen, and it could, the cost to democracy in Poland and to the broader struggle for freedom would be incalculable.

Mr. President, we are delivering to you a personal letter of appeal from Lech Walesa, urging a specific initiative he feels could send a clear signal of American support for the new government. Other Polish leaders offered other suggestions -- short and long term. But each and every one of them -- while understanding that their future must fundamentally be their responsibility -- believes that visible American support now is vitally important.

We believe they are right. Right now, the United States has an historic opportunity to nurture Poland's newly-born freedom. We, therefore, urge you to consider sending some timely, clear signal that the United States will respond to the pressing needs of a democratic government in Poland.

We understand that any new American commitment must meet the budgetary test of these times, and therefore must enjoy an exceptional priority and promise a great return in the national interest. We are convinced that an emergency response to Poland's critical needs meets this requirement.

We look forward to providing to you soon a more complete account of our trip -- which will encompass such other very important areas as the status of the Armenian earthquake reconstruction effort, our discussions with Moroccan King Hassan on Lebanon and Angola, and the vibrance of our close security relationship with the Netherlands.

For now, though, Mr. President, we want to affirm our commitment to support any initiatives you undertake to keep America clearly on the side of Poland's new government and new democracy.

Sincerely yours,

BOB DOLE

ELIZABETH DOLE

Lech Wałęsa

SOLIDARNOŚĆ

ul. Polanki 54
80-308 Gdańsk
tel. 52-05-62

The President of the United States of America
The White House
Washington, D.C.

August. 26, 1989

Dear Mr. President:

Thank you for your letter of 16 August 1989.

I was delighted to meet Senator Robert Dole, and his wife, Elisabeth, the U.S. Secretary of Labor. I take the advantage of their good services to pass on my letter to you.

It is my sincere conviction that at this particular political junction in Poland, a spectacular action would be mostly needed -- an action that would testify of the United States' friendship and readiness to help our country. Such an action should consist of food aid. This food is badly and immediately needed in the face of acute food shortages in Poland and, equally important, to cushion the new Government's short-term counter-inflationary program.

Air-lifting of these American food supplies for Poland could have a spectacular demonstration effect for our country and abroad: it could be, I feel, no less important than the supplies themselves.

With my best wishes for Mrs. Barbara Bush and yourself

Yours sincerely,

Lech Wałęsa

SIGNALLING AMERICAN SUPPORT FOR DEMOCRACY IN POLAND

- An emergency airlift of food aid -- either "new" aid or P.L. 416 aid already approved (Walesa's request).
- An Administration request for "new" aid to Poland -- either reprogrammed FY89 AID money or an urgent supplemental appropriation.
- Presidential appeal for the formation of a private sector fund-raising group, to pledge "stand-by" aid in the event of a food emergency.
- Further public signal that U.S. intends to press allies for early, generous rescheduling of Poland's debt by Paris Club.
- Repayment of past food aid to remain in Poland in form of zlotys, thereby freeing up some hard currency.
- Further Presidential encouragement of American private investment in Poland, raising the profile of the Mossbacher visit.
- Strong private signal to Chancellor Kohl [redacted] that West Germany has a crucial role to play in short-term support for Poland. (Lubbers will speak to Kohl, too).

(4)

MEETING WITH THE PRESIDENT
Kennebunkport, Maine
August 28, 1989

Talking points: Poland

Historic crossroads

o MORE THAN A CRISIS; A REAL CROSSROADS -- FOR EUROPE AND COMMUNISM.

o AS A POLITICIAN, YOU CAN FEEL THE EXCITEMENT. THE SOLIDARITY CAUCUS -- IN THE SAME BUILDING WHERE YOU GAVE YOUR SPEECH TO PARLIAMENT -- WAS AN EXTRAORDINARY EXPERIENCE. YOU HAD TO KEEP REMINDING YOURSELF -- THIS IS POLAND.

o VERY FLUID SITUATION. CAN GO EITHER WAY.

o JARUSELSKI IS WORKING HARD TO KEEP THE LID ON AND THE PROCESS MOVING, BUT THE HARD LINERS ARE LURKING IN THE WINGS, HOPING FOR A BREAKDOWN OR A DEADLOCK.

o SOLIDARITY IS PLAYING "CATCH-UP BALL." THEY'VE GOT POWER SOONER THAN THEY EXPECTED -- AND THEY'RE STILL TRYING TO FIGURE OUT WHAT TO DO WITH IT.

o THERE ARE RISKS OF GETTING MORE VISIBLY INVOLVED.

o BUT, REGARDLESS OF THE REALITY, IF SIX OR EIGHT MONTHS DOWN THE ROAD THIS EXPERIMENT HAS GONE SOUR AND PEOPLE ARE SAYING IT FAILED BECAUSE WE DIDN'T DO ENOUGH, IT WILL BE A REAL BLOW TO US.

o BOTTOM LINE: THERE ARE RISKS, BUT THERE IS ALSO A BIG OPPORTUNITY TO CREATE AN INDELIBLE LINK AND IDENTIFICATION BETWEEN YOUR PRESIDENCY AND THIS GENUINE TURNING POINT IN 20TH CENTURY HISTORY.

Need emergency aid

o RIGHT NOW, IT'S A POLISH VERSION OF THE "PRAGUE SPRING." POPULAR EXPECTATIONS ARE HIGH.

o BUT EVERYONE WE SPOKE TO -- JARUSELSKI, WALESA, MAZOWIECKI -- IS CONVINCED THE NEW GOVERNMENT'S "HONEYMOON" IS GOING TO BE SHORT: WEEKS OR A FEW MONTHS, NO MORE.

o THE BIG PROBLEMS ARE STILL THERE. THE FUTURE WILL BE MOSTLY VERY TOUGH CHOICES AND BIG SACRIFICES.

o TO TACKLE THOSE PROBLEMS, THE NEW GOVERNMENT NEEDS TO GET SOME MOMENTUM; IT CAN'T STUMBLE RIGHT AT THE START.

o IT NEEDS TO SHOW SOME CONCRETE RESULTS, SO PEOPLE HAVE SOME HOPE THE COUNTRY'S ON THE RIGHT PATH, AND HAVE THE SENSE THAT THE SACRIFICES THAT WILL BE ASKED OF THEM HAVE SOME PURPOSE.

o FOR EXAMPLE, IF THIS GOVERNMENT GETS HIT WITH A MAJOR FOOD CRISIS IN THE NEXT FEW MONTHS, THE WHOLE THING COULD START TO UNRAVEL.

What should we do

o IF WE CAN DO SOMETHING QUICK, IT CAN HAVE A REAL IMPACT, ESPECIALLY PSYCHOLOGICALLY. MAZOWIECKI: "HE WHO GIVES NOW, GIVES TWICE."

o KEY IS NOT THE SIZE OF WHAT WE DO -- BUT THE SPEED AND VISIBILITY.

o WALESA WANTS AN AIRLIFT OF FOOD. WE THINKS THAT'S WORTH SERIOUS CONSIDERATION.

Soviet reaction

o EVERY POLISH LEADER WE MET, INCLUDING JARUSELSKI, TOLD US NOT TO WORRY ABOUT A SOVIET REACTION.

o MORE CHANCE OF SOVIET INTERVENTION IF THIS GOVERNMENT FAILS AND THERE IS POLITICAL CHAOS OR DEADLOCK -- THAN IF WE CAN HELP TO GET THEM "OVER THE HUMP" SO THEY CAN DEAL WITH MEDIUM AND LONG TERM PROBLEMS.

American politics

o THE DEMOCRATS ARE DROOLING OVER THIS "FREEDOM" ISSUE.

o WHAT'S GOING ON HAPPENED BECAUSE COMMUNISM IS AN ABYSMAL FAILURE AND BECAUSE OF REAGAN-BUSH POLICIES -- BUT THE DEMOCRATS WANT TO COMMIT GRAND THEFT AND STEAL THE ISSUE.

o DECONCINI AND LAUTENBERG WERE ALL OVER THE PLACE; SIMON WILL BE THERE SHORTLY.

o WHEN WE RECONVENE, WE'RE GOING TO BE DOING "MORNING BUSINESS" IN POLISH.

~~SECRET~~

~~SECRET~~

7352

THE WHITE HOUSE
WASHINGTON

CHRON FILE

September 29, 1989

4

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF LABOR
THE DIRECTOR, OFFICE OF MANAGEMENT & BUDGET
THE CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

SUBJECT: Economic Assistance to Poland (S)

Attached is a paper which responds to requests and comments by Principals at the meeting chaired by General Scowcroft on September 26, concerning possible additional U.S. financial and technical assistance to Poland. It describes the current economic and political situation in Poland; summarizes and evaluates the Polish economic reform program as outlined by the Polish Finance Minister in meetings with U.S. officials; and discusses how proposed U.S. assistance measures could help further the reform process in Poland. (S)

We are sending to you separately a "road map," which shows: (a) how U.S. policy has evolved in response to events in Poland; and (b) where the Polish economic reform with Western assistance is likely to lead over the coming years. We are circulating around noon today a proposed Presidential statement on this initiative for use early next week. (S)

Brent will be calling this afternoon to discuss this paper. (S)

Robert M. Gates
Assistant to the President and
Deputy for National Security
Affairs

Attachment
Tab A Poland's Economic Plight: An Evaluation

DECLASSIFIED
PER E.O. 13526
2009-1002-MR
SCS 1/22/13

~~SECRET~~
Declassify on: OADR

~~SECRET~~

~~SECRET~~

Poland's Economic Plight: An Evaluation of the Proposed Reform Program and Possible U.S. Assistance Measures

Political and Economic Situation in Poland

The establishment of the first noncommunist government in Poland is truly historic. Prime Minister Mazowiecki has a chance to gain the public trust that is needed for the difficult economic steps ahead, but the honeymoon is undoubtedly of limited duration. The public is weary of chronic economic distress and the standard of living is actually lower today than 10 years ago. Any further significant decline in the economic well-being of the population would likely bring labor unrest and demands that could strangle incipient economic reforms. Mazowiecki's government is walking a treacherous path between hard-line communists who count on unrest to provide a pretext for a crackdown and radical workers who are determined to maintain the welfare state at whatever cost.

Economic reform will require a substantial overhaul of the government's management of the economy. The new Solidarity-led government must rein in inflation and secure worker tolerance, if not support, for tough measures that will affect them adversely. At a minimum, this will mean budgetary and enterprise financial discipline and replacement of Communist party-affiliated plant managers and economic officials, who lack managerial or technical expertise. In addition, the government must introduce incentives into the system, including encouragement of private enterprises; educate the public on the need for reform; and quickly get and maintain consensus within the government on the recently announced economic reform program.

Poland's Reform Program and the Requested Foreign Assistance

The reform program outlined by the new Finance Minister in meetings with senior U.S. officials calls for radical surgery. The plan envisions sharp reductions in the budget deficit, monetary growth and domestic credit; removal of price controls; devaluation of the zloty and movement toward convertibility; and policies designed to hold wage growth below inflation. Over the medium-term the government plans to eliminate restrictions on private sector activity; privatize large sectors of the state enterprise sector; reform the tax system; and create a stock exchange and private banks with foreign participation encouraged.

~~SECRET~~
Declassify on: OADR

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PER E.O. 13526
2009-1002-MR
MM 11/7/2016

To carry out the program, the Poles have requested foreign economic assistance in addition to an IMF program which the Poles hope to conclude toward year's end. The Poles want Western governments to: (a) provide $490 million to cover a fourth quarter cash shortfall for 1989; (b) extend $1 billion in stabilization or stand-by loans in 1990; and (c) offer at least a three-year moratorium on official debt repayments.

Assessment of the Plan and Requested Assistance

The Polish economic situation is extremely complex and unique, involving both the problems of run away inflation and the difficulties of restructuring a non-market economy. Not only is the overall price level rising dramatically, requiring an economic stabilization program, but also there is no recent history of appropriate relative prices. This necessitates a far-reaching structural adjustment plan. Relative prices will be critical, for example, in determining where to allocate investment.

Structural adjustment, involving the transition to a market economy, cannot take place in the midst of hyperinflation, so macroeconomic stabilization is a prerequisite for success of subsequent measures. The Polish stabilization plan is radical, but this is not unusual for a stabilization plan. While further details will need to be specified, the basic elements seem quite sensible.

There is concern that radical stabilization will result in a large (30 percent) reduction in real wages as wage indexation is removed and prices jump following a devaluation and further removal of price controls. The available data, which suggest that real wages have risen by more than 30 percent over the past year, are likely to overstate the current real wage level. Especially in urban areas, there are severe shortages of many goods. Stabilization and improvement in distribution could help urban workers, even if it resulted in a large measured real wage cut.

The Polish Plan calls for three types of foreign assistance:

(1) The requested $490 million would come in advance of an IMF stand-by and would need to be available in December. The Poles have arrived at the figure in the following way: They estimate that their fourth quarter cash shortfall will total $880 million. They are requesting $490 million to cover principal and interest due on unsecured debt and for imports of basic goods, including grain and pharmaceuticals. The remaining $390 would be covered by already announced

Western food assistance and deferral of interest payments on their London Club debt (commercial debt).

(2) The Poles want a $1 billion fund for currency stabilization. The money would have to be available in the January-March time-frame and would come after an IMF stand-by was negotiated. The fund might substantially improve the likelihood of successful economic stabilization. The amount is not excessive. A smaller amount would be less effective.

A currency stabilization fund would function primarily to strengthen the credibility of the Polish authorities in implementing the comprehensive macroeconomic stabilization program. Such a program is designed to restore stability in the face of extreme inflationary pressures and a balance of payments crisis. The $1 billion lends credibility to the authorities' commitment to stable prices and a stable currency by enabling them to defend against speculative attacks. The very fact of a G-7 backed fund would build faith in the zloty. This may be a critical factor in the success of macroeconomic stabilization. For instance, the successful Israeli stabilization of 1985 included a U.S. currency stabilization loan of $1.5 billion over 2 years.

The money could be extended as loan or grant. Grants would probably be more effective since the West would then not add to Poland's heavy indebtedness. If the funds were not needed (if there were no run on the zloty), the grant could be used to augment the Enterprise Fund. This approach might also silence critics in Congress -- led by Paul Simon -- who wish to enhance the Enterprise Fund by $300 million per year over three years. We do, however, have the option of using loans for the stabilization fund.

The $1 billion figure for Poland represents the equivalent of about 2 months of Polish convertible currency imports. The size of the proposed fund relative to GDP is substantially smaller than the Israeli stabilization loan. The proposed loan to Poland is about 3.3 percent of GDP, while the loan to Israel was roughly 7.5 percent of GDP.

(3) The Polish Plan also calls for at least a 3-year moratorium on official debt repayments. The rationale is that Poland will require "time out" from transferring resources abroad so as to begin restructuring the economy. The resources can be used for investment domestically. A "time out" is likely to be an important component of getting the Polish economy on its feet. The United States has already indicated willingness to support early and generous

treatment of Polish debts in the Paris Club in advance of an IMF agreement.

As summarized in the accompanying paper, the United States and other countries already have proposed a wide range of short-term and longer-term measures. However, many measures, for example, to encourage private investment, are unlikely to be successful without macroeconomic stabilization. Medium and longer-term measures should be supported and encouraged. However, as the Polish Plan recognizes, the first steps should focus on a well formulated macroeconomic stabilization program.

The U.S. Response

To regain the initiative and provide a coherent framework for expanded U.S. assistance efforts the President could announce soon the next phase in our efforts to assist recovery in Poland. The House Foreign Affairs Committee intends to act Wednesday on both the Administration's pending Polish legislation and on a modified Simon-Cranston bill. The likely result is adoption of the modified Simon bill. Simon's bill has already been reported out of Senate Foreign Relations and is ready to go to the Senate floor. The following measures are for consideration by principals:

1. $200 Million Grant or Loan for Economic Stabilization

In response to Poland's request for a $1 billion stabilization fund after negotiation of an IMF program in 1990, the United States could offer $200 million in new grant or loan money for economic stabilization. We would ask our allies to contribute the remaining $800 million. One potential use of the fund would be to bolster Polish foreign currency reserves (balance of payments support) and provide a cushion against a collapse of the zloty. The advantages of such a grant are:

-- It responds to Poland's specific requests.
-- It would provide immediate economic support to the new Solidarity-led government as it attempts to introduce necessary, but painful, economic reforms.
-- It would allow the Administration to regain the initiative from Congressional critics who favor more costly, but less focused, aid measures.

The $490 million request is more problematic because the funds are required in advance of an IMF stand-by and cuts against our insistence on conditionality. The request might be handled through some combination of private sector contributions of funds

for imports and public encouragement of commercial debt rescheduling.

2. Presidential Mission

In addition to the $200 million grant for stabilization purposes, the President could dispatch a high-level mission to Poland. Such a Presidential Mission would have both symbolic and substantive objectives. It would symbolize an enhanced U.S. commitment to assist Poland in the most effective way possible and demonstrate the President's continuing personal involvement. Substantively, its mandate would be to:

-- Contact economic leaders in the private and public sectors and further relationships already established by the visits of Secretary Mosbacher and the Agriculture Department to Poland;
-- Establish the cooperative framework for channeling U.S. expertise, public and private, into the sectors where it is needed most and likely to be most productive.
-- Coordinate this activity with the Polish stabilization program.
-- Establish mechanisms and organizational arrangements to facilitate the gathering of reliable data from which priorities for the sectors key to Poland's economic growth can be established and specific opportunities for technical assistance and investment of private capital can be identified;
-- Recommend a follow-through program with specific timelines and goals under which the appropriate experts will develop necessary data and identify specific technical assistance needs and investment opportunities.

The Mission would report to the President who would then brief Congress and selected world leaders and make his recommendations. Either at the time of his statement outlining the new package or at the time that the Mission reports to him, the President could announce that he is naming a senior-level U.S. Coordinator for Poland to coordinate follow-on activities. The Coordinator would be responsible for coordinating U.S. public and private sector efforts and be the main contact with Poland and other countries, relevant international organizations, the Congress, and the media.

The $200 million stabilization grant and the Presidential Mission focus on different issues, but they are actually closely interrelated. It is essential that the United States response be cast in a coordinated economy-wide perspective. The $200 million grant would provide for stability of prices which is essential if

economic reforms at the micro level are to be successful. The important initiatives resulting from Secretary Mosbacher's mission -- new cooperative frameworks, private sector agreements, and follow-up investment missions -- which will be developed as part of the Presidential Mission will have a lasting impact only if overall economic stability is achieved. Moreover, reductions in real wages and changes in relative prices, which are likely to result from the indexation reforms and the stabilization effort, have important implications for how firm-specific or sector-specific cooperation might best take place. Experiences with market reforms in China and Chile in recent years suggest the potential for failure if the individual reforms are not coordinated and sequenced in a proper fashion.

Expertise provided by the proposed U.S. Coordinator and coming from his team on the ground in Poland would eventually provide for a proper integration of all parts of the program. But in the meantime, it is essential that the Presidential Mission focus on how macroeconomic stabilization efforts and likely relative price changes interact with the many promising individual initiatives that will result from the Mission.

In developing this program for U.S. assistance to Poland, we should not draw attention away from Hungary. Poland has reached a new stage of reform with the selection of a non-communist government, but Hungary is also in the midst of fundamental political and economic change. Multiparty elections will likely be held next year, and the Hungarians have long had the most market-oriented economy in Eastern Europe. We need to take account too of the Hungarian's recent decision to allow East German refugees to emigrate to the FRG -- a decision that strained Hungarian relations with its conservative Warsaw Pact allies. Hungary's economic problems are not as severe as Poland's and the difficulties are of a different character. Effective aid to Hungary may rest heavily on technical assistance and private investment -- though debt restructuring may be necessary at some point too. The Hungarians have already developed an economic reform plan, and we should be prepared to respond after the elections next year.

Allied coordination is a key element of an effective Western assistance program for Poland and Hungary. In reasserting U.S. leadership we must be careful that our initiatives are cast not as "made in America" but as our contribution to the Western effort. The President sponsored the concept of concerted action at the Paris Summit and endorsed the G-24 meetings. The U.S. must not be seen as backing away from a concerted effort. When the President decides on our new package, he should send letters to his counterparts describing our new initiative and asking that they contribute to the $1 billion fund. We might also instruct

U.S. ambassadors in allied capitals to reiterate the need for Western support of a Paris Club rescheduling and other elements of the President's extant program.

The President could make an announcement of the new package early next week (Monday or Tuesday). At that time, the President might also issue invitations to President Jaruzelski and Prime Minister Mazowiecki to visit the United States.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506
September 28, 1989

SIGNED

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: DEANE E. HOFFMANN/ROBERT D. BLACKWILL

FROM: TIMOTHY E. DEAL/CONDOLEEZZA RICE CR

SUBJECT: Economic Assistance for Poland

Attached, as requested, is a memorandum from you to the Secretaries of the Departments and other Principals who participated in the meeting you chaired on September 26 concerning Poland.

We will send you separately for distribution to the agencies a revised "road map" of how U.S. and Western policy has evolved in response to events in Poland and where the Polish economic reform is likely to lead in the years ahead.

Concurrence by: Virginia Lampley

RECOMMENDATION:

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

Attachments
Tab I Memorandum to the agencies
Tab A Poland's Economic Plight: An Evaluation
Tab II OMB's Informal Memo on Sources of Fund

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September 27, 1989

Agency for International Development (AID) offers bilateral grant assistance that might be used for economic stabilization purposes. The Foreign Operations Appropriations Bill, which passed on the Senate floor on September 26, includes an earmark of $45 million of Economic Support Fund (ESF) and/or Development Assistance (DA) for Poland. The ESF could provide fast disbursing grants for commodity import programs for items in short supply in Poland, such as building materials. The DA can provide slower disbursing grants for technical assistance, which could be used in support of economic stabilization efforts. Grant possibilities include: (i) education programs (e.g., business schools) and (ii) the development of capital markets.

Major cons to possible use: shortage of unearmarked funds, slow disbursing nature of technical assistance grants.

U.S. Export-Import Bank provides direct loans and guarantees to foreign borrowers on behalf of US exporters. Possible uses in Poland include funding for spare part imports and the capital goods imports necessary in the transportation, mining and manufacturing sectors (e.g., cannery factories).

Major cons to possible use: shortage of loan resources, loans are slow disbursing, will obviously require repayment, and are linked to specific long term projects. Eximbank is currently not open for business in Poland, as Eximbank's statute requires reasonable assurance of repayment. Current exposure in Poland is $410 million, of which $172 million is in arrears.

Overseas Private Investment Corporation (OPIC) has small direct loan and guarantee programs and considerably larger investment insurance programs. The Senate Foreign Operations Bill also earmarks $40 million from OPIC for Poland. The investment guarantees will be useful for some aspects of a long-term economic stabilization program (e.g., insurance of US bank branches or other commercial ventures in Poland).

Major cons to possible use: requires US private sector to take some initiative and therefore requires a favorable economic climate before large numbers of potential investments can be identified. Requires dollar repayment of loans and guarantees.

Exchange Stabilization Fund in Treasury can provide loans of less than six months (longer with Presidential notification to Congress) to foreign governments. Under Treasury policy, such loans involve no exchange rate or interest rate risk for the US Government, and must be fully secured by assured sources of repayment.

under current policy

Major cons to possible uses: loans are for short-term foreign exchange imbalances and repayment must be fully secured by assured sources of repayment, e.g. disbursements under an IMF program.

P.L. 480 Food Aid, with $97 million in an unallocated reserve for 1990, is probably one of the least disruptive in terms of budget costs and the effect on other country programs. Finding appropriate commodities can be a problem since the program is limited to commodities determined in excess supply in the U.S. market.

Section 416(b) commodity donation authority provides the added benefit of being all grant, but has an added restriction of using only commodities held in CCC stocks. We may have reached the limit of what can be effectively used in Poland under this program. Only the transportation costs are scored as new outlays.

GSM 102 & GSM 103 are financial guarantee programs for agricultural exports. A major benefit is that any agricultural commodity is eligible. However, Poland already owes roughly $2 billion under these programs and adding additional short-and-medium term debt would only complicate future balance of payments problems.

Food for Progress is potentially the most flexible tool for providing food assistance in support of policy reforms. It can be used to provide grant assistance for a broad array of agricultural commodities. The downside is that it would be scored as additional outlays, if the commodities are not in excess in the domestic market.

Subsidized sales can be provided under a number of CCC programs. The major drawback is the relatively small contribution these programs would make toward balance of payments problems in Poland.

Major cons of all the agricultural export programs include:

- Absorptive capacity problems and potential disincentive effects. USDA reports that Poland's food problems are not the result of inadequate agricultural production, but reflect inadequate marketing and distribution systems and the uncertainty and speculation surrounding the recent removal of the state price-control system. (Poland's per capita caloric intake exceeds that of the United States.)

- Terms of the assistance. Many of the food assistance programs are in the form of loans or subsidized sales. While helping in the short run, loans will add to an already unmanageable debt burden and subsidized sales still require partial payment in hard currency.

- Does not provide additional foreign exchange. While food assistance may free up foreign exchange for other purposes, it does not add new foreign exchange into the system and therefore is not as beneficial for balance of payments support as cash transfers.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

September 29, 1989

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Natl Sec Advisor has seen

INFORMATION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: ROBERT D. BLACKWILL RB

FROM: CONDOLEEZZA RICE CR

SUBJECT: Letter from Harvard Economist, Jeffrey Sachs

Harvard Economist, Jeff Sachs has been advising the Poles on economic reform. Most of the elements of the plan presented to you by the Polish Finance Minister were worked out in conjunction with Sachs.

After Sachs' discussion with us, we asked that he write to you about the plan in greater detail. Sachs' letter is at Tab I.

Attachment
Tab I Incoming letter

Return to
Condi Rice

September 27, 1989

General Brent Scowcroft
National Security Advisor
White House
Washington, D.C.

Dear General Scowcroft:

Ambassador Blackwill suggested that I write to you to give you additional information concerning Poland's request for a U.S. contribution to a multilateral $1 billion stabilization fund. I strongly believe that such a fund would be an extremely effective form of assistance to Poland. Let me therefore outline the proposal and answer several questions that have been raised concerning the design and implementation of such a stabilization fund.

The proposal

The United States and other Western governments would lend or grant Poland $1 billion dollars for the purpose of increasing Poland's foreign exchange reserves, thereby strengthening the capacity of the Government of Poland (GOP) to stabilize the value of the Polish zloty vis-a-vis the U.S. dollar. The U.S. share of the total contribution would be in the order of $200 - $300 million. The money would become available to the GOP upon the approval of an IMF Standby loan by the IMF Executive Board. Such approval can be expected by the end of December.

Economic background

Poland is now suffering from an acute financial collapse, manifested by a hyperinflation (with prices rising by about 50 percent per month) and a severe breakdown of consumer markets for several basic commodities. In addition, the exchange rate is grossly overvalued, with an official exchange rate of 1,500 zloty per dollar, compared with a free exchange rate of 10,000 zloty per dollar.

The key task of the government in the next six months is to restore price stability, in a way that will support the long-term transformation of the economy into a market economy. The key steps in this process are: (1) a large currency devaluation to equate the official exchange rate and the free rate, followed by a stabilization of the value of the zloty vis-a-vis the dollar; (2) a sharp cut in the budget deficit, in part through a sharp cut of existing subsidies; and (3) an elimination of most administrative price controls, so that relative prices in the economy are rationalized.

With a well-designed and comprehensive program, these measures can produce an end to the hyperinflation, but only after a difficult transition period of "corrective inflation" caused by the elimination of subsidies and the devaluation of the exchange rate. The stabilization of the zloty vis-a-vis the dollar will play a fundamental role in the transition from high inflation to price stability, since the stable exchange rate will stabilize the domestic prices of key commodities.

The mechanism of currency stabilization

The key step in currency stabilization is to eliminate the budget deficit, and thereby to obviate the need for the central bank to finance the expenditures of the government (i.e. to "print money"). But an additional very important step is for the Central Bank to maintain sufficient foreign exchange reserves so that it is able to supply dollars to the public upon demand at the fixed price that it has established (e.g. 10,000 zloty per dollar). In a well-designed stabilization program, the reserves do not actually need to be used, or at least not after a brief period during which the public comes to understand that the exchange rate will not change. The reserves function as a kind of "deposit insurance" for the public, to provide confidence to the public that their zlotys can, indeed, be converted to dollars at a stable price in the future. This confidence prevents a speculative attack against the currency, in which the public en masse attempts to convert domestic currency into dollars. Of course, if the country is hit by unexpected external shocks (such as a rise in a key import price), the part of the foreign reserves might and should be used in defending the exchange rate.

Poland's foreign exchange reserve position

The past government virtually depleted Poland's foreign exchange reserves. By official estimate, there are $450 million of liquid foreign reserves at the Central Bank, and some additional amount of non-liquid reserves (e.g. pledged against imports). There are also some dollar holdings in the state banking system outside of the Central Bank.

The $450 million has two official purposes. Somewhat arbitrarily, approximately $200 million is deemed to be backing for the $4 billion or more of dollar denominated deposits held by the public in the Polish state banks (obviously the $200 million provides only a small fraction of backing). The remaining $250 million is deemed to be the disposable cash reserves of the central bank, to be used for imports or currency stabilization.

Standard economic guidelines regard the minimum prudent level of reserves to be 3 months of imports. Poland's imports from the West come to about $500 million per month. Thus, Poland has about 2 weeks of official reserves, compared with a prudent

level of about $1.5 billion. The stabilization fund would quickly raise Poland's foreign exchange reserves to about 2.5 months of imports. Together with the first drawing of the IMF loan, the reserve level would reach approximately 3 months.

Relations of stabilization fund to other forms of assistance

In addition to the $1 billion stabilization fund, Poland has requested a standby loan from the IMF on the order of $700 million, as well as a Structural Adjustment Loan from the World Bank for $500 million. The IMF money would be disbursed in tranches during 1990, with the each disbursement equalling about $175 million. Even the full disbursement of the IMF money will add only to reserves only 1.4 months of imports, and so is not sufficient by itself to support the stabilization of the zloty. The World Bank money should be used to ease the adjustment process by financing a rise in imports, rather than to increase reserves.

Safeguards on use of the stabilization fund

The $1 billion stabilization fund would be conditioned on the completion of a standby arrangement with the IMF. The IMF program itself would be based on the assumption that the $1 billion disbursement will be largely used to increase reserves rather than to increase spending. The IMF program will establish various performance criteria throughout 1990, including a guideline for foreign exchange reserves, violation of which can trigger a suspension of Poland's right to make further drawings from the IMF loan. Thus, if the money is misused for increased spending, the sanction would be an interruption of the IMF program.

Terms of the provision of funds

Under the best circumstances, the stabilization money should be made available as a grant, in order to best enhance the ability of the GOP to maintain a stable value of the currency. If the money is made available as a loan, the longer the maturity of the loan, the greater will be the confidence in the stability of the zloty.

Of course, the U.S. faces one key tradeoff in this regard. Under the operations of the Exchange Stabilization Fund at the Treasury, it would be possible to make a loan to Poland for up to one year without the need for budgetary appropriations. (Typically, ESF loans are made for 6 months or less, but can be extended beyond this time with Presidential authorization).

Timing

In my opinion, it is urgent that the West announce now its intention to support the stabilization fund, contingent on a successful negotiation between the GOP and the IMF. The despair and pessimism in Poland at the moment are overwhelming, and create the risk of political paralysis and ideological stalemate over economic measures. The announcement of a significant multilateral aid program, conditioned on a strict program of exchange convertibility and budgetary control, would immediately cut through the paralyzing uncertainties, and give backing to the reform-minded economics team headed by Deputy Prime Minister Leszek Balcerowicz.

I hope that you find this information useful for your consideration. I would, of course, be available to you or your staff to provide any additional information.

Sincerely yours,

Jeffrey D. Sachs
Galen L. Stone Professor
of International Trade
Harvard University

cc. Ambassador Robert Blackwill

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RECORD ID: 8907752
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TO: BAKER, J

FROM: GATES

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DOC DATE: 30 SEP 89
SOURCE REF:

KEYWORDS: POLAND ECONOMIC ASSISTANCE

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PERSONS:

SUBJECT: ECONOMIC ASST TO POLAND / PART II

ACTION: GATES SGD MEMO TO AGENCIES DUE DATE: 03 OCT 89 STATUS: C

STAFF OFFICER: HOFFMANN LOGREF:

FILES: PA NSCIF: CODES:

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FOR ACTION FOR CONCURRENCE FOR INFO

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Hutchings
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THE WHITE HOUSE
WASHINGTON

September 30, 1989

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF LABOR
THE DIRECTOR, OFFICE OF MANAGEMENT & BUDGET
THE CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

SUBJECT: Economic Assistance to Poland (S)

Attached, as promised, is a proposed Presidential statement, announcing the new initiatives toward Poland for use early next week. Please focus only on the substance, not the presentation. It has not been to the speechwriters. (S)

Robert M. Gates
Assistant to the President and
Deputy for National Security
Affairs

Attachment
Tab A Draft Presidential Remarks

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DRAFT REMARKS FOR THE PRESIDENT

I want to take a few minutes to talk about new steps I am taking to support the extraordinary progress of democracy in Poland.

No one can doubt this Administration's commitment to supporting this process. Our policy has been to provide support step by step. Last April at Hamtramck I announced a series of economic assistance measures. During my July visit to Poland, I re-affirmed U.S. support when I announced the creation of a $100 million Enterprise Fund and major initiatives in labor, the environment, management training and exchange programs. The Paris Economic Summit endorsed my proposal for developing concerted Western action in support of Poland.

Now, in light of clearly growing needs, a Solidarity-led government committed to fundamental reform, and our self-evident stake in its success, we must do more.

Forty years of communism have done Poland as much damage as the World War II, but in a different way. The basic economic problem in Poland is structural. The system does not work and needs redesigning. The existing system has deprived Poland of the key ingredients of success: individual initiative; the free flow of capital, goods, people, and information; the incentives of a free marketplace. Such vital sectors as agriculture, banking, communications, and transportation have been stifled. There are not even valid statistics on which to base recovery efforts.

I believe the United States, the industrialized democracies, and the IMF and World Bank have much to offer in the way of insight, practical experience and technical knowledge. This can make a decisive difference.

Any nation's strength is based on its people -- their education, their skills, their creativity, and their courage. We know these human resources are abundantly present in Poland. We need only to help them lift up the dead hand of central planning and statism and build a more open system, with a free market that regards private initiative and liberates their own talents. Such a wholesale structural transformation requires know-how, technical and management skills, and financial expertise, as well as funds to ease the pain of transition.

We believe, and our Western economic allies agree, that Western financial assistance must go hand in hand with economic reform and Poland's conclusion of an agreement with the IMF. Working with the IMF, Poland can put together a sound economic recovery program which will restore its creditworthiness and open the way to billions of dollars in new loans and credits.

We are encouraged by the steps Poland is taking in this direction. This week the new Polish government outlined its economic reform program, which calls for strong anti-inflationary measures and rapid movement toward a market economy. In the context of the successful conclusion of an IMF agreement, the

Polish government has called for $750 million from the IMF and $1 billion from the industrialized countries in stabilization loans. I want to be responsive to that request in two ways. First, I will extend substantial new economic support for Poland. The United States will extend a $200 million grant for stabilization purposes, contingent upon Poland reaching agreement with the IMF. We will encourage the industrialized democracies -- and particularly our Economic Summit partners -- to also contribute to the $1 billion stabilization fund Poland has requested.

This aid is only a short-term measure, however. To be successful, Poland needs to develop its own capacity for sustained economic development. Hence, responding to Poland's request for economic and technical assistance, the United States will make available the best minds and ideas that America has, to help Poland with its awesome task of rebuilding. I am instructing [my Secretaries of Agriculture and Commerce and the Chairman of the Council of Economic Advisers] to lead a Presidential Mission to Poland. This mission will comprise experts from finance, agriculture, industry, business, transportation, communications, and labor. Drawing from the best talent in our society -- public and private, business, labor, and academia -- these Americans will work with their Polish counterparts to help them develop short- and long-term plans of action. Americans will be working in Poland through the dark hours of winter to the warmth of next summer to build a partnership with Poland leading to economic recovery.

The short-term objective of this mission will be to establish -- as soon a possible -- a cooperative framework for channeling U.S. assistance, public and private, directly in the sectors where it is most needed and likely to be most productive. I look to it to recommend a detailed follow-on program for a variety of sectors, with specific timetables and goals, which will identify more precisely, technical assistance priorities and investment opportunities.

These efforts to help change the long term structure and performance of the Polish economy are in addition to our efforts to meet the immediate needs of the Polish people. We have pledged over $100 million in food aid for the Polish people. The first shipments are already on the way. Working with the other industrialized democracies, we will provide the necessary help during this time of special need.

The future of Poland depends on concerted and sustained Western action. No country alone can provide all the help Poland needs. The Concerted Action Group of the twenty four industrialized democracies, created by the Paris Economic Summit is coordinating emergency food aid and developing a common Western strategy towards Poland, one worth hundreds of millions of dollars. I expect more Western resources for Poland will be forthcoming from this multilateral effort.

[I have discussed these steps with Congressional leaders.] I welcome the innovative ideas put forward by Congressional leaders

of both parties. I want to continue working with Congress to develop a bipartisan approach towards our common goal -- providing swift and effective support to the people and goverment of Poland. At this critical moment, Poland and all the Poles must know that they do not stand alone.

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WASHINGTON, D.C. 20506

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BoS -- Brent said he wanted to send this around town. I myself wonder if it is a good idea to get all these folks involved in the drafting of a Presidential statement, as opposed to its substance.

Bob Blackwill

September 28, 1989

ACTION

MEMORANDUM FOR ROBERT M. GATES

THROUGH: DEANE E. HOFFMANN/ROBERT D. BLACKWILL

FROM: ERIC D. MELBY/ROBERT L. HUTCHINGS

SUBJECT: Economic Assistance for Poland

Attached at Tab I is a memorandum from you to the Principals who participated in the meeting on September 26, transmitting the text of a proposed Presidential statement on our new initiatives toward Poland.

RECOMMENDATION:

That you sign the memorandum at Tab I to Cabinet Secretaries and other Principals.

Attachments
Tab I Memorandum to the Agencies
Tab A Draft Presidential Remarks

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PER E.O. 13526
2009-1003-MR
SCS 11/29/13

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NSC/S PROFILE

RECORD ID: 8907721
RECEIVED: 28 SEP 89 16

CHRON FILE

TO: MAZOWIECKI, TADEUSZ
JARUZELSKI, WOJCIECH

FROM: PRESIDENT

DOC DATE: 04 OCT 89
SOURCE REF:

KEYWORDS: POLAND HS

PERSONS: MAZOWIECKI, TADEUSZ JARUZELSKI, WOJCIECH

SUBJECT: PRES MSG TO JARUSELSKI & MAZOWIECKI

ACTION: CABLES SENT VIA SIT RM DUE DATE: 02 OCT 89 STATUS: C

STAFF OFFICER: HUTCHINGS LOGREF:

FILES: PA NSCIF: CODES:

D O C U M E N T D I S T R I B U T I O N

FOR ACTION	FOR CONCURRENCE	FOR INFO
		BLACKWILL
		HOFFMANN
		HUTCHINGS

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White House Guidelines
E.O. 13526, SEC 3.4 (b), September 11, 2006
By CAP NARA, Date 4/27/12

COMMENTS: NO HARD CY TO FOLLOW CABLES

DISPATCHED BY _____ DATE _____ BY HAND W/ATTCH

OPENED BY: NSMDC CLOSED BY: NSMDC DOC 3 OF 3

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~~CONFIDENTIAL~~ RECORD ID: 8907721

ACTION DATA SUMMARY REPORT

DOC	ACTION OFFICER	CAO	ASSIGNED	ACTION REQUIRED
001	SCOWCROFT	Z	89092917	FOR DECISION
002	PRESIDENT	Z	89100920	FOR DECISION
003		X	89101215	PRES APPROVED RECOM
003		X	89101215	CABLES SENT VIA SIT RM

UNCLASSIFIED UPON
REMOVAL OF CLASSIFIED
ATTACHMENTS

CAP 4/27/12

WHITE HOUSE SITUATION ROOM

PAGE 01 OF 03

PRT: VANEPON

PREC IMMEDIATE CLAS ~~CONFIDENTIAL~~ DTG 040527Z OCT 89

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~~C O N F I D E N T I A L~~ STATE 318279
EXDIS
E.O. 12356: DECL: OADR
TAGS: PREL, PL US
SUBJECT: (Ø) PRESIDENTIAL MESSAGES TO PRESIDENT JARUZELSKI AND PRIME MINISTER MAZOWIECKI
1. (Ø) ENTIRE TEXT.
2. PLEASE DELIVER AT THE EARLIEST OPPORTUNITY THE FOLLOW- MESSAGES FROM PRESIDENT BUSH TO PRESIDENT JARUZELSKI AND TO PRIME MINISTER MAZOWIECKI. THERE WILL BE NO SIGNED ORIGINALS.
3. TEXT OF MESSAGE TO PRIME MINISTER MAZOWIECKI.
BEGIN TEXT. DEAR MR. PRIME MINISTER,
I WAS GLAD TO RECEIVE YOUR LETTER OF SEPTEMBER 25, AND WAS IMPRESSED ONCE AGAIN BY YOUR DETERMINATION TO PRESS AHEAD WITH THE ECONOMIC AND POLITICAL TASKS BEFORE YOU. I SHARE YOUR HOPES FOR POLAND'S FUTURE AND UNDERSTAND THAT THE SUCCESS OF YOUR EFFORTS WILL DEPEND, IN PART, ON WESTERN SUPPORT
MY ADMINISTRATION HAD A SERIES OF MEETINGS LAST WEEK WITH YOUR KEY MINISTERS AND REVIEWED THE OUTLINES OF THE ECONOMIC REFORM PROGRAM THEY PRESENTED. IT IS A BOLD AND COURAGEOUS PLAN, WHICH I HOPE WILL LEAD TO EARLY CONCLUSION OF AN AGREEMENT WITH THE IMF. IT ALSO CALLS FOR ONE BILLION DOLLARS IN ECONOMIC STABILIZATION ASSISTANCE FROM THE INDUSTRIALIZED COUNTRIES IN THE CONTEXT OF AN IMF AGREEMENT.
I WANT TO BE RESPONSIVE TO POLAND'S REQUEST AND TO ENCOURAGE THE WEST'S CONCERTED ACTION TOWARD THAT END. I HAVE THEREFORE DECIDED TO REQUEST THAT THE US CONGRESS APPROVE A 200 MILLION DOLLAR STABILIZATION GRANT FOR POLAND. THIS GRANT WOULD BE CONTINGENT UPON POLAND'S CONCLUSION OF AN AGREEMENT WITH THE IMF, AND UPON THE RECOMMENDATIONS OF AN EXPERTS' MISSION THAT I WOULD PROPOSE TO SEND TO POLAND SOON. THIS WOULD BE THE US CONTRIBUTION TO THE ONE BILLION DOLLARS IN WESTERN STABILIZATION ASSISTANCE YOUR GOVERNMENT HAS REQUESTED. I WILL WORK WITH OUR LEADING ECONOMIC PARTNERS TO ENSURE COMPLETE FINANCING OF THE STABILIZATION FUND, SINCE THE CONCEPT IS WORKABLE ONLY IF FULLY FUNDED.
THE POLISH ECONOMIC REFORM PROGRAM ALSO CALLS FOR CLOSE CONSULTATION WITH THE INTERNATIONAL COMMUNITY AS THE PLAN IS DEVELOPED AND IMPLEMENTED. I AGREE THAT SUCH CONSULTATIONS WOULD BE USEFUL TO ASSIST YOUR REFORM EFFORTS AND YOUR NEGOTIATIONS WITH THE IMF. I THEREFORE WOULD LIKE TO SEND A HIGH-LEVEL PRESIDENTIAL MISSION TO POLAND CONSISTING OF ECONOMIC AND TECHNICAL EXPERTS WHO WOULD DISCUSS AND EVALUATE YOUR NEEDS AND PLANS. ON THE BASIS OF THEIR REPORT, AND AFTER CONSULTATIONS WITH OUR WESTERN ECONOMIC PARTNERS, I WOULD THEN FORMULATE A MORE

DETAILED PLAN FOR HOW BEST TO STRUCTURE LONG TERM US ASSISTANCE TO POLAND. THIS LONG TERM PLAN WOULD BE DESIGNED PRIMARILY TO STIMULATE AGRICULTURAL AND PRIVATE SECTOR DEVELOPMENT AND HELP TO MAKE POLAND ECONOMICALLY STRONG AS QUICKLY AS POSSIBLE.
HAVING IMPRESSED THE WORLD WITH ITS RAPID MOVEMENT TOWARD DEMOCRATIC CHANGE, POLAND IS NOW EARNING INTERNATIONAL ADMIRATION FOR ITS DETERMINATION TO ADDRESS THE DIFFICULT STEPS NEEDED TO RESTORE POLAND'S CREDITWORTHINESS AND PUT

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ITS ECONOMY ON THE ROAD TO RECOVERY. I SALUTE YOU FOR YOUR EFFORTS. AND PLEDGE ONCE AGAIN OUR CONTINUING SUPPORT FOR POLAND'S NEW BEGINNING.
I ALSO WOULD WELCOME THE OPPORTUNITY TO MEET WITH YOU PERSONALLY AND TO DISCUSS YOUR PLANS FOR POLAND'S FUTURE AND WAYS THE UNITED STATES MIGHT BE HELPFUL. MAY I THEREFORE TAKE THIS OCCASION TO INVITE YOU TO VISIT THE UNITED STATES AT AN EARLY OPPORTUNITY. I VERY MUCH LOOK FORWARD TO MEETING YOU.
WITH WARM REGARDS, SINCERELY. END TEXT.
4. TEXT OF MESSAGE TO PRESIDENT ZARUZELSKI.
BEGIN TEXT.
DEAR MR PRESIDENT,
YOU SPOKE ELOQUENTLY DURING MY VISIT ABOUT YOUR HOPES FOR POLAND'S FUTURE AND THE IMPORTANCE OF U.S. SUPPORT FOR POLAND'S ECONOMIC RECOVERY. I ASSURED YOU THAT WE WOULD HELP AND ANNOUNCED SPECIFIC MEASURES WE WOULD TAKE AND ARE TAKING. TO MEET POLAND'S NEEDS FOR EMERGENCY FOOD SUPPLIES. AS YOU KNOW, WE ARE ALSO MAKING AVAILABLE MORE THAN USD 100 MILLION IN FOOD AID IN THE COMING YEAR.
MY ADMINISTRATION HAD A SERIES OF MEETINGS LAST WEEK WITH KEY MINISTERS OF THE NEW POLISH GOVERNMENT AND REVIEWED THE OUTLINES OF THE ECONOMIC REFORM PROGRAM THEY PRESENTED. IT IS A BOLD AND COURAGEOUS PLAN, WHICH I HOPE WILL LEAD TO EARLY CONCLUSION OF AN AGREEMENT WITH THE IMF. IT ALSO CALLS FOR USD 1 BILLION IN ECONOMIC STABILIZATION ASSISTANCE FROM THE INDUSTRIALIZED COUNTRIES IN THE CONTEXT OF AN IMF AGREEMENT.
I WANT TO BE RESPONSIVE TO POLAND'S REQUEST AND TO ENCOURAGE THE WEST'S CONCERTED ACTION TOWARD THAT END. I HAVE THEREFORE DECIDED TO REQUEST THAT THE U.S. CONGRESS APPROVE A USD 200 MILLION STABILIZATION GRANT FOR POLAND. THIS GRANT WOULD BE CONTINGENT UPON POLAND'S CONCLUSION OF AN AGREEMENT WITH THE IMF, AND UPON THE RECOMMENDATIONS OF AN EXPERTS' MISSION THAT I WOULD PROPOSE TO SEND TO POLAND SOON. THIS WOULD BE THE U.S. CONTRIBUTION TO THE USD 1 BILLION IN WESTERN STABILIZATION ASSISTANCE YOUR GOVERNMENT HAS REQUESTED. I WILL WORK WITH OUR LEADING ECONOMIC PARTNERS TO ENSURE COMPLETE FINANCING OF THE STABILIZATION FUND, SINCE THE CONCEPT IS WORKABLE ONLY IF FULLY FUNDED.
I TOLD YOU DURING MY VISIT OF MY DESIRE TO ASSIST POLAND EFFECTIVELY AND PROMPTLY. I BELIEVE THAT CONSULTATIONS BETWEEN EXPERTS IN THE WEST AND THOSE IN POLAND WOULD BE USEFUL TO ASSIST YOUR REFORM EFFORTS AND YOUR NEGOTIATIONS WITH THE IMF. I THEREFORE WOULD LIKE TO SEND A HIGH-LEVEL PRESIDENTIAL MISSION TO POLAND CONSISTING OF ECONOMIC AND TECHNICAL EXPERTS WHO WOULD DISCUSS AND EVALUATE YOUR NEEDS AND PLANS. ON THE BASIS OF THEIR REPORT, AND AFTER CONSULTATIONS WITH OUR WESTERN ECONOMIC PARTNERS, I WOULD THEN FORMULATE A MORE DETAILED PLAN FOR HOW BEST TO STRUCTURE LONG TERM U.S. ASSISTANCE TO POLAND. THIS LONG-TERM PLAN WOULD BE DESIGNED PRIMARILY TO STIMULATE AGRICULTURAL AND PRIVATE SECTOR DEVELOPMENT AND HELP TO MAKE POLAND ECONOMICALLY STRONG AS QUICKLY AS POSSIBLE.
SO MUCH HAS HAPPENED SINCE WE MET IN JULY. POLAND IS EARNING INTERNATIONAL ADMIRATION FOR ITS DETERMINATION TO ADDRESS THE DIFFICULT STEPS NEEDED TO RESTORE POLAND'S CREDITWORTHINESS AND PUT ITS ECONOMY ON THE ROAD TO RECOVERY. I SALUTE YYOU. MR. PRESIDENT. FOR YOUR WISDOM AND REALISM IN LAUNCHING POLAND ON THE ROAD TO REFORM LAST APRIL.
I HOPE THAT YOU WILL ALLOW ME TO RETURN YOUR

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WHITE HOUSE SITUATION ROOM

GENEROUS HOSPITALITY DURING MY VISIT TO POLAND AND RENEW OUR VERY USEFUL DISCUSSIONS IN LIGHT OF ALL THAT HAS TRANSPIRED SINCE JULY. MAY I TAKE THIS OPPORTUNITY TO INVITE YOU TO VISIT THE UNITED STATES EARLY IN THE COMING YEAR. I WILL VERY MUCH LOOK FORWARD TO SEEING YOU AGAIN.
WITH WARM REGARDS.
SINCERELY.
END TEXT. BAKER
BT
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~~CONFIDENTIAL~~

CHRON FILE 7525 Add-on

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

September 30, 1989

Natl Sec Advisor has seen

6- Statement was released - not sure which one

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: ROBERT D. BLACKWILL/DEANE HOFFMANN dlh for

FROM: ROBERT L. HUTCHINGS RLH

SUBJECT: Press Release on Poland

4

We have prepared an updated White House Statement on our policy toward Poland and Hungary. It focuses mainly on Poland and provides conceptual elaboration to Administration policy from Hamtramck on and would be released at the time of the President's announcement of his new initaitive.

in draft RLH
Peter Rodman concurs.

RECOMMENDATION

That you authorize Philip Hughes sign the Tab I memorandum for Cicconi.

Approve _____ Disapprove _____

Sig's this OBE mm
J.

Attachments
Tab I Hughes Memorandum for Cicconi
Tab A Draft Press Release

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White House Guidelines
E.O. 13526, SEC 3.4 (b), September 11, 2006
By CAP NARA, Date 4/27/12

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~~CONFIDENTIAL~~ CONFIDENTIAL 7515 Add-on

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

MEMORANDUM FOR JAMES W. CICCONI

SUBJECT: Press Release on Poland

Attached is a draft press release elaborating the President's approach toward Poland and Hungary and specific measures he has taken to support economic reform and democratic change. It is meant to follow the President's announcement of his new initiatives and should be released soon thereafter.

G. Philip Hughes
Executive Secretary

Attachment
Tab A Draft Press Release

DECLASSIFIED
White House Guidelines
E.O. 13526, SEC 3.4 (b), September 11, 2006
By CAP NARA, Date 4/27/12

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

STATEMENT BY THE PRESS SECRETARY

The world has watched with wonder as Poland has moved -- swiftly and peacefully -- to form a new government under Prime Minister Mazowiecki, the first non-Communist government in Eastern Europe in more than forty years. We salute President Jaruzelski, Prime Minister Mazowiecki, Solidarity leader Lech Walesa and so many other distinguished Polish leaders for their courage and wisdom in helping bring about a new beginning for Poland.

From the very start of this Administration, President Bush has taken the lead in supporting reform in Poland and Hungary. At Hamtramck, Michigan, in April, on the day of the signing of the Roundtable Agreement in Poland, the President announced a set of measures to open U.S. markets and encourage private sector loans and investments. In July, he visited Poland and Hungary and spoke before the new, freely elected Polish parliament, as well as to a massive gathering at the Solidarity monument in Gdansk. He announced a further comprehensive package of assistance measures to support Poland's economic and political regeneration, a package which took account of the fact that Poland did not yet have its new government or its new economic policies in place. He announced a similar program during his visit to Hungary, which is also embarked on a promising path of political and economic reform. A few days later, at the Paris Economic Summit, the President proposed and our Summit partners agreed to a plan for concerted Western action to encourage and assist economic reform and democratic change in Poland and Hungary.

In early September, the Administration submitted to Congress a comprehensive legislative proposal that would create a $100 million Enterprise Fund for Poland and a $25 million Fund for Hungary, as well as a Labor Initiative and an Environmental Initiative together totalling $20 million. In addition to this $145 million proposal and other initiatives we have taken by reprogramming existing resources, we have offered $100 million in emergency food aid to Poland in the coming fiscal year, in addition to $8 million in FY 89. In dollar terms, this total package already involves over $250 million.

We have also moved to encourage new trade and investment, granting both Poland and Hungary access to the U. S. Generalized System of Preferences and authorizing, pending Congressional

action, the Overseas Private Investment Corporation to operate in both countries. On September 18, the President announced that he would grant Hungary permanent Most Favored Nation status, pending passage by the Hungarian parliament of new emigration legislation.

We have engaged the resources and creativity of the private sector, recognizing that the U.S. Government alone could not, and should not, render all the support Poland and Hungary require. On the eve of his trip to those countries in July, the President hosted a White House Symposium in which he urged leaders from the American private sector -- labor leaders, businessmen, educators, and others -- to be actively engaged in supporting economic and political change in Eastern Europe. In mid-September, Commerce Secretary Mosbacher led a U.S. investment mission to Poland and Hungary, where he and American businessmen developed concrete proposals to encourage new private investments, joint ventures, and other forms of expanded U.S. business involvement in redeveloping these two economies.

The dramatic changes in Poland over the past two months have lent new urgency to our efforts. What Poland is doing is historic, in the largest sense of the word. It holds the promise not only of a peaceful transition to democratic rule in Poland, but also of the beginning of the end of Europe's division, toward a Europe whole and free. It is also unprecedented: never before has a country attempted a successful transformation of a state-controlled economic and political system into one of political pluralism, democracy and a market economy. The new Polish government under Prime Minister Mazowiecki has a chance to consolidate the public trust that is needed for the difficult economic steps ahead, but it faces major economic problems.

There is no disagreement that Poland needs, and will have, strong U.S. support. The question is how best to provide that support. We believe, as do our Western economic partners, that Poland can best go forward by reforming its economy and becoming credit-worthy again by reaching early agreement with the IMF on an economic reform plan. We also support a prompt and generous Paris Club rescheduling of Poland's international debt. This, along with agreement with the IMF, will make Poland eligible for IMF and World Bank loans totalling hundreds of millions of dollars annually. It will also give confidence to official and commercial creditors, whose participation in Poland's recovery is vital.

Poland is taking important steps toward reforming its economy. The Administration had a series of meetings last week with key ministers in the new Polish government and reviewed the outlines of their economic reform program. It is an ambitious and bold plan, calling for radical economic reform and rapid movement toward agreement with the IMF. An integral part of the plan is an urgent request for Western economic assistance in helping to stabilize the Polish economy as reforms are implemented. In the

context of an agreement with the IMF, the Poles seek, in addition to IMF and World Bank support, $1 billion in stabilization funds from the industrialized countries.

In response to Poland's request, the President has decided on two major new steps.

First, he will ask Congress to approve a $200 million grant for stabilization purposes, which would be the U.S. contribution to the $1 billion in Western assistance the Poles have requested, and which would be contingent upon conclusion of an IMF agreement. The President will be ready to work with Congress to develop a strong bipartisan approach toward the common goal of providing prompt and effective support to the government and people of Poland.

Second, in addition to providing urgently needed assistance to help stabilize the Polish economy as reforms are introduced, it is important to develop a longer term strategy to assist Poland's recovery. Toward that end, the President will send to Warsaw within the next few weeks a Presidential Mission including senior U.S. officials and business and academic leaders to discuss with the Polish government its economic plans and evaluate its needs. This mission will focus on those economic sectors where U.S. expertise and experience can be of greatest assistance -- agriculture, business management, financial services and others, pinpointing areas for reform and for productive use of assistance resources. This initial mission will be followed by experts missions in key economic sectors.

As the President has said, the future of Poland and Hungary depend on concerted and sustained Western action. These efforts must be complementary, not duplicative, and must be coordinated with the efforts of the IMF and World Bank. That is why the President called on our G-7 economic partners at the Paris Economic Summit to establish new mechanisms for coordinating our efforts. The twenty-four nation "Group for Economic Assistance to Poland and Hungary", which emerged from the Paris Summit, has already met three times and has pledged $271 million dollars in emergency food aid to Poland. It has also begun to develop a common assistance strategy for Poland and Hungary. Beyond food aid, West Germany, France, Britain, Japan, and several other countries have already announced their intention to provide substantial bilateral assistance. The IMF has indicated it will move quickly in assisting Poland to develop an overall economic stabilization and reform program, and the World Bank is prepared to extend major new credits once an IMF program is in place.

These are the steps the Administration has taken and will be taking in support of democratic change in Poland and Hungary: economic assistance conditioned upon real progress toward reform,

business and technical assistance, the opening of investment and trade opportunities, and concerted Western action in conjunction with other industrialized democracies and the international financial institutions. These combined measures constitute an international recovery program that provides broad and substantial Western support for the historic changes now underway in Poland and Hungary.

ECONOMIC ASSISTANCE FOR POLAND

1. Historic moment: With our help Poland can move to a democratic political system with a market-based economy that will change the face of Eastern Europe.

2. People and government of Poland face immediate economic crisis and the need for fundamental reform.

   -- Inflation rising rapidly -- now estimated at over 300 percent this year.

   -- Budget deficit ballooned from near balance last year to an estimated 8 percent of GNP in 1989.

   -- Non-agricultural production and prices largely controlled by the government. 90 percent of industry now state-owned, virtually all monopolies; 30 percent of the labor force is employed in agriculture.

   -- Prices unrelated to market forces and do not reflect costs.

3. Polish authorities are committed to dealing with these problems, but there will be transitional costs as stability is restored and labor and capital are shifted in response to market forces.

4. To minimize these costs, restructuring must take place hand in hand with financial stabilization so that whole program is growth-oriented.

5. U.S. assistance must be based on a comprehensive assessment of the long-term needs of the Polish economy during this period of fundamental reform.

   -- Our response should not be driven by ad-hoc requests and Congressional pressures each time the economy runs into trouble.

   -- We should avoid responding to demands for short-term financial fixes that would undermine a comprehensive long-term approach.

6. We want people to be able to look back a year from now and say that the President of the United States reponded with a far-sighted program for aiding the transition in Poland.

7. Current efforts are fragmented; there is a need now for <u>real</u> Presidential and U.S. leadership.

   -- The EC Commission can contribute limited types of assistance but it does not have the ability to orchestrate an innovative long-term program of Western assistance.

   -- Congress is going off on its own.

7. The President should present the Administration's proposals in the context of responding to both the short-term crisis and the long-term needs of the Polish economy with a program to integrate bilateral and multilateral assistance with Poland's stabilization and restructuring efforts.

8. The Administration's program should recognize the likely path of reform:

   -- (a) the first year, with IMF standby, concentrating on reducing inflation and making necessary institutional changes (establishment of bankruptcy laws, banking system, safety net, etc.); and

   -- (b) this would make possible phase two, the conversion of economy to a market-based system with assistance of three-year IMF extended arrangement.

8. The President could:

   -- Propose high-level meeting to develop Western "Marshall Plan" to coordinate all international assistance. (This could be done by elevating the EC Commission effort to Ministerial level. World Bank could be given a prominent role.)

   -- Announce appointment of a special bilateral Bush Commission for Poland and Hungary (with a prominent U.S. coordinator) involving government, business, Congressional, and academic leaders.

      The Commission would (1) advise the President; (2) mobilize private and public resources; and (3) match that support to the needs of the Polish restructuring program.

      The Commission could also focus on assistance to retrain, relocate, and assist workers displaced by the shift to a market economy.

   -- Announce U.S. support for immediate Paris Club rescheduling, without waiting for an IMF program.

      One possibility we could explore would be a standstill.

   -- Announce U.S. will contribute to a stabilization and restructuring fund after further consultation with the allies on the appropriate size and uses of such a fund. The fund would follow agreement on an IMF program.

   -- Announce U.S. willingness to participate in multilateral bridge loan to an agreed IMF program.

-- Call on the IMF and the World Bank to play a strong role in providing policy advice and financial support.

  - o IMF could provide a one year stand-by loan of $400 to $700 million, followed by a three year program of between $1.6 and $2.1 billion.

  - o World Bank could move $500 million in project loans relatively soon and then could negotiate a structural adjustment loan on the order of $500 million in late 1990 or 1991.

-- Call on the World Bank could be given the additional, special responsibility of coordinating a phalanx of technical assistance by bilateral donors.

National Security Council
The White House

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Dep Exec	1	U	1
~~Philip Hughes~~			
Bob Gates	2		
Brent Scowcroft			
Philip Hughes			
Situation Room			
West Wing Desk	3	29. 96	N
NSC Secretariat	4		OBE Per Gates

A = Action I = Information D = Dispatch R = Retain N = No further Action

cc: VP Sununu Other _____

Should be seen by: _____ (Date/Time)

COMMENTS