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Subseries: NSC/DC Meetings Files

OA/ID Number: 90009
Folder ID Number: 90009-015

Folder Title:
NSC/DC 015 - March 30, 1989 - NSC/DC Meeting on Poland, Keywords: Poland

Stack:	Row:	Section:	Shelf:	Position:
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Withdrawal/Redaction Sheet

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Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01. Form	NSC Distribution Record, Re: DC [Deputies Committee] Meeting Agenda; redaction. (1 pp.)	03/29/89	(b)(3)	
02a. Memo	Brent Scowcroft to POTUS, Re: U.S. Response if the Polish Roundtable Reaches Agreement. (3 pp.)	n.d.	(b)(1)	S
02b. Paper	Deliberations of the Interagency Process on Poland. (3 pp.)	n.d.	(b)(1)	S
02c. Memo	Condoleezza Rice to Brent Scowcroft, Re: U.S. Response if the Polish Roundtable Reaches Agreement. (2 pp.)	n.d.	(b)(1)	S
03a. Memo	Condoleezza Rice to Robert Gates, Re: DC [Deputies Committee] Meeting on U.S. Policy Options if the Polish Roundtable Succeeds. (4 pp.)	03/29/89	(b)(1)	S
03b. Memo	Rozanne Ridgway to PCC [Policy Coordinating Committee] Participants, Re: Poland: U.S. Policy Options if the Roundtable is Successful. (1 pp.)	n.d.	(b)(3)	
03c. Paper	Poland: U.S. Policy Options If the Roundtable Is Successful: Executive Summary and Introduction. (24 pp.)	n.d.	(b)(1)	S
04a. Form	NSC Distribution Record, Re: PCC [Policy Coordinating Committee] Info.; redaction. (1 pp.)	04/01/89	(b)(3)	

Page 1 of 2

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WHORM Cat.:

File Location: NSC/DC 015 - March 30, 1989 - NSC/DC Meeting on Poland, Keywords: Poland

Pinksheet Number: RML4989

OA/ID Number: 90009-015

Date Closed: 9/14/2009

FOIA/Sys Case #: 2004-0967-F

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Withdrawal/Redaction Sheet

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04b. Paper	Deliberations of the Interagency Process on Poland. (3 pp.)	n.d.	(b)(1)	S

Page 2 of 2

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FOIA/Sys Case #: 2004-0967-F

Re-review Case #:

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NSC/S PROFILE

RECORD ID: 8920257
RECEIVED: 29 MAR 89 15

TO: AGENCIES

FROM: HUGHES

DOC DATE: 01 APR 89
SOURCE REF:

KEYWORDS: POLAND
DC

AGENDA

PERSONS:

SUBJECT: NOTIFICATION OF DC MTG ON 30 MAR RE POLAND

ACTION: DUE DATE: 30 MAR 89 STATUS: C
STAFF OFFICER: RICE LOGREF: 8920262
FILES: IFM O NSCP: DC015 CODES:

DOCUMENT DISTRIBUTION

FOR ACTION

FOR CONCURRENCE

FOR INFO
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E.O. 12958, SEC 3.4 (B) September 11, 2006
By *RAK* NARA, Date *09/11/09*

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ACTION DATA SUMMARY REPORT

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CAO ASSIGNED ACTION REQUIRED

001 HUGHES
002
003 HUGHES
003

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Philip Hughes

Bob Gates

Brent Scowcroft

Philip Hughes

Situation Room

West Wing Desk

NSC Secretariat

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D/N

A = Action

I = Information

D = Dispatch

R = Retain

N = No further Action

cc: VP

Sununu

Other _____

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89 MAR 31 P 7: 41

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89 MAR 29 P3:44

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COMMENTS

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NOM-DC-Poland on March 30
at 10:00am

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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20257

March 29, 1989

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E.O. 12958, SEC 3.4 (B) September 11, 2006
By Pam NARA, Date 09/11/05

MEMORANDUM FOR

MR. CARNES LORD
Assistant to the Vice
President for National
Security Affairs

MR. MELVYN LEVITSKY
Executive Secretary
Department of State

MS. EMILY L. WALKER
Executive Secretary
Department of the Treasury

COLONEL GEORGE P. COLE, JR.
Executive Secretary
Department of Defense

MS. PAT KEARNEY
Special Assistant to the
Secretary
Department of Agriculture

CRAIG R. HELSING
Chief of Staff
Department of Commerce

MR. FRANK HODSOLL
Executive Associate Director
Office of Management and
Budget

MR. H. LAWRENCE SANDALL
Executive Secretary
Central Intelligence Agency

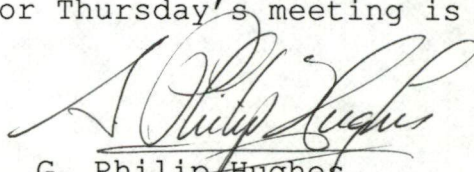
MR. GARY EDSON
Chief of Staff
U.S. Trade Representative

CAPTAIN ANTHONY MANESS
Executive Assistant to the
Chairman
Joint Chiefs of Staff

MR. ARTHUR E. GREEN
Acting Executive Secretary
U.S. Information Agency

Subject: Deputies Committee Meeting on Poland, Thursday,
March 30, 1989, WHSR, 10:00 A.M. ~~(S)~~

A meeting of the Deputies Committee will be held to discuss our response should there be a successful conclusion of the Polish Roundtable. The meeting will be Thursday, March 30, at 10:00 a.m., in the White House Situation Room. Attendance should be principals plus one. An agenda for Thursday's meeting is attached. ~~(S)~~


G. Philip Hughes
Executive Secretary

Attachment
Tab A Agenda ~~(S)~~

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~~SECRET~~

20257

DEPUTIES COMMITTEE MEETING

POLAND

Thursday, March 30, 1989
White House Situation Room
10:00 a.m.

Agenda

- I. Assessment of the State of the Polish Roundtable
Negotiations.....Richard J. Kerr
- II. Overview of the PCC Options Paper.....Robert M. Kimmitt
- III. Discussion of Options

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By Jan NARA, Date 09/11/09

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FROM G. PHILIP HUGHES BTM 456-2224
(NAME) (EXTENSION) (ROOM NUMBER)

MESSAGE DESCRIPTION AGENDA FOR 30 MARCH DC MTG

LOG: 20257

<u>TO (AGENCY)</u>	<u>DELIVER TO:</u>	<u>DEPT/ROOM NO.</u>	<u>EXTENSION</u>
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<u>DEFENSE</u>	<u>GEORGE COLE</u>	<u>EXEC SECRETARIAT</u>	_____
<u>CIA</u>	<u>H SANDALL</u>	<u>EXEC SECRETARIAT</u>	_____
<u>JCS</u>	<u>ANTHONY MANESS</u>	<u>EXEC ASSISTANT</u>	_____
<u>COMMERCE</u>	<u>CRAIG HELSING</u>	<u>CHIEF OF STAFF</u>	_____
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Date Closed:	9/14/2009	OA/ID Number:	90009-015
FOIA/SYS Case #:	2004-0967-F	Appeal Case #:	
Re-review Case #:		Appeal Disposition:	
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AR Case #:		MR Case #:	
AR Disposition:		MR Disposition:	
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P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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20257

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White House Guidelines

E.O. 12958, SEC 3.4 (B) September 11, 2006

By Sam NARA, Date 09/11/09

March 29, 1989

SIGNED

ACTION

MEMORANDUM FOR G. PHILIP HUGHES

FROM: CONDOLEEZZA RICE *CR*

SUBJECT: Deputies Committee Meeting to Discuss Poland,
Thursday, March 30, 1989

The subject meeting is scheduled to take place at 10:00 a.m. on Thursday, March 30, in the White House Situation Room. This DC will focus on what our response will be should the Polish Roundtable conclude successfully.

The notification memorandum for the March 30 meeting is attached at Tab I and the agenda for the meeting at Tab A.

RB
Bob Blackwill concurs.

RECOMMENDATION

That you sign the memorandum at Tab I

Approve_____ Disapprove_____

Attachments

Tab I Memorandum to Executive Secretaries
Tab A Agenda

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CHAIRMAN, JCS The Pentagon	1	13.1 MAR 1989	1035	Mike Turner OCTCS MAT
DIRECTOR, OMB Room 252 OEOB	1			
U.S. REPRESENTATIVE TO UNITED NATIONS Room 6333, State Dept.				
THE SECRETARY OF COMMERCE 14th & Const. Ave. NW, Room 5851	1			
THE SECRETARY OF ENERGY GA257, Forrestal Bldg.				
DIRECTOR, AID Room 5942, Dept. of State				
THE ATTORNEY GENERAL Dept. of Justice, Room 5119				
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DIRECTOR, USIA 400 C Street, S.W., Room 800	1			
THE SECRETARY OF THE INTERIOR 18th & E. Street N.W., Room 6151				
THE SECRETARY OF AGRICULTURE Independence & 14th S.W., Room 200A	1			
UNITED STATES TRADE REPRESENTATIVE Room 209 Winder Bldg. 17 & F St. NW	1			
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DIRECTOR, DMSPA Room 3E813, Pentagon				
THE SECRETARY OF TRANSPORTATION 400 7th Street S.W.				
MANAGER, NATL COMMUNICATIONS SYSTEM (NCS), Room 4125 8th & SO Courthouse Rd., Arlington, VA				
THE SECRETARY OF HHS 200 Independence Avenue, NW, Room 615F				
THE SECRETARY OF HUD 451 7th Street SW, Room 10000				
THE SECRETARY OF EDUCATION 400 Maryland Avenue, SW, Room 4181				

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DM 8/15/11

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Page 1 of ____ Pages

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Situation Room
WHITE HOUSE

WHITE HOUSE

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THE WHITE HOUSE

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FROM

G. PHILIP HUGHES

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(NAME)

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(ROOM NUMBER)

MESSAGE DESCRIPTION

DC MTG 29 MAR

LOG: 20249

TO (AGENCY)

DELIVER TO:

DEPT/ROOM NO.

EXTENSION

TREASURY

MS. EMILY L. WALKER

EXECSEC

REMARKS

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Per 09/14/09

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NSC/S PROFILE

RECORD ID: 8920262
RECEIVED: 29 MAR 89 20

TO: PRESIDENT

FROM: SCOWCROFT

DOC DATE: 11 NOV 89
SOURCE REF:

KEYWORDS: POLAND

DC

PERSONS:

SUBJECT: US RESPONSE IF POLISH ROUNDTABLE REACHES AGREEMENT

ACTION: OBE PER SCOWCROFT

DUE DATE: 28 MAY 90

STATUS: C

STAFF OFFICER: RICE

LOGREF: 8920257

FILES: IFM O

NSCP: DC015

CODES:

DOCUMENT DISTRIBUTION

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FOR CONCURRENCE

FOR INFO
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White House Guidelines

E.O. 12958, SEC 3.4 (B) September 11, 2006

By FWC NARA, Date 09/14/09

COMMENTS: _____

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DOC 3 OF 3

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RECORD ID: 8920262

ACTION DATA SUMMARY REPORT

DOC ACTION OFFICER

CAO ASSIGNED ACTION REQUIRED

001 GATES	X	89032920 FOR INFORMATION
002 SCOWCROFT	Z	89030111 FWD TO PRES FOR INFORMATION
002	Z	89041216 OBE PER SCOWCROFT
003	X	89041216 OBE PER SCOWCROFT

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E.O. 12958, SEC 3.4 (B) September 11, 2006

By *RAH* NARA, Date *09/14/09*

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The White House**

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Situation Room

West Wing Desk

NSC Secretariat

A = Action

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D = Dispatch

R = Retain

N = No further Action

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Should be seen by: _____

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United States Department of State

Washington, D.C. 20520 20244

March 25, 1989

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MEMORANDUM FOR

MR. BRENT SCOWCROFT
National Security Affairs Advisor
The White House

MR. H. LAWRENCE SANDALL
Executive Secretary
Central Intelligence Agency

COLONEL GEORGE P. COLE, JR.
Executive Secretary
Department of Defense

CAPTAIN ANTHONY MANESS, USN
Exec. Asst. to the Chairman
Joint Chiefs of Staff

MS. EMILY L. WALKER
Acting Executive Secretary
Department of the Treasury

MR. CRAIG R. HELSING
Chief of Staff
Department of Commerce

MS. SHARON MARSHALL
Assistant to the Secretary
Department of Agriculture

MR. GARY EDSON
Chief of Staff
U.S. Trade Representative

MR. DAVID HAUN
Executive Assistant to
the Director, Office of
Management and Budget

SUBJECT: POLAND: U.S. Policy Options if the Roundtable is Successful

Attached is the paper prepared by the Policy Coordinating Committee on Poland. Please distribute the paper to relevant principals.

DECLASSIFIED
Department of State Guidelines
E.O. 12958, SEC 3.4 (B), July 21, 1997
By RM NARA, Date 09/14/09

Richard W. Mueller
for Melvyn Levitsky
Executive Secretary

Attachment:
As stated.

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NSC/S PROFILE

RECORD ID: 8920262
RECEIVED: 29 MAR 89 20

TO: GATES

FROM: RICE
BLACKWILL

DOC DATE: 29 MAR 89
SOURCE REF:

KEYWORDS: POLAND

DC

PERSONS:

SUBJECT: BACKGROUND PAPER FOR DC MTG ON 30 APR RE POLAND

ACTION: FOR INFORMATION

DUE DATE: 28 MAY 90

STATUS: C

STAFF OFFICER: RICE

LOGREF: 8920257

FILES: IFM O

NSCP: DC015

CODES:

DOCUMENT DISTRIBUTION

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NSC CHRON
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E.O. 12958, SEC 3.4 (B) September 11, 2006

By *RMC* NARA, Date *09/14/09*

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DOC 1 OF 3

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RECORD ID: 8920262

ACTION DATA SUMMARY REPORT

DOC ACTION OFFICER

CAO ASSIGNED ACTION REQUIRED

001 GATES
002 SCOWCROFT
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E.O. 12958, SEC 3.4 (B) September 11, 2006

By DM NARA, Date 09/14/09

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**National Security Council
The White House**

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Bob Perito

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Situation Room

West Wing Desk

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A = Action

I = Information

D = Dispatch

R = Retain

N = No further Action

cc: VP

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Other

COMMENTS

Should be seen by:

(Date/Time)

THE WHITE HOUSE
WASHINGTON

Patty DESK First Thing Monday

Brent:

Please discuss John Whitehead
and Walesa trip to USA

gb

*Bush memo
paper!*

GB

4-2-89

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02a. Memo	Brent Scowcroft to POTUS, Re: U.S. Response if the Polish Roundtable Reaches Agreement. (3 pp.)	n.d.	(b)(1)	S

Collection:

Record Group: Bush Presidential Records

Office: National Security Council

Series: H-Files

Subseries: NSC/DC Meetings Files

WHORM Cat.:

File Location: NSC/DC 015 - March 30, 1989 - NSC/DC Meeting on Poland, Keywords: Poland

Date Closed: 9/14/2009	OA/ID Number: 90009-015
FOIA/SYS Case #: 2004-0967-F	Appeal Case #:
Re-review Case #:	Appeal Disposition:
P-2/P-5 Review Case #:	Disposition Date:
AR Case #:	MR Case #:
AR Disposition:	MR Disposition:
AR Disposition Date:	MR Disposition Date:

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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- P-3 Release would violate a Federal statute [(a)(3) of the PRA]
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- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

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

- (b)(1) National security classified information [(b)(1) of the FOIA]
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- (b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- (b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
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Deliberations of the Interagency Process on Poland

Interagency groups have deliberated on U.S. policy toward East Europe and specifically Poland. The strong prospect of agreement in early April at the Roundtable talks in Poland that would bring a political breakthrough there has made consideration of a U.S. response an urgent policy issue.

The DC met on March 30 on Poland. The DC rejected a purely hortatory response and agreed that the U.S. should make an immediate and substantive public response to successful conclusion of Roundtable Accords; and remanded consideration of longer-term responses that would require significant U.S.G. funding.

The DC considered specific elements of an immediate substantive response to events in Poland and discussed a number of concrete measures. There exists agreement over five of the seven elements of such a response but substantial disagreement over the other two. None requires significant budgetary outlays.

The DC recommends we begin prompt consultations with our allies and, as appropriate, with Congress. G-7 Finance Ministers are meeting this weekend, and our G-7 partners have stated their intention to raise economic and financial issues related to Poland. Treasury will report the results of these exchanges.

Agreed Elements. The DC agreed that consultations with the allies should begin immediately on the following:

Multilateral steps:

- 1. Paris Club. The U.S. could indicate to its Allies willingness to consider substantial rescheduling of official debt within the Paris Club, once an IMF standby is negotiated for Poland.
- 2. IFC. The U.S. could publicly indicate willingness to support viable private sector loans by the International Finance Corporation, a World Bank affiliate.

Unilateral steps:

- 3. GSP. We could announce intention to seek legislation to accord Poland Generalized System of Preferences. ☒ GSP eliminates tariffs on a variety of products.

- 4. OPIC. We could announce intention to seek legislation making Poland eligible for OPIC (Overseas Private Investment Corporation) insurance. OPIC provides support for private investment.

Steps 3 and 4 would require legislation and would entail immediate, informal discussions with key Congressional leaders.

- 5. Private sector involvement.
 - o We could announce intention to negotiate a government-to-government Small/Private business agreement to facilitate direct contacts with Poland's private business sector.
 - o We could announce support for expanded training and exchange programs, targeted at the emerging private sector.
 - o We could signal our support for voluntary private sector swaps of existing Polish debts for equity in Polish enterprises, or environmental, educational or other humanitarian programs.

There remain interagency differences on two significant elements of a possible response:

- IMF standby. There is agreement the USG should no longer block Poland's negotiations with the Fund on political grounds and that any outcome should be subject to the usual IMF standards. There is disagreement on the conditions under which the U.S. should support formal negotiations between Poland and the IMF toward a stand-by loan for Poland. Treasury believes Poland must first establish a track record of economic reform and stabilization before negotiating a stand-by. State believes the U.S. should allow Poland and the IMF to negotiate immediately for a standby.
- World Bank. The World Bank staff has negotiated project loans valued at about \$250 million but the Bank's final approval of these loans is subject to conclusion of an IMF standby program. Treasury is concerned about overall Polish creditworthiness in the absence of sound macroeconomic policies by the Polish government, which would be evidenced by an IMF decision to grant a standby loan. Treasury believes that to allow the Bank to go forward without the assurances that an IMF standby would provide, would signal a major

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shift in U.S. and G-7 efforts to encourage close coordination between the World Bank and the IMF on their activities in debtor countries. State believes the U.S. should indicate willingness to see economically-viable project loans to Poland proceed on their merits, on a case-by-case basis, even before approval of an IMF standby for the Poles.

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George Bush Handwriting

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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Add On

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Brent--
You may also wish to
discuss with the President
his own involvement in
a U.S. initiative toward
Poland -- speech,
appearance before the
White House press,
etc., or a
less prominent role
for the President.

ACTION

March 30, 1989

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: ROBERT BLACKWILL *RB*

FROM: CONDOLEEZZA RICE

SUBJECT: U.S. Response if the Polish Roundtable Reaches Agreement

The Deputies Committee met today to consider a response if, as expected, the Polish Roundtable concludes successfully next week. The memorandum from you to the President at Tab I, apprises him of those deliberations and seeks his approval to initiate prompt consultations with our allies to inform them of the concrete measures we are considering and to explore their intentions upon conclusion of the Polish Roundtable. This would be done by State through normal diplomatic channels and by Treasury at the G-7 meetings this weekend. (State is worried that Treasury will present the ideas at the G-7 meeting in an unenthusiastic fashion). We would also like the President's approval to begin informal consultations with key Congressional leaders concerning those measures that would require legislation.

*RB
Blackwill*

Concrete options that the President might announce in the event of a successful agreement are appended in an interagency agreed paper at Tab A. The agencies are agreed on all but two of the measures on which State and Treasury hold different positions. We are not asking the President to make final decisions now but the DC believed that we should raise the issue with him immediately in order to get a sense of his thinking about his own involvement and his preferences for a response. (Kimmitt (protect) told Blackwill he wanted this tentative approach with the President because Kimmitt does not yet have Baker's approval for any of these measures).

The Polish Roundtable is expected to conclude successfully next week. If agreement is reached, the United States will be expected to respond, especially in light of then Vice President Bush's public promise in 1987 to show financial flexibility in support of political reform in Poland.

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PER E.O. 13526

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The end of our policy review on Eastern Europe dovetails nicely with the Polish accord but we cannot afford to delay in announcing our policy for this specific case. Our response should be made known within a few days of the announcement of a successful conclusion to the Roundtable. There are three risks if we wait longer: our allies may move out ahead of us; Gorbachev may seek to capitalize on the event, once again leaving us to play catch up; or we may appear to be reacting to pressure from the public and the Congress.

In short, we think that our review of U.S.-East European Relations (NSR 4) sets the context for a Presidential initiative on Poland and Eastern Europe of precisely the forward looking kind for which we have been looking. There is an NSC meeting on Eastern and Western Europe on Tuesday, April 4 at which a response to Poland can be raised if necessary.

WJ G. TD AS VL
Tim Deal and Virginia Lampley concur.

RECOMMENDATION

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

Approve ✓

Disapprove

Attachments

Tab I Memorandum for the President
Tab A Interagency Paper on Concrete
 Measures for Response

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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20262

March 29, 1989

INFORMATION

MEMORANDUM FOR ROBERT GATES

THROUGH: ROBERT BLACKWILL *RB*
FROM: CONDOLEEZZA RICE *CR*
SUBJECT: DC Meeting on U.S. Policy Options if the Polish
Roundtable Succeeds

This memorandum lays out suggestions for conducting the DC meeting on Poland. The context for consideration of the options was set in the DC review of NSR 4: U.S.-East European Relations. The immediate policy issue is how the United States should respond if there is a Roundtable agreement between Solidarity and the Polish regime.

Tab I | The PCC has produced a paper outlining three options should the Roundtable negotiations succeed. The meeting should begin with a brief assessment of the status of the Roundtable negotiations by Richard Kerr. Robert Kimmitt should then review the options presented by the paper. You may then want to walk the DC through the options in order to sharpen agency differences before this issue goes to the NSC. The "Analysis of Options," which begins at page 9, lays out the advantages, disadvantages, financial costs and process of implementation for each option very clearly. Finally, you may want to raise the issue of the response to Poland as a Presidential initiative. The paper on Poland is appended at Tab I.

The three options are:

(1) Support the Roundtable rhetorically and offer to consult with our allies on further measures that we might take. There would be no concrete initiatives.

(2) Support the Roundtable and lay out several immediate concrete steps the United States will take.

(3) Support the Roundtable, lay out concrete immediate the concrete steps and make reference to additional specific steps, in (2) above, and make reference to additional specific steps that we will be willing to take if the Polish reforms, particularly economic reforms, continued.

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Issue I: How should we respond if the Roundtable is successful?

Option I: Rhetorical support and Consultations

Discussion

This option was developed primarily by the economic agencies which argue that even if the Roundtable represents a major political advance, the economic reforms are likely to be minimal. We should, they argue, reward economic reform. The proponents of this view also argue that we have few resources to offer and that resource transfers should come from Western Europe.

This is an echo of the position expressed in the response to NSR 4. The problem in the Polish case is that the political realities are very different. First, rhetorical support is not what the Poles are seeking--or need. As you know the President promised the Polish regime that we would reward political reform with economic flexibility. To now require economic reform first would constitute "moving the goal posts." Moreover, we have told all of the East Europeans that political reform is a precondition for economic reform because illegitimate governments cannot impose strict austerity measures. Second, the Western allies will respond; the question is whether we will lead, follow them or stand apart from the exercise. We should be looking to "buy in" to the process at a reasonable price so that we have the leverage to promote our political agenda for Eastern Europe: the linkage of Western economic assistance to continued political and economic structural reform.

Option II: Immediate/Conditional Response

Discussion

This option is generally supported by the most agencies, with the exception of Treasury. State's European Bureau may lean toward Option III instead. At the working level, Commerce supported this approach. Defense and JCS have not expressed strong views.

The goal of this option is to make a concrete response without repeating the mistake of granting credits or assistance, unconditioned upon Polish implementation of economic reforms. The President would promise to take the specific steps examined below (or some subset of them). None of the individual items would have great impact on the Polish economy, but taken together they do offer some modest assistance.

There is general agreement that we could obtain Congressional support for most of these measures and that we would need to seek the support of the AFL-CIO as well. Immediate U.S. budgetary outlays would be minimal but there might be contingent liabilities if the Poles default on OPIC guarantees.

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Specific Elements of Option II

--Make clear that the U.S. government has no objections to negotiations between the IMF and Poland on a stand-by program. This would put the U.S. in a neutral position. We would not ask the IMF for softer terms for Poland but would drop the objections to negotiations that we have voiced on political and economic grounds.

--Announce that we would support Paris Club rescheduling if and when an IMF stand-by loan was negotiated which might involve interest capitalization, i.e. adding interest owed to principal. If an IMF stand-by is agreed, the U.S. would then support Paris Club rescheduling.

--Support economically and financially viable project loans for Poland from the World Bank before an IMF standby loan is negotiated. There is disagreement among the agencies on the wisdom of doing so. The economic agencies argue that we should wait until the IMF has established a "challenge program" for Poland.

--Support International Finance Corporation (IFC) loans to private sector projects in Poland.

--Accord Generalized System of Preferences (GSP) benefits to Poland, eliminating certain tariffs.

--Support Polish eligibility for Overseas Private Investment Corporation (OPIC) which insures U.S. private investment abroad.

--Support a Small Business Agreement that lays the basis for cooperation between the U.S. Small Business Administration (SBA) and Poland.

--Encourage private sector debt swaps of existing Polish debt for equity in Polish enterprises, environmental, educational or other humanitarian programs.

Option III: Enhanced/Conditional Response

Discussion

This option would include all of the elements of I and II. Additionally, the President would refer to further specific steps that we would be willing to take if certain specific economic reforms occurred. All of the steps in Option III require more resources, including budgetary outlays.

The issue here is whether the President should broach these ideas, in public, given the current budgetary climate. Others argue too that we should not play all of our cards at one time.

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opportunities for economic reform

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Specific Elements of Option III

- Reduction of spreads on interest paid on rescheduled debt.
- Provide new official credits, guarantees.
- Bilateral economic assistance in the range of \$50 million to support private sector development

Issue II: What should be the level of Presidential involvement?

A Roundtable agreement between Solidarity and the Polish government, supported by the Catholic Church is a small but historic step. There is no single issue that matters more, symbolically and practically, to our allies than the reintegration of Eastern Europe into the family of nations. If we appear to be indifferent to or ineffective in responding to the Polish agreement, our role as leader of the Western alliance will be questioned.

You are aware that we think that a Presidential initiative on Poland is precisely the forward looking proposal for which we've searched. Congressional support is likely to be forthcoming and the Polish-American community provides a solid basis of domestic support. The President is personally associated with Poland and the reforms because of his statement in Warsaw in 1987. His credibility in Poland and with our allies would suffer if he appears to be failing to honor his commitments at a crucial time for Solidarity and the Polish people.

Tim Deal concurs.

Tab I PCC paper on Poland

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Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
03b. Memo	Rozanne Ridgway to PCC [Policy Coordinating Committee] Participants, Re: Poland: U.S. Policy Options if the Roundtable is Successful. (1 pp.)	n.d.	(b)(3)	

Collection:

Record Group: Bush Presidential Records

Office: National Security Council

Series: H-Files

Subseries: NSC/DC Meetings Files

WHORM Cat.:

File Location: NSC/DC 015 - March 30, 1989 - NSC/DC Meeting on Poland, Keywords: Poland

Date Closed: 9/14/2009	OA/ID Number: 90009-015
FOIA/SYS Case #: 2004-0967-F	Appeal Case #:
Re-review Case #:	Appeal Disposition:
P-2/P-5 Review Case #:	Disposition Date:
AR Case #:	MR Case #:
AR Disposition:	MR Disposition:
AR Disposition Date:	MR Disposition Date:

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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

P-1 National Security Classified Information [(a)(1) of the PRA]
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United States Department of State

Washington, D.C. 20520

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Department of State Guidelines

E.O. 12958, SEC 3.4 (B), July 21, 1997

By Rum NARA, Date 09/14/09

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MEMORANDUM

TO: PCC PARTICIPANTS

FROM: Rozanne Ridgway, Chairman *SLK per hms*
PCC on Europe

SUBJECT: POLAND: U.S. Policy Options if the Roundtable is Successful

Attached is the paper drafted by the PCC on Poland, for your consideration in preparation for the upcoming Deputies' Committee meeting on Poland.

Attachment:
As stated.

DIST: Dr. Condoleezza Rice, Deputy Director for Eastern Europe and the Soviet Union, National Security Council

Mr. Harvey Shapiro, Deputy Director, Office of East-West Economic Policy, Department of Treasury

Ms. Susanne Lotarski, Office Director of Eastern European and Soviet Affairs, Department of Commerce

[REDACTED]

(b)(3)

Mr. George Baer, Principal Director for European and NATO Policy, Department of Defense

Mr. Stan Kwieciak, Army Member, Chairman Staff Group, Office of Joint Chiefs of Staff, Department of Defense

Ms. Lisa Kaplan, Budget Examiner, Office of Management and Budget

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(DECL:OADR)

POLAND: U.S. POLICY OPTIONS IF THE ROUNDTABLE IS SUCCESSFUL

Executive Summary and Introduction

The Opportunity

In September 1987 then-Vice President Bush told Jaruzelski that Polish political steps toward democratization would yield a positive U.S. economic response. Assuming the Roundtable agreements are implemented in their current form, the Poles will have fulfilled all the President's conditions; it would be very costly to abandon the President's commitment. The President's offer and its implementation are addressed in NSR-4, which recommends U.S. economic, financial and political support for major reform in Eastern Europe. The Roundtable Accords may be signed on April 3 or shortly thereafter, and the regime, Solidarity and the Church will almost certainly issue a strong appeal for Western and U.S. economic support. Polish American groups and many in the Congress may also press for immediate action.

This would be a major test for U.S. policy toward Eastern Europe. Our objectives there are democratic self-determination and market-oriented economies, because we seek to eliminate the differences between East and West Europe that caused and then perpetuated the Cold War. If present trends continue and are generalized throughout the region, the consequences of the postwar division of Europe could be alleviated and eventually eliminated on our terms. Our policy is thus designed to encourage further change in the right direction. We urge these countries to implement democratic political reform, significantly improve their human rights performance and embark on market-oriented economic reform. That process has gone farthest in Poland and Hungary, and successful conclusion of the Roundtable talks will challenge us to respond positively to Polish fulfillment of political changes which we have authoritatively identified to the Poles as preconditions for a more favorable U.S. attitude on economic and financial issues.

The Policy Dilemma

There are risks whatever we decide. Roundtable success would mark substantial progress for political reform, which is necessary to create a credible social consensus for successful economic reform, but the main effort on economic stabilization and reform still lies ahead.

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The Intelligence Community believes Poland's economy is currently deteriorating and reform progress is minimal.* Output levels are about what they were ten years ago, but per capita incomes are down. Growth prospects are severely limited by an obsolete industrial base, \$39 billion hard currency debt, and the absence of fundamental reforms.* Some positive steps have been taken and, if expanded upon, could prove significant, but, so far, more has happened on paper than has been implemented.* Heavy industry dominates the economy; most sectors are characterized by a few large, wasteful enterprises that turn out low quality goods, noncompetitive in export markets. Agriculture is three-fourths private but suffers from poor infrastructure, discriminatory regime policies, and farms too small to capitalize on economies of scale. Despite Poland's roughly \$1 billion annual hard currency trade surplus, exports are too low for Poland to buy what it needs from the West even to maintain its decaying capital stock, or to service its debt. Poland is keeping up payments to commercial creditors, but is \$6 billion in arrears to the Paris Club.

Given this, if we are overgenerous or unconditional in our response, we risk wasting money, encouraging regime conservatives to defer further reform and possibly even adding to Poland's debt burden

But if we do not respond, or if our response is widely perceived as inadequate to the Polish effort, we risk sacrificing the credibility of our policy approach not only in Poland but elsewhere in Eastern Europe, and our capacity to persuade other Western countries to make economic inputs to the East conditional on Eastern progress on human rights, political reform and other issues such as counterterrorism and illegal technology transfer.

Policy Options

Our task, consistent with NSR-4, is to fashion a program of positive response which minimizes the risk of throwing good money after bad and sacrificing our continuing leverage for genuine economic reform in a market-oriented direction. This paper outlines three options, all contingent on success at the Roundtable talks.

* The Department of State believes significant economic reforms have been introduced in recent months, e.g., liberalized treatment of the rapidly growing private business sector and decentralization of the banking system. Successful implementation of the Roundtable's political agreements would greatly enhance prospects for implementation of these and other economic reform measures.

All options have in common a Presidential statement of support for the Roundtable Accords. All call for extensive consultations with our Allies, which we would seek to begin prior to an announcement. There are, however, major differences over whether the initial U.S. response should be hortatory (Option I) or whether it should contain specific, conditional economic elements. Option II suggests including carefully conditioned elements of an "immediate response" package. Option III includes Option II's elements and adds longer-term steps for a follow-on, "enhanced response" package.

Option I: Rhetorical support/consultations" response. Advocates of Option I believe that even if the Roundtable Accords represent a major advance toward political reforms, the Accords' economic terms might represent backsliding which would even worsen Poland's economic situation. Option I, therefore, recommends that we issue a strong but general statement of support for reforms, and offer to consult with our Allies and the Poles on measures we might take to respond to further economic reform, but make no commitments at this point on specific initiatives.

Option I assumes that: we have little to offer the Poles because of financial and legislative constraints; significant resource transfers should come from Western Europe; even limited U.S. support would be wasted until the Poles adopt meaningful economic measures; announcement of U.S. measures before economic reforms are adopted would encourage regime conservatives to defer economic reform; and that there would be little left in our "cupboard" to reward the Poles if and when they take effective economic steps.

Option II: Immediate/conditional" response. Advocates of Option II believe that a U.S. reaction to a major success at the Roundtable must include concrete, though conditional elements if we are to back Lech Walesa when he needs it, put the GOP on notice that we expect it to fulfill its commitments, and exercise Western leadership on Poland. It assumes that failure to respond with more than rhetoric would put at risk the President's credibility and undermine 45 years of U.S. commitment to support democracy and pluralism in Eastern Europe just as democratization would have taken its most serious step forward since World War II. Option I would also put at risk our capacity to keep the West together on an approach which makes increased economic ties conditional on improved East European political and human rights performance.

Advocates of Option II acknowledge severe problems in the Polish economy, which will not be resolved painlessly. However, Option II assumes that there is a relationship between democratization and economic recovery and growth, particularly in a country such as Poland with an entrepreneurial spirit. Failure of previous attempts at economic reform in Poland (and Eastern Europe) can be traced in part to inadequate implementation due to continued centralized control of the economy by Communist parties and, especially in Poland's case, to failure by authorities to establish the political dynamic that must underpin serious movement on the economic side. The Roundtable is the most serious attempt in Poland's post-war history to establish this.

Option II does not repeat past mistakes of granting credits or assistance unconditioned upon Polish implementation of necessary economic reforms. The specific steps suggested are not front-loaded with aid, but would unfold over time as political and economic reforms are implemented, maintaining our leverage. Each step in Option II contains its own economic conditionality, and all steps advance our economic objectives in Poland. None involves new outlays of U.S. budget funds.

Removing political obstacles to an IMF program, for example, will permit Poland and the IMF to begin the difficult process of negotiating a stand-by agreement. Option II does not advocate a "soft" IMF program for Poland. Extraordinary Paris Club debt rescheduling would be available only when Poland can agree with the IMF on an economic adjustment program. According GSP status for Poland is not an aid program, and is conditioned upon progress in labor rights, as is supporting Polish eligibility for OPIC programs, which has additional requirements for improvements in Poland's foreign investment climate. We would support new IBRD and IFC loans only if they are economically viable and would generate sufficient means to assure repayment.

Finally, advocates of Option II believe that the Allies' participation in any support for Polish reforms is essential and that their support ought to be greater than ours. U.S. leadership beyond rhetoric will be necessary to stimulate this, and to help ensure that our political interests are kept paramount in a Western response.

Option III: Enhanced/conditional" response. Option III is designed to increase the impact of a swift message of support for the Roundtable's accords. Its additional economic elements (reduction of interest rate spreads on rescheduled debt, new official credits and/or guarantees, bilateral assistance for the private sector) are more difficult to implement and require

some funding. Under Option III, a U.S. initial reaction would refer to these steps, but make clear they would be taken only when political and economic reforms have proceeded successfully over a period of time. As with Option II, Option III's steps would support our overall economic objectives. Support for private manufacturers -- including those groups allied with Solidarity -- would be based on economically sound criteria and designed to advance our overall objectives.

Congressional Reaction

Congressional reaction to a positive but measured U.S. response is judged, on balance, to be favorable. There is a "Polish lobby" in Congress that favors positive USG action in response to the Roundtable. Its strength is yet untested, but it has shown itself capable of producing considerable support. In recent years, Congress has voted several times to provide humanitarian assistance to Poland (e.g., \$10 million for a Church-sponsored agricultural foundation, donations of surplus agricultural commodities, successive million dollar grants to Solidarity for political and medical purposes, and grants to private humanitarian projects.)

At the same time, there is likely to be resistance in Congress, on a variety of grounds. For example, last year Congress voted against authorizing OPIC to Hungary, partly because of poor legislative management and partly because of objections that Hungary could not meet the required worker rights criterion. (Legalization of Solidarity would address this objection.) In our judgment, Presidential leadership, plus Solidarity and Church calls for support, would produce majority sentiment for a positive response program.

Allied Consultations

Whatever option is chosen, Allied consultation and coordination will be essential. We strongly recommend these begin soon, preferably before conclusion of the Roundtable intensifies pressure for a quick USG reaction. Many of our Allies who have more available economic resources may in the absence of U.S. leadership expand their economic ties without the political and human rights conditionality we support.

Western governments have improved political ties with Poland to encourage political change and economic reform but thus far have been restrained in extending economic assistance. No bilateral government loans or debt relief have been promised; and only small trade credits have been given otherwise.

However, Western governments, like our own, would face serious choices in the event the Roundtable concludes successfully. British Prime Minister Thatcher during her visit to Poland last fall, stressed the need for Warsaw to meet its debt obligations and implement thorough economic reform, but added that should the regime reach an accommodation with the opposition, the West would be forthcoming with economic aid. West Germany is frustrated by lack of progress in bilateral economic negotiations in 1988-89. The French, like the West Germans, are cultivating Warsaw, but thus far have only offered to "argue Poland's case" with other creditors. These and other encouragements from Western creditor governments suggest that they prefer to extend any new major assistance through multilateral agencies -- the IMF and Paris Club -- rather than bilaterally.

All options recommend that intensive consultations begin following the DC. We would outline with key governments (UK, France, FRG, Japan and possibly Italy) our preferred approach, based on the discussion at the DC, and seek to ensure that initial Western reactions to a success at the Roundtable are complementary.

- Part A: Intelligence Community Assessment of Poland
- Part B: Analysis of Options:
 - I. Rhetorical/Consultations Response
 - II. Immediate/Conditional Response
 - III. Enhanced/Conditional Response
- Part C: Draft Presidential Statement on Poland

Part A. INTELLIGENCE COMMUNITY ASSESSMENT OF POLAND

The course of developments in recent months and the prospective outcome to the Roundtable talks are a major step forward in the direction of political change long sought by the U.S. Concurrently, there is yet little sign that fundamental economic reforms will soon be implemented.* The pressures for change continue to come from below; the regime has made concessions for want of a better alternative, and it seeks to draw a line against having to concede more. The coming months are sure to see continued political battle and tensions, and the potential for serious unrest will exist, but the current correlation of forces favors further positive change.

Moscow's specific response to the Roundtable accords remains unknown but will probably be favorable as long as it perceives that the outcome will allow the regime to retain the upper hand. While the Soviets oppose evolution to a full Western party system, they recognize the need for change in Poland and have given the regime considerable maneuvering room.

The Roundtable began on February 6 and participants hope to conclude talks during the first week of April. Discussion has been divided among three major committees dealing with economic reform, political reform, and trade union pluralism. The major achievements will be the relegalization of Solidarity and Rural Solidarity. The opposition also has gained parliamentary representation through the creation of an upper house that it will almost certainly control and strong minority representation in the lower house. It hopes this will evolve into democracy and powersharing. The regime, for its part, hopes it can maintain continued political control of the country with the support of a powerful party-dominated presidency having authority over the security apparatus.

The outcome of the talks could be serious wrangling over what the accords mean and new political stagnation, or further significant steps toward the development of a democratic system. New major strikes related to economic privation and consequent regime repression could also overtake the importance of the accords. All things considered, though, the internal and external pressures at work seem most likely to lead to further positive political evolution.

* The Department of State believes potentially significant economic reforms have been introduced in recent months, e.g., liberalized treatment of the rapidly growing private business sector and decentralization of the banking system. Successful implementation of the Roundtable's political agreements would greatly enhance prospects for implementation of these and other economic reform measures.

The economic discussions produced vastly different policy proposals for coping with inflation, price hikes, and miners' working conditions and, in the absence of compromise, there were no significant breakthroughs. Both sides see the need for market reforms, but the government is resistant to proposals that loosen its control, and Solidarity supports some economic counterreforms such as indexing wages to inflation. Both sides agreed on a joint appeal for Western financial help, believing Poland cannot avoid unrest, modernize, and repay foreign loans without new hard currency inflows. The Pope also may join in this appeal. Any Roundtable economic agreement, though, is likely to comprise mostly vague prescriptions for overcoming shortages and inflation and reducing party control.

Both sides are moderately optimistic that the agreements concluded will hold, but both must still sell the package to skeptics in their own ranks. The regime must convince the large majority of provincial party bosses who oppose any concessions that it has bought time and co-opted the opposition without giving up any real control. Party members have been told that despite concessions, the regime will retain enough power to block all attempts to change the political system's fundamentals. Walesa, for his part, must also convince increasingly vocal labor skeptics that he can parlay a toehold in parliament into a real voice in economic decisionmaking. He also must try to persuade Poles that an effective social security net with which to face anticipated price hikes, bankruptcies, and job dislocations will exist. Deferral of tough decisions on specifics of issues such as the powers of the presidency, control of an independent judiciary, cadre appointments, and powers of the free unions and their relationship with the official trade unions will further fuel intense political conflict in the coming months.

Part B. ANALYSIS OF OPTIONS

I. OPTION I: RHETORICAL SUPPORT AND CONSULTATIONS

Description: Some believe that a roundtable accord, through significantly advancing political reforms, might slow or even reverse Poland's economic reform. There is concern that any economic assistance or measures would be wasted unless comprehensive economic reforms and a stabilization program are already in place and whose implementation has been tested over a period of time.

Option I suggests we announce no specific measures on bilateral trade or investment measures, nor U.S. expectations on multilateral assistance. It recommends we issue a general statement of principle supporting economic development in Poland and a commitment to begin immediately to consider ways of fostering economic reform and development, including a dialogue with other Western countries. Such a dialogue would seek agreement on specific actions by us, our Allies and the Poles, based on an understanding that a Western financial response would follow implementation of economic reforms by the Poles.

Advantages: Option I buys time. It signals Poland that it must first implement economic reform and holds in reserve any economic responses until they do. Like Options II and III, Option I provides the opportunity to fashion an agreement with our Allies that would increase our leverage on Poland to take economic steps and to mobilize meaningful political support for such steps.

Disadvantages: Option I would "move the goalposts" just as the Poles fulfill the President's criteria for a U.S. economic response. A purely rhetorical response to accords that advanced political pluralism as much as the Roundtable promises to do would not be seen as serious policy. It would undermine the President's credibility and place in question over four decades of U.S. support for democracy in Eastern Europe. Our ability to exert serious leverage in Poland, in Eastern Europe and with our Allies would be weakened just as the region enters a period of unprecedented change.

The absence of specificity would likely be viewed by Walesa and the Church, as well as by the Polish Government, as an insult, and an indication that the U.S. did not take its stated objectives seriously when faced with a real test. Appearing to back away from Solidarity at such a moment would have negative

consequences throughout the region. Option I would, in effect, leave Western policy initiatives in Eastern Europe to those Allies more willing than the U.S. to expand economic ties without regard for political and human rights conditionality and other broader foreign policy objectives.

Process: Consult with the Allies and the Poles on what measures the West should take in return for implementation of Polish economic reform.

Cost: No new budgetary outlays necessary.

II. OPTION II: IMMEDIATE/CONDITIONAL RESPONSE

Description: Option II would include Option I's elements of rhetorical support and Allied consultations, while adding certain highly conditioned but specific steps, to be offered on the explicit assumption that the Poles will pursue their reforms.

A. Hands-off U.S. approach to an IMF stand-by for Poland

Description: The U.S. should respond to a successful Roundtable by making clear that we have no objections to negotiations between the IMF and Poland on a stand-by program, and that we will judge a standby on its economic merits alone. For several years, the U.S. has blocked negotiations on a stand-by for political and economic reasons. Politically, we feared reaction from some factions of Congress; this may no longer obtain, especially following Solidarity's legalization. Economically, some fear that the Polish political consensus is so fragile, and the economy so far gone, that a sound stand-by cannot be successfully implemented. Currently, the U.S. believes that Poland must begin with a 6-12 month unfunded ("shadow") program to establish a track-record.

Advantages: A stand-by is necessary if Poland is ever to begin to rectify its economic situation. A stand-by would provide external discipline, shape, direction, and resources to the Polish adjustment effort. The GOP realizes this, and has made a stand-by a primary economic objective. It understands that the U.S. is the hurdle to initiating serious negotiations; the Poles would perceive a U.S. hands-off approach as a significant change responding to the Roundtable. Our European allies, who have been pressing us to relax our opposition to a stand-by, would also welcome this change. It would bring our policy regarding Poland into conformity with our policy on most other countries' relations with the IMF. The IMF's demands for austerity could be used by Solidarity to sell an economic stabilization program to its constituency. Option II does not advocate weakening IMF conditionality.

Disadvantages: A failed stand-by program could exacerbate the IMF arrears problem. Since a sound stand-by inevitably means cuts in the Polish standard of living, attempts to implement such a program might lead to popular unrest and/or serve to fracture the consensus that emerges from the Roundtable. To weaken a stand-by in order to ensure it could be implemented without political repercussions could erode the IMF's credibility at a critical point in the debt strategy.

Process: Consultations with other major IMF shareholders, particularly the FRG, Japan, France and the U.K. will be necessary. Our view should also be clearly stated to IMF management.

Cost: There would be no immediate impact on the U.S. budget, although if Poland fails to repay the IMF, additional resources from IMF shareholders, including the U.S., might be necessary.

B. Extraordinary debt rescheduling in the Paris Club

Description: Once an IMF stand-by is agreed, the U.S. could support a very generous Paris Club rescheduling, which perforce will have to include capitalization of interest due normally on rescheduled debt (moratorium interest). If negotiations on a stand-by are protracted, the U.S. could support another generous interim rescheduling in the absence of a stand-by. In the latter case, we should not -- and will not need to -- support capitalization of moratorium interest.

Advantages: Capitalizing moratorium interest is most likely the only way the Paris Club will be able to support financially a Polish reform effort. Payment of moratorium interest will probably be an impossible condition for Poland in the first few years of an adjustment program, and could threaten the viability of that program, and the supporting IMF stand-by.

Disadvantages: Moratorium interest has been capitalized only once before in the Paris Club (Sudan 1983). Other creditors will resist it as a terrible precedent, and may prefer extending new official credits. Offering such a benefit to the Poles who are not currently servicing their Paris Club debt risks rewarding policies not in our interest. In addition, capitalizing moratorium interest would not be consistent with the equal, non-discriminatory treatment proposed in option A, in which the thrust is to treat Poland like most other countries. Rescheduling without a stand-by is probably not necessary. Poland has paid almost nothing to its official creditors since 1981; thus not rescheduling does not run the usual risk of encouraging non-payment. Since Poland is a member of the Fund (as it was not when the first few reschedulings took place), it is probably time to insist that the traditional Paris Club criterion of a stand-by be observed.

Process: Consultations with the creditors in the Paris Club, through the G-7 and perhaps in the NATO/Economic summits. We need not -- and should not -- explicitly mention the possibility of capitalizing moratorium interest until we know it is needed; promise of a "generous" rescheduling will suffice.

Cost: Since Poland is not currently serving its Paris Club debt, the actual cost is virtually nil in this case. But if the procedure is utilized with other countries who are at least in part serving their debt, it could be very costly.

C. Support World Bank project loans for Poland

Description: We could consider economically and financially viable project loans for Poland from the International Bank for Reconstruction and Development (IBRD--the World Bank) before an IMF stand-by is agreed.

Advantages: Project loans for specific agricultural, energy and industrial projects valued at \$250 million have been prepared, all of which will increase exports or save on imports, reforms which Poland desperately needs. IBRD staff believes these projects are financially and economically viable, and would generate sufficient foreign exchange to assure a good chance of repayment even under current economic conditions in Poland. IBRD management, in which the U.S. has a strong voice, is concerned about creditworthiness and awaits indication of progress between Poland and the IMF before approving the loans. Supporting consideration of these loans now, before an IMF program is agreed, would provide a strong signal of encouragement for further reforms. (We are not advocating approving these loans in advance of review of the project documentation.)

Disadvantages: There is concern that the IBRD could not consider Poland creditworthy if the IMF could not come to the same conclusion. Some oppose "de-linking" IBRD project loans from an IMF stand-by because of the risk that the money would be badly spent and hence undercut rather than support genuine economic stabilization.

Process: Same as for the IMF option.

Cost: Same as for the IMF option.

D. Consider International Finance Corporation Projects

Description: The International Finance Corporation (IFC), a World Bank affiliate, makes loans to projects with private sector participation. The U.S. recently voted to approve an IFC loan for a private agricultural cooperative in Poland, and other projects are in the preparation stage.

Advantages: The IFC can provide real resources in support of Polish reforms by making hard currency loans to export oriented private sector projects. Supporting the development of a viable private sector in Poland supports our policy interest of encouraging movement toward more market-oriented economic arrangements.

Disadvantages: Given poor macroeconomic policy conditions in Poland, projects that meet the criteria of generating sufficient foreign exchange for repayment may be limited.

Process: Same as for IMF option.

Cost: Same as for IMF option.

E. Accord GSP Status to Poland

Description: We could announce that we will begin the legislative process to accord Generalized System of Preferences (GSP) benefits to Poland. GSP eliminates duties on imports from eligible developing countries to the U.S. Poland's per capita income level of about \$1,800 is well under the GSP qualifying per capita income ceiling.

Advantages: Elimination of tariffs, particularly on manufactured goods, could make a difference in Poland's ability to compete in U.S. markets in some products, thus increasing Poland's hard currency earnings. GSP conditionality on worker rights provides leverage to ensure continued progress in the labor field.

Disadvantages: For reasons having nothing to do with Poland, the GSP program has some Congressional opponents, and careful legislative management would be needed. Some question whether Poland qualifies as a developing country. We would in any event need legislation to remove the statutory exclusion of Poland from GSP, and the President would have to certify that Poland is not dominated by "international communism" and is making progress in according internationally-recognized worker rights. (Romania once enjoyed GSP, so a precedent exists for a Warsaw Pact member.)

Process: Solidarity's support with U.S. labor groups and the Congress is essential in making the case that worker rights have improved sufficiently in Poland to justify GSP status.

Cost: Granting GSP tariff status will have no impact on the USG budget.

F. Support Polish eligibility for OPIC programs

Description: The Overseas Private Investment Corporation (OPIC) insures U.S. private investment abroad, and provides direct financing for small U.S. investments. We could begin the process for obtaining authorization for OPIC to operate in Poland.

Advantages: Poland passed a liberal foreign investment law and wants to increase investment to encourage growth and increase exports. OPIC would signal a positive U.S. approach on investment in Poland. Worker rights and investment conditionality in the OPIC program gives us leverage to improve GOP performance in these areas.

Disadvantages: OPIC requires a waiver of the Foreign Assistance Act provision prohibiting aid to communist countries, as well as Presidential certification that Poland is taking steps to accord internationally-recognized worker rights. As with GSP, we would have to work carefully with the Congress and labor to assure support.

Process: Same as for GSP.

Cost: No additional funds are required, although possible Polish failure to live up to OPIC agreement commitments could represent a contingent liability for the USG.

G. Small Business Agreement

Description: A small business agreement could lay the basis for cooperation between the U.S. Small Business Administration (SBA) and the domestic constituency it represents and the newly emerging private sector in Poland. It could serve as a vehicle for direct links and a channel for technical assistance to the new small private industrial and service firms in Poland. Poland, although such an agreement would not provide any funds.

Advantages: It is in the U.S. interest to encourage the success of small privately-owned businesses in Poland. The Small Business Administration (SBA) discussed prospects for a new agreement with GOP representatives, who have been pressing us to open negotiations.

Disadvantages: The GOP needs to understand clearly that SBA has no funds to lend to small Polish enterprises.

Process: Consultations with SBA are necessary, and consultations with our allies would be useful.

Cost: No additional budgetary resources would be required.

H. Debt Swap Mechanisms

Description: The USG could lend moral support to voluntary private sector swaps of existing Polish debts for equity in Polish enterprises, or environmental, educational or other humanitarian programs.

Advantages: Debt swaps could reduce Poland's commercial bank debt and provide funds for worthy commercial and humanitarian enterprises, although this would be a slow and uncertain process. Some non-profit organizations are interested in exchanging discounted Polish debt instruments for GOP actions in the environmental and educational fields (the World Wildlife Fund is reported to have offered to purchase Poland's official debt to Sweden, a total of \$397 million, and use the proceeds for environmental projects). OPIC coverage, which reduces risk to U.S. investors, could encourage swaps.

Disadvantages: Investment in Poland continues to be risky, given inflation and the relative newness of the liberal investment code, which promises to respect private property and eases terms for foreign investors. Unless the World Wildlife Fund project presages a major shift, this would be a slow process. Failures might conceivably open the USG to requests for assistance in recouping losses.

Process: Encourage U.S. businesses, commercial banks to consider this option in the course of normal contacts.

Cost: There would be no USG budgetary impact.

I. Political steps.

High-level visits can provide strong signals and short-term leverage, and should be considered for the coming crucial months.

Imaginative exchange, education and training programs can take advantage of the unprecedented emergence of private, independent economic and cultural institutions in Poland. These steps could be implemented unilaterally, with consultations with the Congress useful. Budgetary outlays would be relatively modest.

III. OPTION III: ENHANCED/CONDITIONAL RESPONSE

Option III is designed to increase the impact of a swift message of support for the Roundtable. It includes all the elements of Option II, plus additional elements that are more difficult to implement and require some funding. Under Option III, the initial USG reaction to success at the Roundtable would refer to these steps but make clear that any action would be taken only as implementation of agreed political and economic reforms have proceeded successfully over a period of time.

Option III would require more resources, including budgetary allocations and, hence, detailed consultations and coordination within the Administration (with Ex-Im, CCC) and with the Congress. Policy toward new official credits or official credit guarantees should be coordinated with the Allies.

A. Reduction of spreads on interest paid on rescheduled debt

Description: At a later stage, when Poland is able to pay moratorium interest, the USG could decide to reduce interest rates spreads on some debt, particularly the very high spread of two percent on Commodity Credit Corporation (CCC) reschedulings.

Advantages: This could be an inducement for the Poles to service fully their debt.

Disadvantages: CCC has declined to consider a reduction, and such an initiative would set a precedent for other debtor countries.

Process: CCC's concurrence would be necessary. Allied consultations should be undertaken.

Cost: (((To be provided)))

B. Provide new official credits, guarantees

Description: Once an IMF stand-by is in place and a Paris Club agreement is implemented, the Export-Import Bank (Ex-Im) could consider providing guarantees on a modest line of credit or direct credits for U.S. exports to Polish privately-owned small companies.

Advantages: The overall scarcity of foreign exchange resources will be a difficult problem for the newly emerging private sector, a problem which even a small line of credit would help resolve. New credits might induce the Poles to live up to their Paris Club commitments.

Disadvantages: New credits are inhibited by Polish creditworthiness problems. While Ex-Im cover for U.S. exports of capital equipment could improve Polish export capability in the long run, CCC credits which finance consumable commodities would not generate the hard currency necessary to repay credits.

Process: The Ex-Im Board would have to approve new credits. Consultations with Allies to determine their willingness to reopen credit lines to Poland would be useful.

Cost: If the Poles do not pay off the new loans, Ex-Im guarantees could be called by commercial banks, and Ex-Im would be liable for the amounts guaranteed, or would forego repayments from direct loans.

C. Assistance for Poland

Description: We could consider a limited program of \$50 million in bilateral assistance to support the private sector in Poland. \$30 million could be used to capitalize a small commercial bank which could provide both foreign exchange and domestic currency loans to small private business. Another \$10 million could capitalize a private sector housing fund or bank. The remaining resources could fund exchanges in the economic and business field such as management training and additional humanitarian projects.

Advantages: New funds provide a concrete demonstration of US support for the roundtable process and market oriented reforms. Making funds available to carefully targetted groups such as private housing contractors, environmental programs and the private sector has important political significance in Poland, as these areas are severely short of resources.

Disadvantages: Bilateral assistance funds are in dire need in many parts of the world including Africa, Central America and the Caribbean and South Asia. Political objections would be likely, but could be overcome assuming Solidarity's support for such programs, which would be essential to a U.S. decision to proceed.

Process: Congressional approval for a supplemental appropriation for FY 1989 or FY 1990 would likely be necessary.

Cost: \$50 million.

Part C. DRAFT PRESIDENTIAL STATEMENT

The following language would apply to all options.

Supporting Democracy In Poland

OVER SEVEN YEARS AGO, MILLIONS OF AMERICANS LIT CANDLES IN SUPPORT OF FREEDOM IN POLAND, IN THE HOPE THAT THE DARKNESS OF REPRESSION WOULD SOME DAY BE LIFTED FROM THAT COUNTRY AND THAT SOLIDARITY WOULD RESUME ITS RIGHTFUL PLACE IN POLISH LIFE. WHEN I VISITED POLAND IN 1987, I TOLD GENERAL JARUZELSKI AND LECH WALESZA THAT THE AMERICAN PEOPLE STOOD SQUARELY FOR DEMOCRACY IN POLAND. WE MEANT IT THEN AND WE MEAN IT NOW. WE RECALL THE WORDS OF THE POLISH FIGHTERS FOR INDEPENDENCE, "FOR YOUR FREEDOM AND OURS," AND WE KNOW THAT POLAND'S STRUGGLE FOR DEMOCRACY IS OUR STRUGGLE TOO.

ON APRIL _ IN WARSAW, THE POLISH PEOPLE TOOK A COURAGEOUS STEP TOWARD DEMOCRACY. SOLIDARITY LEADER LECH WALESZA AND INTERIOR MINISTER GENERAL KISZCZAK (KEESH-chak) SIGNED ACCORDS THAT, IF HONESTLY IMPLEMENTED, WILL LAY THE BASIS FOR POLAND TO RESUME HER PLACE AS A GREAT EUROPEAN NATION. ACCORDING TO THE ACCORDS, THE FREE TRADE UNION SOLIDARITY WILL BE RESTORED, A FREE OPPOSITION PRESS LEGALIZED, INDEPENDENT POLITICAL AND OTHER ASSOCIATIONS ESTABLISHED, FREE NATIONAL ELECTIONS HELD FOR A NEW POLISH SENATE, AND OTHER STEPS TAKEN.

THESE ARE INSPIRING TESTAMENTS TO THE INDOMINABLE SPIRIT OF THE POLISH PEOPLE; TO THE STRENGTH AND WISDOM OF LECH WALESZA AND SOLIDARITY; TO THE VISION OF THE CATHOLIC CHURCH AND, YES, TO THE REALISM OF GENERAL JARUZELSKI AND HIS GOVERNMENT.

POLAND HAS EMBARKED ON A ROAD OF PEACEFUL, DEMOCRATIC CHANGE UNPRECEDENTED SINCE WWII. IT IS A SERIOUS UNDERTAKING AND WILL NOT BE EASY. THE LEGACY OF MISTRUST AND BAD FAITH CANNOT BE ERASED OVERNIGHT. DECADES OF MISMANAGEMENT AND THE DEAD HAND OF STAGNANT IDEOLOGY HAVE TAKEN A TERRIBLE TOLL ON POLISH SOCIETY AND ITS ECONOMIC WELL-BEING. BUT NOW, AFTER NEARLY FIFTY YEARS, POLAND'S FATE MAY BEGIN TO LIE INCREASINGLY IN THE HANDS OF THE POLISH PEOPLE.

STEPS TOWARD DEMOCRACY MUST BE TAKEN AND NOT REVERSED. THEY WILL HAVE TO BE MATCHED BY ECONOMIC REFORMS THAT ALLOW THE ENTERPRISING AND CREATIVE SPIRIT OF THE POLISH PEOPLE TO FLOURISH. EVEN SO, ECONOMIC RECOVERY WILL BE DIFFICULT AND EVEN PAINFUL. PATIENCE, SACRIFICE AND, MOST IMPORTANT, RESPONSIBILITY WILL BE NECESSARY IF THE BENEFITS OF FREEDOM CAN BE FULLY REALIZED.

SOLIDARITY KNOWS THIS AND HAS ASKED FOR THE WEST'S HELP. SO HAS THE POLISH GOVERNMENT. SOME MAY SAY POLISH DEMOCRACY IS NONE OF OUR AFFAIR, THAT WE SHOULD TURN OUR BACKS.

BUT I BELIEVE THAT WHILE POLAND PURSUES THE PATH OF GENUINE DEMOCRATIZATION AND ECONOMIC REFORM, THE PEOPLE OF THE UNITED STATES SHOULD STAND WITH HER, NOT JUST IN WORDS, BUT IN ACTIONS.

I INTEND TO WORK WITH THE CONGRESS, THE POLISH-AMERICAN COMMUNITY, U.S. LABOR LEADERS, AND THE AMERICAN PEOPLE, AND WITH OUR ALLIES AND THE INTERNATIONAL FINANCIAL INSTITUTIONS TO DETERMINE HOW WE CAN PITCH IN NOW AND IN THE FUTURE. THESE MUST BE MEASURES WHICH NOT ONLY RECOGNIZE REFORMS UNDERWAY, BUT ALSO ADD MOMENTUM TO THE DEMOCRATIC AND ECONOMIC REFORMS YET TO COME.

END TEXT.

Additional language -- such as that outlining specific, conditional economic steps the U.S. is prepared to seek -- is subject to deliberations at the NSC and DC, based on the options presented in the body of this paper.

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RECORD ID: 8920257
RECEIVED: 29 MAR 89 15

TO: HUGHES

FROM: RICE

DOC DATE: 31 MAR 89
SOURCE REF:

KEYWORDS: POLAND
DC

AGENDA

PERSONS:

SUBJECT: DISCUSSION PAPER FOR DC MTG ON 30 MAR RE POLAND

ACTION: OBE / STATUS ORIGINAL UNKNOWN DUE DATE: 30 MAR 89 STATUS: C

STAFF OFFICER: RICE

LOGREF: 8920262

FILES: IFM O

NSCP: DC015

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
NSC CHRON

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Z 89032920 HUGHES SGD MEMO TO AGENCIES

003 HUGHES

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003

X 90072715 OBE / STATUS ORIGINAL UNKNOWN

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Appeal Case #:

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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20257 Add On

April 1, 1989

MEMORANDUM FOR

MR. CARNES LORD
Assistant to the Vice
President for National
Security Affairs

CRAIG R. HELSING
Chief of Staff
Department of Commerce

MR. MELVYN LEVITSKY
Executive Secretary
Department of State

MR. FRANK HODSOLL
Executive Associate Director
Office of Management and
Budget

MS. EMILY L. WALKER
Executive Secretary
Department of the Treasury

MR. H. LAWRENCE SANDALL
Executive Secretary
Central Intelligence Agency

COLONEL GEORGE P. COLE, JR.
Executive Secretary
Department of Defense

MR. GARY EDSON
Chief of Staff
U.S. Trade Representative

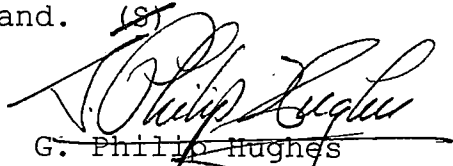
MS. SUSAN NELSON
Executive Assistant to the
Secretary
Department of Agriculture

CAPTAIN ANTHONY MANESS
Executive Assistant to the
Chairman
Joint Chiefs of Staff

MR. ARTHUR E. GREEN
Acting Executive Secretary
U.S. Information Agency

Subject: Deputies Committee Meeting to Discuss Poland:
Final Paper (S)

Attached at Tab A is the final paper tasked by the March 30
Deputies Committee Meeting on Poland. (S)


G. Philip Hughes
Executive Secretary

Attachment:

Tab A Final Paper: Poland

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E.O. 12958, SEC 3.4 (B) September 11, 2006
By RA NARA, Date 09/14/09

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Deliberations of the Interagency Process on Poland

Interagency groups have deliberated on U.S. policy toward East Europe and specifically Poland. The strong prospect of agreement in early April at the Roundtable talks in Poland that would bring a political breakthrough there has made consideration of a U.S. response an urgent policy issue.

The DC met on March 30 on Poland. The DC rejected a purely hortatory response and agreed that the U.S. should make an immediate and substantive public response to successful conclusion of Roundtable Accords; and remanded consideration of longer-term responses that would require significant U.S.G. funding.

The DC considered specific elements of an immediate substantive response to events in Poland and discussed a number of concrete measures. There exists agreement over five of the seven elements of such a response but substantial disagreement over the other two. None requires significant budgetary outlays.

The DC recommends we begin prompt consultations with our allies and, as appropriate, with Congress. G-7 Finance Ministers are meeting this weekend, and our G-7 partners have stated their intention to raise economic and financial issues related to Poland. Treasury will report the results of these exchanges.

Agreed Elements. The DC agreed that consultations with the allies should begin immediately on the following:

Multilateral steps:

- 1. Paris Club. The U.S. could indicate to its Allies willingness to consider substantial rescheduling of official debt within the Paris Club, once an IMF standby is negotiated for Poland.
- 2. IFC. The U.S. could publicly indicate willingness to support viable private sector loans by the International Finance Corporation, a World Bank affiliate.

Unilateral steps:

- 3. GSP. We could announce intention to seek legislation to accord Poland Generalized System of Preferences. GSP eliminates tariffs on a variety of products.

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2012-0392-MR

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- 4. OPIC. We could announce intention to seek legislation making Poland eligible for OPIC (Overseas Private Investment Corporation) insurance. OPIC provides support for private investment.

Steps 3 and 4 would require legislation and would entail immediate, informal discussions with key Congressional leaders.

- 5. Private sector involvement.
 - o We could announce intention to negotiate a government-to-government Small/Private business agreement to facilitate direct contacts with Poland's private business sector.
 - o We could announce support for expanded training and exchange programs, targeted at the emerging private sector.
 - o We could signal our support for voluntary private sector swaps of existing Polish debts for equity in Polish enterprises, or environmental, educational or other humanitarian programs.

There remain interagency differences on two significant elements of a possible response:

- IMF standby. There is agreement the USG should no longer block Poland's negotiations with the Fund on political grounds and that any outcome should be subject to the usual IMF standards. There is disagreement on the conditions under which the U.S. should support formal negotiations between Poland and the IMF toward a stand-by loan for Poland. Treasury believes Poland must first establish a track record of economic reform and stabilization before negotiating a stand-by. State believes the U.S. should allow Poland and the IMF to negotiate immediately for a standby.
- World Bank. The World Bank staff has negotiated project loans valued at about \$250 million but the Bank's final approval of these loans is subject to conclusion of an IMF standby program. Treasury is concerned about overall Polish creditworthiness in the absence of sound macroeconomic policies by the Polish government, which would be evidenced by an IMF decision to grant a standby loan. Treasury believes that to allow the Bank to go forward without the assurances that an IMF standby would provide, would signal a major

shift in U.S. and G-7 efforts to encourage close coordination between the World Bank and the IMF on their activities in debtor countries. State believes the U.S. should indicate willingness to see economically-viable project loans to Poland proceed on their merits, on a case-by-case basis, even before approval of an IMF standby for the Poles.

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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March 31, 1989

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E.O. 12958, SEC 3.4 (B) September 11, 2006

By RM NARA, Date 09/14/09

ACTION

MEMORANDUM FOR G. PHILIP HUGHES

FROM: CONDOLEEZZA RICE CR

SUBJECT: Deputies Committee Meeting to Discuss Poland:
Final Paper

Attached at Tab A is the paper tasked by the March 30 Deputies Committee Meeting to discuss Poland, for forwarding to the agencies involved.

Robert Blackwill concurs.

RECOMMENDATION:

That you sign the memorandum at Tab I which forwards the subject paper.

Approve ✓ LPH Disapprove _____

Attachments:

Tab I Memorandum to the Agencies
Tab A Final Paper for DC Meeting
on Poland

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