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FM WASHINGTON 020144Z FEB 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 320 OF 1 FEBRUARY

INFO PRIORITY MANILA (FOR PS/SECRETARY OF STATE)

ROUTINE BONN PARIS WARSAW MOSCOW UKDEL NATO

POLISH DEBT: US COMMODITY CREDITS

1. TWO ARTICLES IN TODAY'S NEW YORK TIMES (COPIES BY BAG) INDICATE THAT THE US GOVERNMENT TOOK POSITIVE STEPS LAST WEEK TO AVOID A POSSIBLE FORMAL DECLARATION OF DEFAULT IN CONNEXION WITH THE NON-REPAYMENT BY THE POLES OF GOVERNMENT-GUARANTEED COMMODITY CREDIT CORPORATION CREDITS FALLING DUE FOR REPAYMENT TO US BANKS IN JANUARY 1982. IF THE BANKS HAD CALLED IN THE GUARANTEES UNDER PRESENT REGULATIONS A DEFAULT COULD HAVE BEEN CONSTRUED TO HAVE BEEN INVOLVED, SINCE NON-REPAYMENT BY THE POLES IS THE ONLY BASIS UNDER WHICH THE GOVERNMENT CAN REIMBURSE THEM. OUR SOURCES IN THE DEPARTMENTS OF STATE, AGRICULTURE AND THE US TREASURY CONFIRM THAT UNDER A NEW REGULATION THE CCC HAS BEEN UNAMBIGUOUSLY EMPOWERED TO BUY POLISH CCC PAPER FROM THE BANKS AT FACE VALUE (PLUS THE NORMAL 6 PER CENT INTEREST) AS IT FALLS DUE WITHOUT ANY QUESTION OF DEFAULT ARISING. WHEREAS BEFORE THE BANKS HAD TO SUBMIT A CLAIM TO THE CCC SAYING THEY HAD NOT BEEN PAID, NOW THEY CAN RECEIVE PAYMENTS FROM THE CCC WITHOUT SUBMITTING A CLAIM. THE JANUARY PAYMENT TO THE BANKS WILL BE DOLLARS 71 MILLION, AND TOTAL PAYMENTS THIS YEAR WILL PROBABLY AMOUNT TO SOME DOLLARS 400 MILLION.

2. THE NEW REGULATION WILL REDUCE THE RISK THAT AN AGENCY OF THE US GOVERNMENT MIGHT BE INTERPRETED AS DECLARING OR RECOGNISING THAT THE POLES ARE IN DEFAULT. SUCH AN INTERPRETATION MIGHT LEAD THE US BANKS TO DECLARE DEFAULTS ON NON-GUARANTEED DEBT, WHICH MIGHT THROUGH CROSS-DEFAULT CLAUSES THEN MEAN THAT FOREIGN BANKS WOULD DO THE SAME.

3. THE NEW CCC ARRANGEMENTS DO NOT CANCEL ANY POLISH DEBTS AND LEAVE IT OPEN FOR THE US GOVERNMENT TO CALL A DEFAULT IN RESPECT OF THESE DEBTS. A FORMAL RESCHEDULING IS NOT INVOLVED. IN ONE OF THE NEW YORK TIMES ARTICLES THE RIGHT-WING COLUMNIST SAFIRE SEEKS TO DEPICT THE ADMINISTRATION'S DECISION ON CCC CREDITS AS INCONSISTENT WITH ITS POLICY OF KEEPING ECONOMIC PRESSURE ON THE POLES.

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4. BECAUSE NEW ARRANGEMENTS HAD TO BE SET UP WITH THE US BANKS, IT IS NOT SURPRISING THAT THE ADMINISTRATION'S DECISION BECAME PUBLIC. BUT BOTH THE NEW YORK TIMES CORRESPONDENTS HAD KNOWLEDGE OF DISCUSSIONS WITHIN THE ADMINISTRATION BEFORE A DECISION WAS REACHED. ALL DEPARTMENTS APPARENTLY AGREED WITH THE DECISION ON CCC CREDITS EXCEPT THE DEFENSE DEPARTMENT, WHICH WAS OVERRULED.

5. FCO PLEASE ADVANCE TO PS/SIR K COUZENS AND CAREY (TREASURY) AND WENBAN-SMITH (CABINET OFFICE).

HENDERSON

[ADVANCED AS REQUESTED]

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