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FINANCIAL IMPACT OF WESTERN MEASURES

The following Assessment was submitted to the NATO Situation Centre by the UK MILREP. It has been transmitted to Capitals (MFAs and MODs) and MNCs under reference SITCEN 0502.

1. WE EXAMINE THE FINANCIAL IMPACT ON POLAND OF THE WESTERN MEASURES INTRODUCED IN DECEMBER 1981. WE DO NOT ADDRESS THE BROADER QUESTION OF WHETHER SANCTIONS SHOULD OR SHOULD NOT HAVE BEEN IMPOSED.

2. THE POLISH GOVERNMENT CLAIMS THAT THE MEASURES TAKEN BY WESTERN COUNTRIES IN RESPONSE TO THE IMPOSITION OF MARTIAL LAW IN DECEMBER 1981 HAVE RESULTED IN SUBSTANTIAL LOSSES TO THE POLISH ECONOMY AND ARE DELAYING ECONOMIC RECOVERY BY DENYING POLAND MUCH NEEDED IMPORTS. THE WESTERN MEASURES HAVE HAD AN IMPACT ON SOME POLISH INDUSTRIES, BUT CLAIMS MAKE NO ALLOWANCE FOR THE BENEFIT WHICH POLAND HAS DERIVED FROM FAILING TO SERVICE DEBTS TO OFFICIAL CREDITORS SINCE THE BEGINNING OF 1982. THIS HAS PROBABLY MORE THAN COMPENSATED FOR THE FINANCIAL IMPACT OF THE WESTERN MEASURES.

THE WESTERN MEASURES

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3. IN RESPONSE TO THE IMPOSITION OF MARTIAL LAW BY THE POLISH GOVERNMENT IN DECEMBER 1981, NATO GOVERNMENTS INTRODUCED IN JANUARY 1982 A NUMBER OF POLITICAL AND ECONOMIC RESTRICTIONS ON RELATIONS WITH THE SOVIET UNION AND POLAND. THE ECONOMIC MEASURES AGREED IN RESPECT OF POLAND WERE A BAN ON FUTURE GOVERNMENT GUARANTEED CREDITS FOR GOODS OTHER THAN FOODS, AND THE SUSPENSION OF NEGOTIATIONS ON SERVICE PAYMENTS DUE IN 1982 ON POLAND'S DEBT TO OFFICIAL CREDITORS. IN ADDITION THE UNITED STATES WITHDREW MOST FAVOURED NATION (MFN) STATUS FROM POLAND, BARRED THE POLISH FISHING FLEET FROM US FISHING GROUNDS AND IMPOSED A BAN ON POLISH AIRLINE (LOT) FLIGHTS BETWEEN POLAND AND THE UNITED STATES. NEGOTIATIONS ON POLAND'S RE-ENTRY INTO THE IMF WERE ALSO SUSPENDED.

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THE POLISH CLAIMS

4. A 20 PER CENT DECLINE IN POLAND'S NATIONAL INCOME IN 1981-82 WAS ACCOMPANIED BY A SHARP FALL IN THE VOLUME OF IMPORTS FROM THE WEST, BY 33 PER CENT IN 1981 AND 26 PER CENT IN 1982. IN 1981 OTHER FACTORS ALSO HELPED TO DEPRESS OUTPUT - IN PARTICULAR A SHARP INCREASE IN ABSENTEEISM, WORKER DISCONTENT, AND REDUCTION IN THE WORKING WEEK. COUPLED WITH THE GENERAL INEFFICIENCY OF THE POLISH ECONOMIC SYSTEM THESE LED TO SEVERE SHORTAGES OF COAL AND OTHER DOMESTIC INPUTS. IN 1982 THE GOVERNMENT STILL LACKED A COHERENT POLICY FOR DEALING WITH THE CRISIS BUT PROGRESS WAS MADE IN OVERCOMING SOME DOMESTIC CONSTRAINTS. FOR EXAMPLE OUTPUT OF COAL AND OTHER KEY INPUTS IMPROVED WITH THE IMPOSITION OF TIGHTER LABOUR DISCIPLINE UNDER MARTIAL LAW. THE GOVERNMENT ALSO SOUGHT TO LIMIT THE IMPACT OF IMPORT CUTS ON CURRENT OUTPUT BY ENCOURAGING IMPORT SUBSTITUTION AND BY CONCENTRATING THE CUTS ON INVESTMENT GOODS AND FOODSTUFFS. EVEN SO IT IS PROBABLY FAIR TO SAY THAT THE REDUCED LEVEL OF IMPORTS WAS A MAJOR FACTOR IN EXPLAINING THE FALL IN OUTPUT IN 1982. ACCORDING TO POLISH STATISTICS OUTPUT BASED ON DOMESTIC INPUTS ROSE BY 1 PER CENT IN 1982, WHILE OUTPUT DEPENDENT ON IMPORTS FELL BY 4 PER CENT.

5. THE POLISH AUTHORITIES CLAIM THAT THE PRINCIPAL FACTOR DETERMINING THE LEVEL OF IMPORTS SINCE THE BEGINNING OF 1982 HAS BEEN THE RESTRICTIONS IMPOSED BY WESTERN GOVERNMENTS ON THE PROVISION OF OFFICIALLY BACKED CREDITS. ACCORDING TO A RECENT PRESS ARTICLE (RZECZPOSPOLITA 4 AUGUST 1983 )

POLAND WOULD HAVE RECEIVED US DOLLARS 3 BILLION IN IMPORT CREDITS BUT FOR THE WESTERN MEASURES, COMPARED TO A RECORDED INFLOW OF US DOLLARS 1.47 BILLION. IN JUNE OBODOWSKI, THE CHAIRMAN OF THE PLANNING COMMISSION, SAID THAT A POLISH STUDY SHOWED THAT THE RESTRICTIONS HAD RESULTED IN DIRECT LOSSES OF US DOLLARS 6 BILLION AND INDIRECT LOSSES OF A SIMILAR SUM. MORE RECENT PRESS ARTICLES (ZYCIE WARSZAWY NO 22. 24 AUGUST 1983) HAVE PUT TOTAL LOSSES IN 1982 AT US DOLLARS 13.3 BILLION, EQUAL TO 17 PER CENT OF INDUSTRIAL OUTPUT. LOSSES IN 1983 ARE EXPECTED TO BE US DOLLARS 7.5 BILLION OR 9 PER CENT OF TOTAL INDUSTRIAL OUTPUT.

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6. IN ADDITION THE POLES CLAIM THAT THE BILATERAL MEASURES IMPOSED BY THE UNITED STATES HAVE LED TO A SUBSTANTIAL FALL IN EXPORT EARNINGS. THE WITHDRAWAL OF MFN STATUS IS SAID TO HAVE COST POLAND SOME US DOLLARS 70-80 MILLION, MAINLY AS A RESULT OF THE DROP IN DELIVERIES OF STEEL PRODUCTS AND OTHER GOODS GEARED TO THE NON-METRIC UNITED STATES MARKET FOR WHICH ALTERNATIVE MARKETS COULD NOT EASILY BE FOUND. THE BAN ON THE POLISH FISHING FLEET IS SAID TO HAVE COST POLAND A FURTHER US DOLLARS 25 MILLION AND THE BAN ON LOT US DOLLARS 20 MILLION.

ASSESSMENT

7. IT IS POSSIBLE THAT THERE IS AN ELEMENT OF DOUBLE COUNTING IN THE POLISH CLAIMS OF LOSSES AS A RESULT OF THE WITHDRAWAL OF MFN STATUS, IN THAT SOME OF THE FALL IN EXPORTS MAY HAVE BEEN DUE TO SUPPLY CONSTRAINTS. HOWEVER, POLISH CLAIMS OF TOTAL LOST EXPORT EARNINGS IN 1982 IN THE REGION OF DOLLARS 100 MILLION SEEM REASONABLE COMPARED TO THE OVERALL FALL IN POLISH EXPORTS TO THE US OF DOLLARS 153 MILLION.

8. THE FIGURES FOR OUTPUT LOSSES, ON THE OTHER HAND, SEEM IMPLAUSIBLY HIGH. THEY REST ON THE ASSUMPTION THAT POLAND WOULD HAVE RECEIVED ADDITIONAL GOVERNMENT GUARANTEED CREDITS WORTH DOLLARS 1.5 BILLION BUT FOR THE RESTRICTIONS IMPOSED BY THE WEST. POLAND WAS ACTIVELY SEEKING OFFICIAL CREDITS, IN ADDITION TO THE FOOD CREDITS WHICH CANADA AND FRANCE HAD ALREADY AGREED TO PROVIDE (DOLLARS 500 MILLION AND DOLLARS 100 MILLION RESPECTIVELY) IN THE LATTER PART OF 1981. HOWEVER, A MEETING OF THE OFFICIAL CREDITOR NATIONS' TASK FORCE IN NOVEMBER 1981 REVEALED THAT WHILE THERE WAS A GENERAL WILLINGNESS TO RESCHEDULE 1982 DEBT SERVICE PAYMENTS (THOUGH NOT NECESSARILY ON TERMS AS FAVOURABLE AS THE AGREEMENT ON 1981 MATURITIES) NO GOVERNMENT APPEARED WILLING AT THAT STAGE TO PUT UP ANY NEW MONEY. THERE HAD BEEN SOME TALK EARLIER IN 1981 OF A UNITED STATES CREDIT OF DOLLARS 780 MILLION FOR FOOD PURCHASES BUT BY NOVEMBER THIS APPEARED TO HAVE FALLEN THROUGH. IN PRACTICE SOME GOVERNMENTS MIGHT HAVE MADE SOME NEW CREDIT AVAILABLE- THE VIEWS EXPRESSED AT THE TASK FORCE MEETING PROBABLY REPRESENTED AN INITIAL NEGOTIATING STANCE. EVEN SO IT IS QUESTIONABLE WHETHER WITHOUT MARTIAL LAW POLAND WOULD HAVE OBTAINED SIGNIFICANTLY MORE

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GOVERNMENT BACKED CREDIT IN 1982 THAN IT IN FACT DID, EXCEPT IN THE UNLIKELY EVENT THAT THE POLISH GOVERNMENT HAD BEEN PREPARED TO FOLLOW A POLICY OF RADICAL POLITICAL AND ECONOMIC LIBERALISATION. CONCEIVABLY THE ABSENCE OF WESTERN RESTRICTIONS MIGHT ALSO HAVE HAD THE EFFECT OF MAKING COMMERCIAL BANKS MORE WILLING TO CONSIDER THE PROVISION OF MORE NEW CREDIT. BUT IN THAT CASE IT IS DOUBTFUL WHETHER THE BANKS WOULD HAVE BEEN WILLING TO RESCHEDULE ON SUCH GENEROUS TERMS.

9. MORE IMPORTANT, THE POLISH CLAIMS MAKE NO ALLOWANCE FOR THE FACT THAT SINCE THE END OF 1981 POLAND HAS BUILT UP SUBSTANTIAL ARREARS ON ITS OFFICIAL DEBTS. UNDER THE 1981 RESCHEDULING AGREEMENT POLAND WAS DUE TO PAY SOME DOLLARS 250 MILLION IN 1982 IN INTEREST ON RESCHEDULED PRINCIPAL AND INTEREST. ON UNRESCHEDULED DEBT, ARREARS OF INTEREST AND PRINCIPAL DUE IN 1982 WERE ORIGINALLY ESTIMATED TO BE ABOUT DOLLARS 4.2 BILLION ALTHOUGH MORE RECENT WESTERN DATA SUGGESTS THAT THE AMOUNT COULD BE AS MUCH AS DOLLARS 1 BILLION LESS. IF 1982 PAYMENTS HAD BEEN RESCHEDULED ON THE SAME TERMS AS 1981, POLAND WOULD HAVE BEEN DUE TO PAY A TOTAL OF SOME DOLLARS 560-670 MILLION TO OFFICIAL CREDITORS IN 1982. IN 1983 A FURTHER DOLLARS 600 MILLION-1 BILLION WOULD BE DUE, AGAIN ASSUMING RESCHEDULING ON THE SAME TERMS AS 1981. ALTHOUGH INFORMATION IS INCOMPLETE IT APPEARS THAT ALL THAT POLAND HAS PAID IS SOME DOLLARS 50 MILLION OF THE INTEREST DUE ON THE 1981 RESCHEDULED DEBT.

10. POLAND'S AVOIDANCE OF MAKING DEBT SERVICE PAYMENTS IN 1982 THEREFORE PROBABLY REPRESENTED A CASH FLOW GAIN IN THAT YEAR OF SOME DOLLARS 500-610 MILLION. IF WESTERN OFFICIAL CREDITORS HAD IN PRACTICE BEEN UNWILLING TO RESCHEDULE ON SUCH GENEROUS TERMS AS IN 1981, THE GAIN WOULD HAVE BEEN HIGHER. IT CAN BE ARGUED THAT AGAINST THIS GAIN TO POLAND THERE SHOULD BE COUNTED AN OFFSETTING LOSS TO ALLOW FOR CREDITS WHICH POLAND WOULD HAVE RECEIVED BUT WAS DENIED BECAUSE OF WESTERN RESTRICTIONS. HOWEVER, WE DO NOT BELIEVE THAT POLAND WOULD IN PRACTICE HAVE RECEIVED SUBSTANTIALLY MORE THAN THE DOLLARS 1.47 BILLION FROM OUTSTANDING CREDIT LINES IT IN FACT OBTAINED. ON THIS ASSUMPTION, AND TAKING

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INTO ACCOUNT A POSSIBLE LOSS OF DOLLARS 100 MILLION IN EXPORTS TO THE UNITED STATES, THE NET EFFECT OF WESTERN FINANCIAL MEASURES AGAINST POLAND (THE REFUSAL OF NEW CREDITS AND REFUSAL TO DISCUSS RESCHEDULING) WAS TO INCREASE THE AVAILABILITY OF CONVERTIBLE CURRENCY IN 1982, BY ABOUT DOLLARS 400-510 MILLION, THEREBY ENABLING POLAND TO PURCHASE GOODS ON A CASH BASIS AT A TIME WHEN CREDIT WOULD NOT IN ANY CASE HAVE BEEN READILY AVAILABLE. IF MARTIAL LAW HAD NOT BEEN DECLARED, POLAND WOULD PROBABLY HAVE RESCHEDULED ITS 1982 DEBTS TO OFFICIAL CREDITORS BUT WOULD HAVE BEEN UNLIKELY TO RECEIVE MUCH MORE NEW CREDIT. IN THAT SITUATION, IN ORDER TO OBTAIN A SIMILAR AMOUNT OF HARD CURRENCY POLAND WOULD HAVE HAD TO BREAK ITS RESCHEDULING AGREEMENT.

11. WE CONCLUDE THAT, ALTHOUGH SOME POLISH INDUSTRIES HAVE BEEN HIT BY THE WESTERN MEASURES, THEIR NET FINANCIAL EFFECT HAS BEEN TO MAKE MORE HARD CURRENCY AVAILABLE TO THE POLISH AUTHORITIES THAN WOULD OTHERWISE HAVE BEEN THE CASE. THIS HAS PROVIDED THEM WITH INCREASED FREEDOM OF MANOEUVRE EITHER TO IMPORT MORE OR TO PAY MORE TO THEIR COMMERCIAL BANK CREDITORS IN DEBT SERVICE PAYMENTS, OR BOTH.

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