Collection: Dobriansky, Paula J.: Files
Folder Title: Poland – Debt Rescheduling (2)
Box: RAC Box 3

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name DOBRIANSKY, PAULA: FILES

File Folder POLAND - DEBT RESCHEDULING (2)

Box Number 3

Withdrawer
RBW 8/31/2012

FOIA
M434
KINSTETTER
51

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
142636	REPORT	RE. EXCEPTIONAL CIRCUMSTANCES CLAUSE *R 7/8/2015 M434/3*	3	ND	B1
142637	MEMO	WILLIAM CLARK TO RR RE. REPORT OF THE WORKING GROUP ON IMPLICATIONS OF INVOCATION OF THE TANK CLAUSE *R 7/8/2015 M434/3*	1	ND	B1
142639	MEMO	CLARK TO RICHARD LYNG RE. POLISH DEBT *R 7/8/2015 M434/3*	2	1/22/1982	B1
142640	MEMO	PAUL BREMER TO CLARK RE. POLISH DEBT *R 7/8/2015 M434/3*	1	1/11/1982	B1
142641	MEMO	LYNG TO JAMES NANCE RE. POLISH DEBT *R 7/8/2015 M434/3*	1	1/8/1982	B1
142642	MEMO	BREMER TO CLARK RE. POLISH DEBT *R 7/8/2015 M434/3*	1	1/16/1982	B1
142643	MEMO	DRAFT RE. CLARK TO RICHARD LYNG RE. POLISH DEBT [SAME TEXT AS DOC. 142639] *R 7/8/2015 M434/3*	2	ND	B1

SECRET FILE Pipes Poland Debt

THE WHITE HOUSE

WASHINGTON

130

~~SECRET~~

January 20, 1982

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES REPRESENTATIVE TO THE UNITED NATIONS
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Report of the Working Group on the Implications of Invoking the Exceptional Circumstances Clause of the 1981 Polish Official Debt Rescheduling Agreement

Attached is the report of the Working Group. Detailed background papers are available to you if desired.

FOR THE PRESIDENT:

W. Clark

William P. Clark

Attachment
Report of the Working Group

~~SECRET~~
Review January 13, 1988

SECRET

142636

2

SECRET

SECRET

<u>Report of the Working Group on the Implications of Invoking the Exceptional Circumstances Clause of the 1981 Polish Official Debt Rescheduling Agreement</u>

<u>Background</u>

When the group of fifteen creditor governments agreed to reschedule the interest and principal payments due during 1981 by Poland on its official debt, it was agreed that any one of the signatory governments could unilaterally (although after appropriate consultations) rescind its agreement to the rescheduling if "exceptional circumstances" occurred. It was understood that this referred to foreign intervention (obviously with the Soviet Union in mind) or domestic repression of the Polish people. This is commonly referred to as the "Tank Clause." The legal effect of an invocation of the Clause by a creditor government would be to have the 1981 Polish debt service obligation to that government become due and payable immediately in accordance with the terms of the original loan contracts. That government would then legally be in a preferential position vis-a-vis the other creditor governments unless they also invoked the Clause.

One practical effect of these developments would be a <u>de jure</u> declaration of the present fact that Poland is in default on its debts. Under these circumstances, it is likely that some of the private banks would declare Poland in default on its private debt and attempt to seize Polish assets through court action (assuming that there are available assets to be seized), which they can do now, if they wish. Experience has shown that chances of success in doing so would be very small in foreign jurisdictions. Another effect would be for the Poles to stop payments to official or private entities declaring default. If the default were widespread, it would precipitate total cessation of interest payments to the West. There would be no effect on Poland's ability to borrow, since it cannot borrow now. Polish trade, however, would be hampered in the short run.

In sum, no action that could be taken after an invocation of the Tank Clause cannot be taken now by any public or private creditor. The use of the Tank Clause would thus have a political effect only, with no attendant adverse effects on Poland or significant adverse effects on other Soviet Bloc countries.

<u>Probable Implications</u>

Obviously there are many imponderables with reference to the aftereffects of a step such as the invocation of the Tank Clause. The major creditor governments agree that conditions exist for

SECRET

SECRET
Review January 13, 1988
Classified by Norman A. Bailey

invoking the Clause. The same governments have stated that they oppose doing so at this time. Whether the USG should invoke the Clause must be assessed in the light of the following considerations:

(1) Is the implicit possibility of the USG unilaterally invoking the Clause at any time or the threat of doing so a more powerful weapon to influence events in Poland than actually invoking it?

The fact that we have not yet invoked the Clause keeps Poland and to some extent the USSR under pressure to continue to make some payments. It also provides leverage with our Western European allies, in such meetings as NATO, COCOM, G-5, etc. during the next few weeks in order to induce greater cooperation by them with our post-martial law sanctions.

(2) What would be the probable effects of invoking the Clause on the financial system of the Western world?

If default were to be declared against Poland, the impact on the Western financial system would be severe, but containable. Budget and financial effects in certain countries, especially West Germany, could be substantial. If technical default were to spread to other Eastern European countries, the costs to the Western financial system increase, with potentially severe long-term consequences.

(3) What would be the impact of invoking the Tank Clause on the Soviet Union?

All pressure to assist Poland to make at least token payments would be removed. The USSR would be unlikely to pay off the Polish debt because of its own financial considerations. Our invocation of the Clause would be declared by them a "political act."

(4) Are there other steps which could be taken which would permit us to exert similar or stronger leverage on Poland, the Soviet Union and some of our allies without effects on us and our allies as pernicious as those which might follow invocation of the Clause?

A refusal on our part to participate in a rescheduling of Poland's official 1982 debt at this time would have much the same effect in reducing the availability of Western credit to the Soviet Bloc while not forcing private bank action on default. This would give the appropriate signal to the financial markets, while making a ripple effect much less likely and permitting the banks to deal with the situation in a more orderly manner.

4

SECRET

Recommendations:

(1) That the USG not invoke the Tank Clause at the present time.

(2) That our ability to do so at any time be used as leverage with our allies and with the Soviet Bloc in various negotiations over the next few weeks.

(3) That we refrain from participating in negotiations on the rescheduling of the Polish official 1982 debt at this time.

NATIONAL SECURITY COUNCIL DISTRIBUTION RECORD

Log Number: 0130
Date: 1-21-82

Subject: Polish Debt Rescheduling

CLASSIFICATION: (check one) ☐ TOP SECRET ~~☒ SECRET~~ RDD 8/31/12 ☐ CONFIDENTIAL ☐ UNCLASSIFIED

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S)

INTERNAL DISTRIBUTION

5

___Judge Clark	___Mr. Fontaine	___Mr. Nau	___NSC Secretariat
___Adm. Nance	___Ms. Gold	___Mr. Pipes	___Sit Room
___Adm. Poindexter	___Mr. Gregg	___Ms. Reger	___Admin. Office
	___Mr. Guhin	___Mr. Rentschler	___
___Mr. Bailey	___Mr. Jennings	___Col. Russell	___
___Col. Berta	___Mr. Kemp	___Maj. Shoemaker	___
___Cmdr. Blair	___Maj. Kimmitt	___Mr. Stearman	___
___Ms. Colson	___Mr. Kraemer	___Mr Tanter	___
___Mr. De Graffenreid	___Mr. Lenz	___Mr. Tyson	___
___Ms. Dobriansky	___Mr. Levine	___Mr. Weiss	___
___Mr. Feith	___Mr. Lord	___Mr. Wettering	___

EXTERNAL DISTRIBUTION:

	# cys	Date	Time	Received/Signed For By:
THE VICE PRESIDENT (OEOB OFFICES)	1			
THE SECRETARY OF STATE Exec sec/room 7241	1			
THE SECRETARY OF DEFENSE The Pentagon	1			
DIRECTOR, ACDA Room 5933/Dept of State				
DIRECTOR CIA Langley, VA/or Pickup	1			
CHAIRMAN, JCS The Pentagon				
THE SECRETARY OF THE TREASURY Main Bldg/Room 3422	1			
THE SECRETARY OF COMMERCE 14th & Const/NW, Room 3422	1			
DIRECTOR, OMB Room 252 OEOB	1			
DIRECTOR AID Room 5942 New State				
THE SECRETARY OF ENERGY GA257, Forrestal Bldg.				
THE SECRETARY OF TRANSPORTATION 400 7th Street S.W.	1			
U.S. REPRESENTATIVE TO UNITED NATIONS Room 7531/State Dept.				
THE ATTORNEY GENERAL 10TH/Const. NW, Room 5119				
DEPUTY SECRETARY OF STATE Exce. Sec/Room 7241				
DEPUTY SECRETARY OF DEFENSE The Pentagon				
DIRECTOR OSTP Room 360, OEOB				
DIRECTOR, INTL COMMUNICATIONS AGENCY (ICA) 1750 Penna. NW				
THE SECRETARY OF INTERIOR 18th & E Street NW				
THE SECRETARY OF AGRICULTURE Independence & 14th SW	1			
THE SECRETARY OF LABOR 100 Const Ave NW				
THE SECRETARY OF HHS 100 Independence Avenue, NW				
THE SECRETARY OF HUD 251 7th Street SW				
United States Trade Representative	1			

PAGE 1 OF 1 PAGES

6

#0130

THE WHITE HOUSE
WASHINGTON

1/20

Jean –
new memo signed again. Needs to be dispatched along with report.

JR

~~SECRET~~

MEMORANDUM

130 redo

NATIONAL SECURITY COUNCIL

January 13, 1982

~~SECRET~~

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY NB

SUBJECT: Report of the Working Group on the Implications of Invoking the Exceptional Circumstances Clause of the 1981 Polish Official Debt Rescheduling Agreement

Attached are memos to the President (Tab I) and the involved agencies (Tab II) forwarding the report of the Working Group (Tab A).

RECOMMENDATION:

That you sign the memos at Tabs I and II.

Approve ______ Disapprove ✓ verbal at 9:30 — Norm will accompany for brief presentation

cc: Allen Lenz
Richard Pipes
Chris Shoemaker
Don Gregg

Attachments
Tab I Memo to the President for Your Signature
Tab II Memo to the Agencies
Tab A Report of the Working Group

~~SECRET~~
Review January 13, 1988

~~SECRET~~

142637

8

SECRET

MEMORANDUM 130

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK

SUBJECT: Report of the Working Group on the Implications of Invocation of the Tank Clause

The Working Group on the Implications of U.S. Invocation of the Exceptional Circumstances Clause of the 1981 Polish Official Debt Rescheduling Agreement has completed its report. The recommendations of the Working Group are as follows:

1. That the USG not invoke the Tank Clause at the present time.

2. That our ability to do so at any time be used as leverage with our allies and with the Soviet Bloc in various negotiations over the next few weeks.

3. That we refrain from participating in negotiations on the rescheduling of the Polish official 1982 debt at this time.

~~SECRET~~

~~SECRET~~
Review January 13, 1988

9

0130 reko

THE WHITE HOUSE
WASHINGTON

1/15

FOR THE RECORD:

The attached memo was discussed with the President on 1/15. The President approved all three recommendations listed on page 3 of TAB A.

JCalson

10

130

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES REPRESENTATIVE TO THE UNITED NATIONS
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Report of the Working Group on the Implications of Invoking the Exceptional Circumstances Clause of the 1981 Polish Official Debt Rescheduling Agreement

Attached is the report of the Working Group. Detailed background papers are available to you if desired.

FOR THE PRESIDENT:

William Clark

William P. Clark

Attachment
Report of the Working Group

~~SECRET~~
Review January 13, 1988

11

NATIONAL SECURITY COUNCIL
THE WHITE HOUSE

Package # 0130

	TO	SEEN
JANET COLSON	✓	JB 1/14
BUD NANCE	✓	Bud
JOHN POINDEXTER		
JACQUE HILL	✓	
JUDGE CLARK	✓	
JANET COLSON	✓	

DISTRIBUTION

CY TO VP		SHOW CC	
CY TO MEESE		SHOW CC	
CY TO BAKER		SHOW CC	
CY TO DEAVER		SHOW CC	

OTHER

COMMENTS

Bud: WPC gave to verbally at 9:30

12

NATIONAL SECURITY COUNCIL
THE WHITE HOUSE

Package # 0130

02 ... 33

	TO	SEEN
JANET COLSON	✓	J
BUD NANCE	✓	
JOHN POINDEXTER		
JACQUE HILL		
JUDGE CLARK		
JANET COLSON	✓	J

DISTRIBUTION

CY TO VP		SHOW CC	
CY TO MEESE		SHOW CC	
CY TO BAKER		SHOW CC	
CY TO DEAVER		SHOW CC	

OTHER

Back to Norm Bailey

COMMENTS

Norm, my Portuguese friend. This should go to USUN also. In addition, we need to make a report to the President.

Bud 1/12/82

Pups

13
142639

THE WHITE HOUSE

WASHINGTON

177

~~CONFIDENTIAL~~

January 22, 1982

MEMORANDUM FOR THE HONORABLE RICHARD E. LYNG
The Deputy Secretary of Agriculture

SUBJECT: Polish Debt; CCC Guarantees and the Risk of Polish Default

I have consulted with State and Treasury on the problem you raised in your memo of January 8 to James Nance on Polish debt. There is complete agreement that the USG should not take any action which increases the risk that Poland could be declared in default.

At this time, we want to preserve our flexibility on the issue of Polish debt. As you know, the President has decided that the U.S. should not increase the risk of a Polish default by invoking the "exceptional circumstances" clause of the 1981 debt rescheduling agreement with Poland. Thus it is imperative that USDA take all possible steps to avoid any inducement for banks with claims on CCC to call default, and that the way in which these claims are settled does not add to the pressures from third-party banks to call default against Poland.

As we understand the issue, interpretation and application of regulations regarding CCC guarantees to require a declaration of default could exacerbate the risk of some banks formally declaring Poland in default. Certainly a large part of the financial community believes this, and it is in the interests of most banks to avoid a formal default situation. The immediate need is to permit banks and exporters to establish the basis and time frame for interest to accrue on their claims, as appropriate, under the CCC regulations. A second requirement is to be able to settle claims in an orderly fashion without risking a default declaration during an interim period in which U.S. flexibility is fully preserved. We therefore urge that you explore all possible methods under the CCC charter to authorize payments by CCC in the absence of a declaration of default through interpretation of the regulations, the issuance of a temporary and emergency amendment to the CCC regulations, or through the direct repurchase

~~CONFIDENTIAL~~
Review January 19, 1988

14

of CCC guarantees or other outstanding obligations covering credits to Poland. While minimizing any increase in the risk of default, this interim method of settlement should also avoid being construed as a rescheduling of Poland's CCC debt.

As you know, the NATO countries have agreed to hold the question of debt rescheduling negotiations in suspense "for the time being." Sixteen creditors, at their meeting of January 14, agreed on this. Thus over the next several months -- while such an interim arrangement is in effect -- we will need to examine how claims should be settled after a final decision on debt rescheduling for 1982 is made. USDA, in conjunction with State and Treasury, should begin an intensive examination of the issue and the options.

FOR THE PRESIDENT:

Bill

William P. Clark

142640

S/S 8200507

DEPARTMENT OF STATE

Washington, D.C. 20520

15

~~CONFIDENTIAL~~

January 11, 1982

82 11 P 9 51

MEMORANDUM FOR WILLIAM P. CLARK
THE WHITE HOUSE

WHITE HOUSE SITUATION ROOM

Subject: Polish Debt; CCC Guarantees and the Risk of Default

This responds to the memo from Deputy Secretary of Agriculture Richard Lyng to James Nance on Polish debt. The State Department and USDA have been discussing the problem raised in that memo over the past week. The same issue arose last year, after the official multilateral rescheduling of Poland's 1981 debt service. In essence, CCC regulations do not take into consideration the possibility of rescheduling; thus banks which wish to claim a CCC guarantee of their loans have no recourse but to invoke a formal declaration of default in order to collect.

In 1981, USDA avoided this by creative interpretation of CCC regulations which allowed them to buy back the loans. We understand that this becomes somewhat more problematical without an official debt rescheduling place-- and it is clear that there will not be such a rescheduling in 1982 for some time. Nonetheless, we believe that it is important that an arrangement be made to allow the banks to collect their guarantees without triggering a declaration of default by private banks.

The NSC has discussed the question of abrogating the 1981 official debt rescheduling agreement with Poland by involving the "exceptional circumstances" clause. Such an action is likely to result in some U.S. banks declaring formal default. The President decided that we should not take such action, and thus that we should not increase the risk of a private bank declaration of default. In our view, present US flexibility on this issue should be preserved; thus USDA should arrange for the private banks to collect their guarantees in a way which does not increase the risk that the banks will call a default. We have checked with Treasury, and it shares our views.

L. Paul Bremer III
Executive Secretary

~~CONFIDENTIAL~~
GDS: 1/9/88

142641

16

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

~~CONFIDENTIAL~~

TO: James W. Nance
Deputy Assistant to the President
for National Security Affairs

FROM: Richard E. Lyng
Deputy Secretary

Richard E. Lyng

SUBJECT: Polish Debt

DATE: January 8, 1982

USDA's Commodity Credit Corporation (CCC) has an enormous Polish credit exposure totaling approximately $1.6 billion. This includes both direct credits and guaranteed private credits made for shipments of U. S. agricultural commodities during the past several years. There is a risk that claims by private banks under CCC programs may trigger cross-defaults, resulting in a scramble for Polish assets.

A multilateral government rescheduling agreement was negotiated in 1981 covering Polish loan payments only through December 31, 1981. There is no such rescheduling agreement for payments coming due in January of 1982 and beyond.

USDA (CCC) anticipates that some banks or exporters holding our guarantees on Polish loans may make claims upon us next week for these unrescheduled payments now past due. A single claim could trigger cross-default clauses affecting all of Poland's outstanding credits. Technically, Poland has been in default for months, but neither banks nor the U. S. Government has chosen to declare Poland in default.

Although CCC has no ability to prevent submission of claims, we are meeting with banks, at their request, on Monday, January 11. USDA has invited representatives of the State and Treasury Departments and the National Security Council to participate in this meeting.

Although CCC's options are limited, due to its legal and contractual obligations, certain policy guidelines may be essential to minimize the risk of undesired disruption of the Polish situation.

REL/TAH/d

CONFIDENTIAL

MEMORANDUM

0177 redo

09L 17

NATIONAL SECURITY COUNCIL

January 19, 1982

~~CONFIDENTIAL~~

ACTION

SIGNED

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY NB

SUBJECT: Memo from You to Secretary Block Concerning CCC Polish Debt and the Risk of Default

Deputy Secretary of Agriculture Lyng wrote to Bud Nance who sent the memo to State at your direction. The Lyng memo and Bremer's response (Tab II) are attached.

The Department of Agriculture has worked out a method for dealing with the problem, but wants "cover" in the form of a comfort letter from the White House. State has prepared a letter from you to Lyng (Tab I).

RECOMMENDATION:

That you sign the attached memorandum to Deputy Secretary Lyng at Tab I.

Approve ✓ Disapprove ______

cc: Richard Pipes
Paula Dobriansky

Attachments
Tab I Memo to Block for Your Signature
Tab II Lyng Memo and Bremer Response

CONFIDENTIAL

~~CONFIDENTIAL~~
Review January 19, 1988

DECLASSIFIED
Sec.3.4(b), E.O. 12958, as amended
White House Guidelines, Sept. 11, 2006
BY NARA RW, DATE 8/31/12

8200931

0177
add-on
142642

DEPARTMENT OF STATE

Washington, D.C. 20520

~~CONFIDENTIAL~~ 18

January 16, 1982 82 JAN 16 P4: 59

WHITE HOUSE
SITUATION ROOM

MEMORANDUM FOR MR. WILLIAM P. CLARK
THE WHITE HOUSE

SUBJECT: Polish Debt; CCC Guarantees and the Risk of Default; Suggested Memo

The Department's staff has been working with USDA, Treasury, and your staff to resolve the questions on Polish CCC debt raised in the memo of January 8 from Deputy Secretary of Agriculture Lyng to James Nance. The issue is basically how to meet claims of U.S. private banks for CCC guaranteed commodity loans to Poland without increasing the risk of default. The agencies agree that normal application of CCC regulations would increase this risk, and thus run counter to present U.S. policy.

Attached is a suggested reply to Lyng, which has the clearance of Treasury. State, Treasury, and the NSC staff agree that such a reply is necessary, and State offered to provide the draft.

L. Paul Bremer, III
Executive Secretary

Attachment:

Suggested reply

DECLASSIFIED
NLRR M434/3 #142642
BY RW NARA DATE 7/8/15

~~CONFIDENTIAL~~

142643

~~SECRET~~

19

MEMORANDUM TO RICHARD LYNG

SUBJECT: Polish Debt

I have consulted with State and Treasury on the problem you raised in your memo of January 8 to James Nance on Polish debt. There is complete agreement that the USG should not take any action which increases the risk that Poland could be declared in default.

At this time, we want to preserve our flexibility on the issue of Polish debt. As you know, the President has decided that the U.S. should not increase the risk of a Polish default by invoking the "exceptional circumstances" clause of the 1981 debt rescheduling agreement with Poland. Thus it is imperative that USDA take all possible steps to avoid any inducement for banks with claims on CCC to call default, and that the way in which these claims are settled does not add to the pressures from third-party banks to call default against Poland.

As we understand the issue, interpretation and application of regulations regarding CCC guarantees to require a declaration of default could exacerbate the risk of some banks formally declaring Poland in default. Certainly a large part of the financial community believes this, and it is in the interests of most banks to avoid a formal default situation. The immediate need is to permit banks and exporters to establish the basis and time frame for interest to accrue on their claims, as appropriate, under the CCC regulations. A second requirement is to be able to settle claims in an orderly fashion without risking a default declaration during an interim period in which U.S. flexibility is fully preserved. We therefore urge that you explore

20

payments by CCC in the absence of a declaration of default through interpretation of the regulations, the issuance of a temporary and emergency amendment to the CCC regulations, or through the direct repurchase of CCC guarantees or other outstanding obligations covering credits to Poland. While minimizing any increase in the risk of default, this interim method of settlement should also avoid being construed as a rescheduling of Poland's CCC debt.

As you know, the NATO countries have agreed to hold the question of debt rescheduling negotiations in suspense "for the time being." Sixteen creditors, at their meeting of January 14, agreed on this. Thus over the next several months--while such an interim arrangement is in effect--we will need to examine how claims should be settled after a final decision on debt rescheduling for 1982 is made. USDA in conjunction with State and Treasury should begin an intensive examination of the issue and the options.

William P. Clark

22

NATIONAL SECURITY COUNCIL
THE WHITE HOUSE

Package # 0177

82 19 P3:19

	TO	SEEN
JANET COLSON	✓	JC
BUD NANCE	✓	Bud
JOHN POINDEXTER		
JACQUE HILL		
JUDGE CLARK	✓	✓
JANET COLSON	✓	

SIGNED

DISTRIBUTION

CY TO VP		SHOW CC	
CY TO MEESE		SHOW CC	
CY TO BAKER		SHOW CC	
CY TO DEAVER		SHOW CC	

COMMENTS

FILE POLAND - DEBT ✓
3628

Dobriansky!

23

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

June 14, 1982

MEMORANDUM FOR EDWARD J. ROLLINS

FROM: WILLIAM P. CLARK WPC

SUBJECT: Proposed Republican National Committee Resolution

With reference to your memorandum of May 21 on the proposed RNC resolution, attached are several statements made by Treasury officials explaining the USG decision not to unilaterally declare Poland in default on its official debt.

Attachments
- Leland Statement of February 9, 1982
- Sprinkel Statement of February 23, 1982
- McNamar Statement of March 12, 1982

STATEMENT OF MARC E. LELAND

ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS

APPROPRIATIONS COMMITTEE

U.S. SENATE

FEBRUARY 9, 1982

Mr. Chairman: Thank you for giving me the opportunity to discuss the Polish debt situation with you and members of this Committee. I understand that the Committee is concerned about whether Poland should be declared in default as a means to exert pressure on the Polish regime and is also concerned that the Government is paying the Commodity Credit Corporation's (CCC) guarantees of commercial bank loans to Poland.

The President has decided that maximum pressure can be put on Poland by insisting on repayment of their debt -- both that portion which we did not reschedule last year and that which falls due this year -- and <u>not</u> by declaring the Poles in default at this time. I want to emphasize this point strongly because there has been much confusion and misinformation on the issue.

Private banks are not now lending any money to the Polish government. Poland, however, is making some payments though by no means all that is due both to official creditors and commercial banks in the west. Thus, we have a situation of money flowing from the East to the West as opposed to the opposite situation which existed just a year ago, when banks and governments were putting money into Poland. By adhering to this policy of pressuring the Poles for repayment, while not putting any new money into Poland, we will perpetuate this situation. This hurts the Polish regime because this net outflow means that they are giving up more than they are getting and, as I noted above, they are getting no new credit now.

Would declaring a default bring more pressure on the Poles than that which now exists? I don't think so. In fact, declaring a default now would make things easier for the Polish regime. This sounds like an anomaly but in fact it is not. If the United States Government were to declare a default against the Polish government, as some have argued, Poland could use that as an excuse to keep from paying even the small amounts which it is presently paying. Thus, they would be free to use their scarce foreign exchange either to pay other creditors -- who might not declare default -- or make new purchase. In this situation, the USG would, of course, be free to seek to attach Polish assets, of which there are virtually none. Even if there were any, they would be difficult to attach for reasons of sovereign immunity.

26

Thus, analysing the situation in this way, the Government, like private banks, has determined that there is more chance of getting paid if we do not declare Poland in default but insist that that they pay their indebtedness.

It has also been suggested that a declaration of default against the Poles could force the Soviets to pay the Polish obligations. I don't believe this is the case. It would in fact, reduce the pressure that currently exists for the Soviet Union to help Poland in whatever way it can so that the Poles can continue to make some payments.

It has been alleged that any payments by the Commodity Credit Corporation to the commercial banks would in effect be "bailing out" the banks and letting the Poles "off the hook". This simply is not the case. The United States Government has a legal obligation to honor its guarantees on the loans which commercial banks made to Poland. This we are doing. When that process is complete, the guaranteed portion of Poland's debt will be owed to the United States Government, rather than the commercial banks. I can assure you that we will do everything possible to collect that debt. I can also assure you that this transfer will not, in any way, undermine or weaken the ability of the commercial banks to call a default on their many unguaranteed private bank loans to Poland which are not being paid on time. That they have not done so and show no intention of doing so

27

denotes as I have said that they have come to the same conclusion as we -- by an independent process -- that it is better to collect some money than none. By insisting that this be done we preserve to the maximum extent possible our separate, but similar, interests in being repaid. At the same time, the USG is maintaining its objective of placing the maximum possible pressure on the Polish regime. We firmly believe that this policy is the most effective one.

I will be happy to answer any questions which you or other members of the Committee may have.

TESTIMONY OF THE HONORABLE BERYL W. SPRINKEL
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
FEBRUARY 23, 1982

Mr. Chairman: I welcome this opportunity to discuss the Polish economic and financial situation with you and other members of the Committee. In my prepared statement, I will review how the situation has deteriorated to the position in which Poland finds itself today, the debt rescheduling exercise with offical creditors for dealing with Poland's 1981 maturities, the parallel exercise with the commercial banks which appears to be in its concluding phases, and most importantly, the economic and financial pressures we have brought to bear on Poland and the Soviet Union in the light of the repressive actions of December 13, 1981. In particular, I will set forth the Administration's view as to why we have not declared Poland in default on its official debts, because we see this as a means to bring greater pressure to bear on the Polish regime. There has been considerable misunderstanding and confusion on this subject, and I think it would be helpful to understand the position we have taken and why.

29

Poland's Economic Strategies

In the early 1970's, Poland embarked upon an ambitious economic development program to modernize its economy and to increase substantially its standard of living. The strategy envisaged a simultaneous expansion in investment and consumption. Massive increases in investment were needed to re-orient the economy away from inefficient import substitution and toward the development of an export oriented industrial base. This would enable Poland to sell its products in Western markets. Concurrently, it was felt that increases in consumption, particularly of food, would be required to provide Polish workers with an incentive to stimulate the growth of output.

In this strategy, it was recognized that substantial foreign borrowing, primarily from the West, would be necessary to finance massive capital imports from the West. The Poles thought that the trade deficit which this would elicit would ultimately shift into a trade surplus as a result of Polish sales in Western markets; the surplus was envisioned to become large enough to enable Poland to eventually reduce its external debt.

The Polish Failure and Build-up of Debt

This strategy failed, and failed badly. The main problem arose because the Polish authorities made a number of policy errors. For example, when the Western recession began in 1974, Poland, like a number of developing and industrial countries, maintained its ambitious development plan rather than cutting back on imports which were used to build its industrial capacity. As a result, its trade deficit with the West widened, and for 1975, it exceeded $2 billion compared to $1.5 billion in 1973. Incorrect income and pricing policies also played their role as Poland tried to insulate its economy from the inflationary pressures of the mid-1970's through use of subsidies and price controls. These measures increased the degree of distortion already existing in this centrally planned economy and exacerbated the financial problems of Polish enterprises. The emphasis on expansion of heavy industry resulted in a neglect of the agriculture sector. The combination of six consecutive years of bad weather and the lack of appropriate agricultural policies gave rise to rapidly increasing rates of food imports -- more than doubling between 1972-1975, and increasing by one-third again between 1975-1979. These imports necessarily had to be covered by Polish exports. But when Poland found it was unable to generate the level of export sales it envisaged, these imports had to be covered by additional borrowing.

As a result of these and other developments the Polish external debt situation deteriorated significantly. For example, in 1972, Poland's gross hard currency debt totaled only $1.6 billion. Its debt service, consisting of $200 million of principal and $74 million of interest, amounted to only 15% of its foreign exchange earnings from the West. As Poland's hard currency imports continued to exceed its hard currency exports, total debt and debt service continued to rise. By 1974, Poland's external debt was $4.6 billion and its debt service was 23% of export earnings; by 1976, total debt more than doubled to $11.5 billion and debt service was 42%; by 1979, total debt virtually doubled again to $21.1 billion and debt service was 92% (see attached table). Poland was now truly caught in a vicious circle wherein a rising standard of living that its people had come to expect and demand depended on ever-growing borrowing from the West.

By mid-year 1981, Poland's hard currency debt stood at approximately $26 billion. It owed roughly $20 billion of this amount to sixteen Western countries, $11 billion to official creditors or guaranteed by them, including $1.9 billion to the U.S. Government; and $9 billion of unguaranteed debt to private banks including $1.3 billion to U.S. banks. At the beginning of 1981 it was estimated that Poland would require some $11 billion to cover its projected trade deficit and service its debt. Poland was clearly not in a position to raise these amounts and on March 26, 1981, the Polish authorities notified their creditors that they would no longer be able to guarantee payment of their external debt.

Public and Private Debt Rescheduling

The governments and private banks responded to the Polish notification by agreeing to enter into debt rescheduling negotiations. Separate debt rescheduling exercises were organized by the official and private creditors. Fifteen official creditor nations (later increased to sixteen with the addition of Spain) concluded negotiations with the Government of Poland and a multilateral debt rescheduling agreement was signed in Paris on April 27, 1981. This agreement serves as an umbrella agreement for subsequent Government to Government agreements to reschedule 90 percent of Poland's debt service obligations to these creditors, including both the principal and interest falling due during the last

32

three-quarters of 1981. These obligations, totaling $2.4 billion, are to be repaid during a four year period beginning in 1985. Interest on the rescheduled debt, both interest and principal, is to be charged during the 1981-1985 grace period and on the outstanding debt during the repayment period. The U.S./ Poland Government to Government agreement was signed on August 27, 1981.

Western banks, moving on a parallel track, established a consortium to negotiate a debt rescheduling agreement with the Polish Government. By September, the consortium reached an ad referendum agreement with the Poles for rescheduling 95 percent of the principal ($2.3 billion) falling due during April-December 1981, over eight years, including a four year grace period.

The consortium of Western banks set a precondition for signing he document, namely that Poland pay all of the 1981 interest -- an estimated $700 million -- which fell due in the last 9 months of 1981. The Government of Poland could not completely fulfill this condition at year's end, and as a result, the Western banks did not sign the rescheduling agreement. At the present time, we understand the Poles have almost brought their interest payments to the banks current through December 1981. Final payment of 1981 interest -- and signature of the rescheduling agreement with the banks for 1981 -- is expected in March.

Internal Deficits: Their Causes and Impact

The problems created by the massive buildup of Poland's external debt were exacerbated by the growth of large scale budget deficits which rose from 26 billion zlotys in 1980 to over 200 billion zlotys

33

in 1981 (34 zlotys=$1), an amount equal to about 6 percent of their GNP. These deficits came about primarily from three sources: (1) increased government expenditures for social benefits, (2) higher wages in administration, education and other units financed by state funds, and (3) losses of socialized enterprises because of rapidly rising wage increases, declining output and stagnant prices.

The Polish response to these developments was to finance the overall budget deficit by monetizing the debt. Rather than take corrective measures to eliminate the budget deficits, the Polish authorities printed money. The Polish Government has estimated that nearly 22 percent of their expenditures in 1981 were financed by newly issued money. With official prices suppressed, a thriving black market developed. As a result, the Polish currency became worthless, both as a medium of exchange and a store of value. It was no surprise to economic observers that in these circumstances Polish workers would not produce when they were to be paid in a currency which was virtually worthless; and it was no surprise that the Polish farmers would not bring their products to market in the state distribution systems when they too would be paid in a worthless currency.

Bringing Pressure to Bear on Poland and Default

Subsequent to the imposition of martial law in Poland on December 13, 1981, the United States and other official creditors took financial measures to bring financial pressure to bear on Poland. First, government credits and export guarantees to Poland

34

have been limited to those of a humanitarian nature, e.g., food and medical supplies. In this regard the United States Government has terminated all discussions regarding CCC loan guarantees for agricultural exports, while permitting food assistance which was in the pipeline and was being distributed by Catholic relief services and CARE was allowed to continue to go forward. Second, the official creditors suspended indefinitely any talks with the Poles on rescheduling their 1982 debt maturities and are insisting that the Poles service all their 1982 debt obligations as they fall due. They are also insisting that the 1981 obligations which were not rescheduled and are in arrears, be paid.

By these actions, we are creating a situation whereby funds are flowing from Poland to the West rather than from the West to Poland as was the case just a year ago. By adhering to a policy of pressuring the Poles for repayment while not providing any new credits, we can perpetuate a situation that hurts the Polish regime. The net outflow of funds means that the Poles are giving up more than they are getting, and as I pointed out above, they are getting no new funds.

In these circumstances, would declaring a default now bring more pressure on the Poles than that which now exists? I don't think so. In fact, declaring a default now could make things easier for the Polish regime. This sounds like an anomaly but in fact it is not. If the United States Government were to declare a default now, as some have argued we should, the Polish Government could use that as an excuse to keep from paying even the small amounts which it is presently paying. Thus, they would be free to use their scarce

35

foreign exchange either to pay other creditors -- who might not declare default -- or make new purchases. We do not wish to bring about this type of situation as it would ease the pressure with which the Poles are now confronted.

Thus, the Administration has determined that we can maximize pressure on Poland by insisting that they pay their indebtedness. We firmly believe that this policy is the most effective for advancing our political and financial interests.

I will be happy to answer any questions which you or other members of the Committee may have.

Poland

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
					(billions of U.S. $)					(estimate)
Non-Communist										
a)Exports	1.8	2.5	3.9	4.1	4.4	4.9	5.5	6.3	7.4	5.6
b)Imports	2.0	4.0	6.0	7.4	7.5	7.1	7.5	8.8	8.8	6.5
c)Trade balance	-0.2	-1.5	-2.1	-3.3	-3.1	-2.2	-2.0	-2.5	-1.4	-0.9
Gross Debt	1.6	2.8	4.6	8.0	11.5	14.0	17.8	21.1	25.0	26.0
Principal Repayment	0.2	0.3	0.5	0.7	1.2	2.0	2.9	3.6	5.6	6.4
Interest	0.1	0.2	0.4	0.5	0.7	0.9	1.5	2.2	2.4	3.3
Debt Service (as % of exports)	15	19	23	30	42	59	79	92	108	173

STATEMENT OF R. T. McNAMAR
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON AGRICULTURE,
NUTRITION AND FORESTRY
UNITED STATES SENATE
MARCH 12, 1982

MR. CHAIRMAN: I welcome this opportunity to discuss the relationship between the Polish financial and economic situation and the Commodity Credit Corporation's export lending activities with you and other members of the Committee.

As you know, we have already submitted for the record the answers to the questions you posed in preparation for these hearings. I have attached those questions and answers to this statement. Therefore, in my prepared statement, I will elaborate on two of the major points of your concern.

I would like to begin by commenting on the reasons why the Administration has chosen not to declare Poland in default at this time. There has been considerable confusion and misunderstanding in the press and elsewhere regarding this decision.

Subsequent to the imposition of martial law in Poland on December 13, 1981, the United States and other official creditors decided to take the following initial steps to bring financial pressure to bear on the military government of Poland: (1) Government credits and export guarantees, except those of a humanitarian nature, were terminated; (2) 1982 Polish debt rescheduling discussions were indefinitely suspended; and (3) official creditors insisted that Poland meet its 1982 obligations as they fall due and pay up the arrearages on the 1981 obligations that were not previously rescheduled during 1981.

The U.S. has also taken a number of additional steps:

-- We have suspended Poland's 1982 fishing rights in U.S. waters.

-- We have halted the renewal of the U.S. Export-Import Bank's line of credit insurance to Poland.

-- We have held up the shipment of surplus dairy products.

-- We have suspended Polish civil aviation landing rights in the U.S.

By taking these steps we instituted a process so that money is now flowing from Poland to the West rather than the West to Poland as was the case during the last several years. By

38

adhering to a policy of insisting on repayment while not providing any new funds -- the private lenders have also severely curtailed lending to Poland -- we are creating a situation that maintains financial pressure on the Polish military regime and through them on the USSR.

Some have argued that a formal declaration of default would serve to curtail financial credit to Poland. There are no credits going to Poland at this time, and some of the other Soviet bloc countries, which are experiencing serious economic and financial problems, are finding it increasingly difficult to borrow.

Although a formal declaration of default would not affect Poland's legal obligation to repay its debts to U.S. lenders, the Polish government could attempt to avoid paying U.S. lenders. In turn, this would make scarce hard currency available to pay for additional imports which they otherwise could not purchase.

Some have suggested that the United States should declare Poland in default of its obligations and satisfy these obligations by attaching its assets.

While the United States could attempt to recover some of the funds it loaned Poland in this way there are, however, virtually no Polish assets. In fact, the court costs involved in such an effort might even exceed the value of the property attached.

In short, we have opted for an approach that is draining resources out of Poland rather than taking what would essentially be a symbolic gesture. And, by not declaring Poland in default and continuing to insist on their meeting their obligations, we are also indirectly bringing additional financial pressure to bear on the Soviet Union -- the real instigator of the repressive regime in Poland. As a result of not declaring a default, the Soviets are now pressured to provide additional economic resources to keep the Polish economy functioning at some minimally acceptable level and to assist the Poles in meeting their hard currency debt service payments to avoid further damage to Poland, other bloc countries, and the Soviet Union.

I will now comment briefly on the CCC export guarantee program and on CCC's offer to U.S. banks that has also been the subject of much discussion.

When an exporter enters into a guarantee contract with CCC, CCC becomes legally obligated to make payments to the exporter or its assignee bank in the event the foreign importer's bank fails to meet its payment obligations. This obligation is similar to that undertaken in other U.S. Government loan guarantee programs such as the Export-Import Bank's Financial Guarantee Program for exports of manufactured goods. In order for the holder of the guarantee to collect from CCC, the holder must first notify CCC that a payment has been missed and then file a claim together with the necessary supporting documentation. Once the holder of the guarantee has filed its claim with CCC, CCC must then pay the holder the amount of the guarantee. The holder then transfers to CCC the holder's interest in the missed payment. The foreign borrower is in no way relieved of any obligation -- it still owes the identical amount. Only now it must pay CCC for the missed payments and it must continue paying the guarantee holder the remaining payments as they fall due.

I would also like to emphasize that these payments do not mean -- as has been alleged -- that the CCC is bailing out the banks. The banks were certain of being paid. The CCC guaranteed the credits involved. In the absence of Polish payments, the CCC is obligated to honor its guarantees.

Although CCC regulations refer to the notice document as a "notice of default," it in fact is simply a notice of nonpayment. It does not constitute a formal declaration by the holder of the guarantee or by the U.S. Government that the foreign bank is in default. A formal declaration of default in a loan agreement typically involves triggering specific penalty provisions of the loan agreement, including declaring the entire debt to be immediately due and payable, and perhaps increasing the rate of interest charged on the outstanding balance due. A formal declaration may also entitle the loan holder to seize the debtor's assets in an attempt to satisfy the debt.

The key point to be made is that although the underlying credit agreement the exporter has with the foreign bank may permit the exporter to declare a formal default in the event of a missed payment, CCC does not require the guarantee holder to declare a formal default in order to trigger CCC's liability. CCC simply requires prompt notice that a payment has been missed to exercise its obligation to honor its guarantee.

The January 28 offer of CCC to repurchase guarantee obligations it had made to exporters who had extended credits to Poland (or the assignee banks) does not differ substantially from what would happen if the holders filed a notice and claim as provided under CCC regulations. (CCC would discharge its obligations by purchasing the claim rather than have the banks file and then paying.) However, CCC made this offer because of the concern that some of Poland's other official or unofficial creditors might incorrectly believe that the filing of a claim on a CCC guarantee constituted a declaration of default. The January 28 offer is intended to prevent the adverse consequences that could have resulted from an unintended non-CCC declaration of default based on a misunderstanding of the meaning of the notice and claim procedures used by the CCC.

I will be happy to answer any questions which you or other members of the Committee may have.

Attachment

40

MAR 9 1982

Dear Mr. Chairman:

This is in reply to your letter of March 2, 1982, in which you raised a number of questions relating to the Commodity Credit Corporation's (CCC) export lending activities in Poland. The questions you raised and our responses to them are enclosed.

I trust this is the information you require.

Sincerely,

(Signed) Marc E. Leland

Marc E. Leland
Assistant Secretary
International Affairs

The Honorable
Jesse Helms
Chairman
Committee on Agriculture,
Nutrition, and Forestry
United States Senate
Washington, D.C. 20515

Enclosure

	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	
CODE			2221	5323	[illegible]3	[illegible]313
SURNAME	SHAPIRO	CANNER	GALE	AMMERMAN	MEIGHER	RIEFFEL
INITIAL/DATE	[illegible] 3/9	HS [illegible] 3/9	/	JA 3/9	[illegible] 3/9	[illegible] Mar 9

TD F 10-01.4 (8-77) replaces OS 3196 (2-75) which may be used

CORRESPONDENCE APPROVAL AND CLEARANCE

(1) Question: Why did the Administration choose not to declare Poland in default?

Answer: We believe that by not declaring Poland in default at this time we are bringing maximum pressure to bear on Poland and the Soviet Union by promoting a continued flow of hard currency from Poland to the West. We still retain the option of declaring Poland in default.

(2) Question: Were the USDA's Commodity Credit Corporation's (CCC) regulations on paying guarantees to the banks adhered to in payment to U.S. banks?

Answer: The January 28, 1982 offer of the CCC to holders of CCC guarantees covering credits to Poland is clearly within the CCC's legal authority and is consistent with the laws and regulations governing the CCC. This conclusion is based on two elements: (1) the January 28 offer in no way alters the basic rights and liabilities of CCC under its obligations but instead offers a possibility of improving CCC's position concerning those obligations, and (2) CCC has broad statutory authority to enter into contracts of this type for the settlement of its claims and obligations.

The regulations that set forth the procedures for payment in connection with CCC's guarantees under the GSM-101 and GSM-102 programs provide that in order for the holder of the guarantee to collect from CCC, the holder must first notify CCC that a payment has been missed and then file a claim, together with supporting documentation. Although the notice document provided for in CCC's regulations is termed a "notice of default," CCC's definition of default for purposes of notification is fundamentally different from the concept of default in banking circles. Moreover, the notice required by CCC's regulations has a different purpose from a declaration of default in the banking context.

Under the CCC regulations, "default" is defined as occurring when a payment by the borrower has been missed. The purpose of requiring the holder of the guarantee to notify CCC that the foreign bank has failed to make a remittance is to alert CCC to its imminent liability for that payment and to allow it to take such actions as it considers appropriate to protect its interests. On the other hand, a formal declaration of default in the banking context commonly involves triggering the penalty provisions contained in the agreement with the debtor, including declaring the entire debt to be due and payable and increasing the rate of interest charged on the outstanding balance due. A formal declaration may also trigger efforts to seize the debtor's assets in an attempt to satisfy the debt. CCC does not require such a declaration of default by the holder in order to trigger CCC's liability. CCC simply requires prompt notice that a payment has been missed. The notice could have as well been styled a "notice of overdue payment" or a "notice of nonpayment". CCC nevertheless made its Janaury 28 offer to guarantee-holders because it felt that other lenders not familiar with the CCC terminology might mistakenly believe that the filing of a "notice of default" with the CCC constituted a declaration of default.

While dispensing with the requirement to file a "notice of default", the January 28 offer otherwise closely approximates the terms on which the CCC would make payment on a claim. The procedural requirements under the offer provide CCC the same protection with respect to its rights and liabilities as the procedural notice and claim requirements of the regulations. Moreover, substantively, the terms and conditions under which CCC made its offer did not alter -- and, in fact, under one option of the offer there was the potential to improve -- the financial position of CCC compared to its position under the original guarantee contract.

As for the second element set forth above, the Commodity Credit Corporation Charter Act, 15 U.S.C. sections 714 et seq. (the "CCC Act"), confers broad authority upon the CCC to manage its fiscal affairs. The CCC, therefore, is not limited to making payments under its guarantees only according to the terms of its regulations. It has sufficient statutory authority to amend the terms of the guarantee contracts without amending its regulations. In exercising this authority, CCC is subject to the duty to act in accordance with customary standards of prudent business management.

Section 4(g) of the CCC Act empowers CCC to "enter into and carry out such contracts or agreements as are necessary in the conduct of business". Section 4(j) gives CCC the power to "determine the character of and the necessity for its obligations and expenditures and the manner in which they shall be incurred, allowed, and paid". Section 4(k) authorizes CCC "to make final and conclusive settlement and adjustment of any claims by or against the Corporation or the accounts of its fiscal officers". Finally, section 4(m) provides that CCC "[s]hall have such powers as may be necessary or appropriate for the exercise of powers specifically vested in the Corporation, and all such incidental powers as are customary in corporations generally". (15 U.S.C. section 714b.)

In making its January 28 offer, CCC was thus using its powers to make and amend such contracts as necessary to the judicious management of its obligations and its powers to settle its claims arising under those contracts. CCC was not obligated to amend its regulations in order to make this offer. Those regulations prescribe the rules and conditions under which CCC is willing to issue its guarantees, but once issued, those guarantees are contracts between the holders and CCC. Like any other contract, the guarantees are subject to amendment by the parties to the contract.

(3) Question: What are the ramifications of declaring Poland and possibly other nations in default under the program?

Answer: The ramifications of declaring Poland and possibly other nations in default under the program would depend to a large extent on the reactions of other governments and private creditors. Other western governments are not obligated to follow the United States in this respect. Private banks would be under no compulsion to declare a default, and they would only have a clear incentive to do so if they expected the U.S. or other governments, as a result of their declarations of default, to obtain a preferred position in any subsequent legal steps against Polish assets. Banks probably would not follow suit if they felt that declaration of default would prejudice their chance of ultimately being paid. Thus, it is conceivable that a declaration of default under the CCC program would not basically alter the status quo.

However, a declaration of default could conceivably trigger the invocation of cross default clauses in private bank loans to Poland. Syndicated or negotiated loans normally carry default and "cross-default" clauses in the loan agreement. These clauses describe when and how the lenders can declare a borrower to be in default. The clauses are not uniform and vary from loan agreement to loan agreement and bank to bank.

A "cross default" clause merely states that a default can be declared on a specific loan if any other loan to the borrower is in default. The invocation of cross default clauses could trigger legal action by creditors in an effort to seize Polish assets, of which there are few in the West. It would also reduce Poland's ability to earn the hard currency necessary to service its debts to the West.

(4) Question: What is the probability of Poland and other Eastern bloc nations' ability to pay for imports of U.S. agricultural goods?

Answer: A nation's ability to import is directly related to its export earnings capabilities and underlying creditworthiness. This, in turn, depends upon such factors as the economic performance of the exporting country, economic developments in the potential importing country, the availability, quality and price of competing goods and the existence or absence of impediments to trade flows. Given Poland's extremely serious financial, economic and debt problems, it is unlikely that they will be in a position to import significant amounts of U.S. agricultural goods in the immediate future. Romania's financial difficulties also raise questions about its ability to import agricultural goods in current circumstances. The other Soviet bloc countries have sufficient hard currency earnings to enable them to purchase U.S. agricultural goods for cash if those governments decide to allocate these funds for that purpose. If they do so, it will reduce the resources they have available for other purposes.

(5) Question: What is the likelihood the United States will be able to obtain repayment from Poland on guarantees paid to U.S. banks?

Answer: In the short run, it is highly doubtful that Poland will pay these obligations in full, although some payments are being made. Over the long run, the likelihood of payment would appear to be much greater. Poland has such basic resources as an educated and technically skilled population, coal, copper, sulphur and other raw materials to earn the foreign exchange needed to pay its debts. As it is in the economic interest of Poland to retain its business and financial ties with the West, it can be expected to make all possible efforts to meet these obligations. Poland has repeatedly indicated its intention to do so, and we will make every effort to pressure Poland to make its payments in full.

(6) Question: Exactly what are the cases this century where foreign governments have defaulted to the U.S. Government, U.S. citizens, and to U.S. corporations? Is the U.S. Government owed money today from any of these cases? Are U.S. citizens or corporations owed money from any of these cases. If money is owed from these cases precisely what are the current amounts due?

Answer: We are not aware of any country that has been formally declared in default by the U.S. Government.

The Office of the Assistant Secretary for International Affairs publishes data semi-annually on foreign indebtedness to the United States Government. One of these publications singles out "Amounts Due and Unpaid 90 Days or More". This information has been compiled since June 30, 1972. In cases of loan agreements with scheduled repayment dates, the 90 days are calculated from the due dates of the incomplete payments. For accounts receivable, the reference point is that date on which repayment is customarily expected. We are enclosing, for your information, a copy of the latest report, which was published September 30, 1981.

The United States Government does not maintain on a regular basis information on amounts due by foreign governments to U.S. citizens or U.S. corporations.

48

MEMORANDUM 3628

NATIONAL SECURITY COUNCIL

May 28, 1982

ACTION

SIGNED

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY NB

SUBJECT: Republican National Committee Resolution on the Polish Debt

Edward Rollins has sent you a memorandum (Tab II) forwarding a proposed RNC resolution on the Polish debt. He feels it would be in the best interests of this Administration to stop this resolution from being passed and asks that you send him pertinent information on this matter.

RECOMMENDATION:

That you sign the memorandum to Rollins at Tab I.

Approve ✓ Disapprove ______

Attachments
Tab I Memo to Rollins
Tab II Memo from Rollins

cc: Richard Pipes
Paula Dobriansky

49

THE WHITE HOUSE
WASHINGTON

May 26, 1982

Norman Bailey,

Please prepare a paper on this subject from the Judge to Ed Rollins.

Thanks

John

THE WHITE HOUSE

WASHINGTON

MEMORANDUM TO THE HONORABLE ED MEESE
THE HONORABLE JIM BAKER
THE HONORABLE BILL CLARK
THE HONORABLE MALCOLM BALDRIGE
THE HONORABLE ALEXANDER HAIG
THE HONORABLE WILLIAM BROCK

FROM: EDWARD J. ROLLINS
ASSISTANT TO THE PRESIDENT FOR POLITICAL AFFAIRS

DATE: MAY 21, 1982

RE: PROPOSED RESOLUTION -- REPUBLICAN NATIONAL COMMITTEE MEETING -- JUNE 18-19, 1982

Dennis Dunn, Vice-Chairman of the Republican National Committee, plans on introducing the attached resolution at the Republican National Committee meeting held June 17, 1982 in Washington.

I think it would be in the best interests of this Administration to stop this resolution from being passed and would appreciate any pertinent information you could provide on this issue to my office.

Many thanks for your attention to this matter.

A Resolution to be submitted for consideration by the Republican National Committee at its regularly scheduled meetings, June 17-19, 1982. 51

WHEREAS the decade of the 1970's has witnessed an unprecedented Soviet military buildup and has brought the Soviets both strategic parity with, and conventional superiority over, the United States;

WHEREAS the Soviet and Warsaw Pact military buildup has been greatly facilitated by massive transfers of Western, dual-use high technology and equipment, on preferential credit terms of 10-15 years, at preferential interest rates of 6-10 percent (8-12 percent lower than rates currently available to Americans and Western Europeans);

WHEREAS most of this East-West trade has been financed through Western credit, to such an extent that total Eastern Bloc debt to the West has risen from $40 billion in 1977 to over $90 billion just five years later;

WHEREAS over two-thirds of this debt is backed with Western government guarantees which therefore limit the availability of financial funds to private citizens, and thus constitute a sacrifice by citizens of the free world;

WHEREAS the staggering size of this debt is already four times greater than all the economic aid America gave to Western Europe during the Marshall Plan, and itself threatens to make "hostages" of the lending banks, many of whom continue to increase their loans in order to avert massive defaults;

WHEREAS the Warsaw Pact countries have demonstrably proven themselves to be poor credit risks -- most notably Poland, whose share of the Eastern Bloc debt is approximately $27 billion;

WHEREAS Poland has been unable to pay the interest on its debt, and has therefore required payment of U.S. government guarantees in the amount of $71 million, thus far;

AND WHEREAS, FURTHERMORE, the brutal, Soviet-backed repression of the people of Poland continues now into its seventh month since the martial-law crackdown imposed by General Jaruzelski in early December, 1981;

AND WHEREAS, since their ordeal began, the leaders of Polish Solidarity have suffered terribly, endured bravely, and pleaded constantly with the West NOT to lend any financial assistance or support to the government of their oppressors;

AND WHEREAS, unfortunately, our own government has failed to heed that plea, and has, in fact, used U.S. Treasury funds to make payment of both principle and interest on Poland's bad debts to U.S. banks, with the promise of much larger such payments still to come;

AND WHEREAS payment of U.S. government guarantees <u>without declaring a country in default</u> violates U.S. government regulations;

52

AND WHEREAS the burden of financing the bankrupt puppet government of Poland should properly fall to the Soviet Union, not to the U.S. government, or to the American taxpayer;

AND WHEREAS, FURTHERMORE, the leaders in the Kremlin are currently seeking, and in the process of obtaining, another $15 billion worth of Western credit to allow them to purchase the equipment, materials and technology they need to build the controversial Yamal natural gas pipeline from Siberia to Western Europe;

AND WHEREAS the completion of this pipeline by 1985-1986 is expected to provide Western Europe with more than one-third of her total natural gas supply, thereby posing a fundamental security threat to the Western alliance by rendering our major NATO allies perilously exposed to energy blackmail and the political whims of Soviet Russia;

AND WHEREAS both the financing package for the pipeline and the gas sales themselves will free up large amounts of Soviet domestic capital to pursue what has already become, in the last several years, the largest military build-up in the history of the world;

AND WHEREAS failure to use our financial leverage to block the pipeline and force the U.S.S.R. to bear the full burden of its military build-up and of its repression of the Polish nation will bestow upon the Soviet Union its single most important advantage over the West in the twentieth century;

AND WHEREAS, FINALLY, the Republican Party is emphatically NOT the party of Big Business and the Big Banks -- contrary to the predilection our enemies in the opposition party and in the media have for portraying us as such;

NOW, THEREFORE, BE IT RESOLVED THAT the Republican National Committee deems it in the overwhelming national interest, and urges President Reagan in the strongest possible terms, to declare (or have declared) Poland's debt to the U.S. <u>IN DEFAULT</u>, as the best and surest means of:

a) expressing America's solidarity with the Polish People rather than with their harsh oppressors;

b) increasing the financial burdens of the Soviet Union so that she has less to spend on her own military budget and on foreign adventurism;

c) putting an end (or at least a limit) to the monetization of foreign debt and to the use of U.S. taxpayer dollars for propping up and subsidizing Communist tyranny;

d) preventing the building of the Siberian natural gas pipeline by triggering the massive credit contraction in the West which would most likely follow a formal default by any of Russia's major satellites; S3

e) and, finally, demonstrating to the rest of humanity -- most notably to the under-developed nations of the so-called Third World -- that the Communist system is NOT economically viable when forced to stand on its own feet;

AND BE IT FURTHER RESOLVED THAT the Republican National Committee urges President Reagan to PROHIBIT the granting of any further U.S. credit guarantees to Russia, or to any of the Warsaw Pact nations, at least until the following conditions have been met:

1) Solidarity leader, Lech Walesa, has been freed to return to his home and family;

2) Martial Law has been completely lifted from the backs of the Polish People;

3) Russia has removed all of her troops from the soil of Afghanistan.

Respectfully submitted
this 7th day of May, 1982
by Dennis Dunn

Dennis Dunn
Vice Chairman
Republican National Committee
Member for Washington