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Collection Name DOBRIANSKY, PAULA: FILES

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File Folder POLAND - IMF [INTERNATIONAL MONETARY FUND] (2)

FOIA

M434

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
143126	PAPER	RE. POLAND AND THE IMF <i>R 4/8/2016 M434/4</i>	8	ND	B1
143127	MEMO	PAULA DOBRIANSKY TO ROBERT MCFARLANE RE. NSC MEETING ON POLAND'S IMF MEMBERSHIP <i>R 4/8/2016 M434/4</i>	2	8/24/1984	B1
143128	MEMO	FROM MCFARLANE RE. MEETING WITH NSC	2	ND	B1
143129	AGENDA	RE. NSC MEETING <i>R 4/8/2016 M434/4</i>	1	ND	B1
143130	PAPER	RE. NSC MEETING	1	ND	B1
143131	MEMO	KENNETH DAM TO RR RE. POLISH MEMBERSHIP IN THE IMF <i>R 4/8/2016 M434/4</i>	2	8/24/1984	B1
143132	PAPER	RE. ISSUE PAPER ON POLAND [ATTACHED TO DOC. 143131] <i>R 4/8/2016 M434/4</i>	5	ND	B1
143133	PAPER	RE. POLAND AND THE IMF <i>R 4/8/2016 M434/4</i>	6	ND	B1

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

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
143134	PAPER	RE. POLISH IMF MEMBERSHIP APPLICATION PROCESS <i>R</i> 4/8/2016 M434/4	2	ND	B1
143136	LIST	RE. NSC MEETING <i>R</i> 4/11/2016 M434/4	1	ND	B1
143137	TALKING PTS.	RE. NSC MEETING	3	ND	B1
143138	FORM	<i>R</i> 4/11/2016 M434/4	1	8/28/1984	B1

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FROM (NAME)

BARRY NEWMAN

(OFFICE)

International Monetary
Policy

(EXT)

566-5081

SUBJECT OF MESSAGE

Ireland and the IMF

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NO. OF PAGES

9

LDX TO	DELIVER TO	EXT	ROOM NUMBER
Clleanor Constable	State Department	632-7950 68	6828

REMARKS

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Authority Straw to Leonard 1/18/06
BY RW NARA DATE 9/11/12

Department
of the Treasury

to Mrs. Constable

Office of the
Assistant Secretary
for International Affairs

room _____ date 8/23/84

Attached is Treasury's draft paper on Poland and the IMF. Please pass to me or Barry Newman any comments State may have as soon as possible.

[Handwritten signature]

AUG 23 11 02 AM '84
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Attachment

Charles Dallara
Deputy Assistant Secretary
for International
Monetary Affairs

Room 3221
Phone 566 5232

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NLRR # M143126 M434/4

BY RW NARA DATE 4/8/11

Poland and the IMF

Poland was an original member of the International Monetary Fund (IMF) and the World Bank (IBRD) but withdrew in 1950 because of a failure to fulfill its membership obligations and denounced the IMF. A new application for membership was submitted in November 1981 and some preliminary discussions with the IMF were held but the negotiations were put on hold following the imposition of martial law. The President's statement of August 3, 1984 regarding Polish amnesty stated that:

"complete and reasonable implementation of the amnesty will create a positive atmosphere that would allow re-activation of Poland's application for membership in the IMF. The U.S. would, of course, consider any final application on its merits, including Poland's willingness to fulfill the obligations of IMF membership."

This paper provides background on the procedures that the IMF would follow in processing Poland's application and some of the issues that might arise.

Membership Procedures

The IMF has established a series of procedural steps in considering all applications for membership. These include:

- submission of a written request for membership (Poland's 1981 application is still on the table);
- formation of a "membership committee" of the Executive Board, composed of 5-8 Executive

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Directors, to consider the application and make a recommendation to the full Executive Board;

- formation of an IMF technical team to collect the necessary economic data (including national income, exports and imports, official reserves, balance of payments, exchange rate and financial arrangements), review the country's economic policies, and to calculate a quota and the terms of payment of the quota subscription;
- preparation of a membership report for the Executive Board containing the proposed terms and conditions which the country has agreed to accept;
- submission of a membership resolution to the IMF Board of Governors which must be approved by a 50 percent majority vote (the U.S. has about 20 percent of the total IMF voting power); and
- completion of the necessary legal steps by the country to allow it to fulfill the obligations of membership and make the quota subscription.

In 1981, it was expected that the application process for Poland might take to 8 to 9 months to complete. However, it is likely that a somewhat slower pace may be required at this time and that the membership process could take about one year because:

- the IMF technical team on Poland has been dissolved and assigned to other countries. A new team will have to be assembled with

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technicians who were not involved in the earlier effort;

- IMF staff indicate that a technical team could not depart for Warsaw until October due to the September Fund/Bank meeting and other commitments; and
- there has been very little IMF contact with the Poles for the past two years, and the process of collecting data and assessing economic policies would essentially have to start over, possibly with Polish officials that are less reform oriented and technically competent.

The attached table sets forth a possible schedule for the membership application process.

Possible Issues Concerning Poland's Application

It is difficult to anticipate the particular problems that might surface during the application process. Based on past experience, including the 1981/82 IMF discussions with Poland, the following issues may arise.

a) Data. As noted above, the IMF's data requirements are quite comprehensive, and timely and complete information is critical in assessing the applicant's economic policies and determining the appropriate quota. In the past, the Poles have been very vague regarding their current and prospective policies and have lacked basic data which the IMF would require. Failure to provide comprehensive and timely information could pose a

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problem in terms of Poland's ability to fulfill its membership obligation.

b) IMF obligations. The IMF requires that a country agree formally to fulfill all membership obligations. These include:

- pursuing policies that will promote orderly economic and financial conditions and to avoid manipulating exchange rates or its balance of payments to obtain an unfair competitive advantage;
- permitting its currency to be used in IMF operations by agreeing to convert IMF holdings of its currency into hard currency;
- prior IMF approval before the member may impose or intensify payments restriction and/or engage in discriminatory currency arrangements; and
- the member provide any information which the IMF deems necessary for its activities.

However, it may prove difficult for Poland to accept fully these obligations in light of its denunciation of the IMF at the time of the 1950 withdrawal (the Fund may insist on a repudiation of that statement) and questions about Poland's control over its economic policies. Moreover, the failure of Poland to meet its financial commitments to official creditors may also raise questions about its ability to fulfill IMF obligations.

c) Quota size. Negotiations on the size of a new member's quota are usually difficult, because of the importance of quotas

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in determining the amount of access to IMF financing, the share of any SDR allocation, and voting power. Preliminary estimates made in 1981 indicated a quota of about SDR 750 million (about \$765 million at current exchange rates). The Poles are likely to press for a larger quota although subsequent economic developments could point to a lower figure.

d) Quota subscription. The IMF Articles of Agreement provide that a portion (about 25 percent) of the quota subscription be paid in reserve assets. The Poles may have difficulty getting enough hard currencies (about \$190 million) to make the payment, although it is possible that the banks would be willing to provide financing on a short-term basis.

e) Representation. The Poles would initially have to join an existing IMF constituency in order to be represented on the IMF Executive Board. The Romanians are represented by the Dutch and the Hungarians by the Belgians. However, membership in these groups could alter the voting power in the constituency and affect the ability of the Dutch and Belgians to elect the Executive Director. It is not clear what other member would be willing to represent Poland. Subsequently, the Poles, Romanians and Hungarians (and possibly Yugoslavia) might attempt to form their own constituency and elect an Executive Director. This would upset the present balance in the Executive Board and could create pressures for a major reshuffling as other members sought to protect their positions on the Board.

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IMF Financing

Upon payment of its quota subscription, Poland could withdraw its hard currency portion although this would not provide any net new financing as the bank loan would have to be repaid. The completion of the membership process would not, however, mean any immediate IMF credit to Poland. Traditionally, the IMF has resisted providing financing to a new member for at least six months following membership in order to be sure that the country is fulfilling the obligations of membership and to allow the new member time to develop experience with the IMF's operation and lending requirements. Moreover, any substantial IMF financing for Poland would require the negotiation and implementation of a major adjustment program to deal with the country's deep seated economic problems. It would likely take six months to a year following membership to negotiate and obtain approval for such an IMF adjustment program.

Paris Club

Poland's outstanding debt totals \$27 billion; \$17 billion of this amount is due this year including \$11 billion in arrearages from 1981-1984. In March, the Paris Club creditors proposed, and the Poles accepted, a payments schedule to clear up outstanding arrearages under the 1981 rescheduling agreement. These payments were a precondition to rescheduling the remainder of the arrearages.

Currently, there is an impasse in the Paris Club regarding the Polish payments under the 1981 agreement. The impasse is due to a disagreement regarding two issues: the cutoff date for computing the initial Polish payment and whether the non-rescheduled amounts

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owed to the U.S. (\$35 million, including late interest) should be paid in full prior to the start of negotiations on Poland's 1982-84 debts. The Paris Club creditors are willing to be flexible on the cutoff date but have insisted that the U.S. be paid in full.

Recommendation

The IMF has requested U.S. views on the timing of reactivation of Poland's membership application and does not plan to proceed until it receives a signal from the United States that the conditions in the President's August 3 statement have been met. Once the State Department has determined that "complete and reasonable" implementation of the amnesty has been achieved, the Secretary of the Treasury should inform the IMF that:

- the conditions for reactivating the membership application have been satisfied;
- the IMF should follow the normal procedures that apply to any country seeking membership (we will neither seek to expedite nor delay the process); and
- the U.S. will consider the request on its merits, including Poland's ability and willingness to fulfill the obligations of membership.

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POLISH IMF MEMBERSHIP APPLICATION PROCESS

Steps in Procedure

Possible Schedule

- | | |
|---|--|
| (1) Formal application. | November 1981, on hold since early 1982. |
| (2) Staff does initial technical work. | Late October 1984. |
| (3) Based on this work, the Managing Director recommends and the Executive Board decides to proceed with a formal investigation of the application. Appoints a Membership Committee. | February or March 1985. |
| (4) Membership Committee requests information from applicant, including data on national income, exports and imports, reserves, balance of payments, exchange rate, exchange arrangements and policies, commercial and financial arrangements, and other economic criteria.

Sends a fact-finding/negotiating team; develops proposals on a quota range; determines form and terms for payment of hard currency subscription. Quota and payment terms must be based on principles consistent with those of other members. | March or April 1985 to July 1985. |
| (5) Membership Committee report discussed by the Executive Board; if terms of membership acceptable, report adopted. | August 1985. |
| (6) Board of Governors vote on membership, at next meeting or by mail. | September 1985. |
| (7) Applicant has 6 months to accept membership. Must take domestic legal steps necessary to accept membership and fulfill membership obligations in this period, providing legal documents to IMF. No reservations on obligations accepted. | |
| (8) New member can ask an existing Executive Director to look after its interests (but not cast its votes) until it can vote for an Executive Director. | |

IMF/Poland
143127
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SYSTEM II
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MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

August 24, 1984

ACTION

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: PAULA DOBRIANSKY ^{AD}

SUBJECT: NSC Meeting on Poland's IMF Membership
(Tuesday, August 28, 1984 - 11:00 a.m.)

Attached at Tab I is a briefing memorandum from you to the President in preparation for the August 28 NSC meeting on Poland's IMF membership. Specifically, your memorandum provides background on the decisions already made by the President in response to Poland's declared amnesty and sets forth the issues under consideration. These include: 1) whether the amnesty has been completely and reasonably implemented; 2) if so, what steps should be taken on Poland's request for IMF membership; and 3) the need to develop a contingency plan in the event of significant deterioration in Polish internal developments, and guidelines on how to utilize the remaining sanctions to achieve our policy goals.

The third issue, above, has not been addressed in the State and Treasury papers, but the NSC meeting provides an excellent opportunity for you to indicate that we should not only review our short-term actions vis-a-vis Poland, but take a broader perspective. That is, there is clearly a need to be prepared to respond to negative developments within Poland and to develop, within the context of our overall policy toward Poland, a strategy on how to best utilize the remaining sanctions. This could take the form of an NSSD.

Another issue which needs to be addressed, but not at the NSC meeting, is how to fully and effectively utilize Poland's pending IMF membership. Dave Wigg has proposed that we examine more closely Polish and other Soviet Bloc memberships in the IMF and the ramifications for the Intelligence Community. There are both potential intelligence opportunities as well as losses. This could be reviewed in a restricted meeting with CIA.

Your memorandum to the President also forwards the meeting agenda (Tab A), a list of recommendations to be taken up at the meeting (Tab B), a joint State/Treasury memorandum with separate issue papers (Tab C), and the list of participants (Tab D). Your talking points for the meeting are at Tab II.

Jack ^{JM} Matlock, Dave ^{DW} Wigg and Roger Robinson concur.
(not available)

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NLRR M434/4 # 143127
BY RW NARA DATE 4/8/16

RECOMMENDATION

1. That you forward the memorandum at Tab I to the President.

Approve _____ Disapprove _____

2. That NSC meet with appropriate members of the Intelligence Community to examine the intelligence implications of Polish and other Soviet Bloc memberships in the IMF.

Approve _____ Disapprove _____

Attachments:

- Tab I Memorandum to the President
- Tab A Agenda
- Tab B List of Recommendations
- Tab C Joint State/Treasury memorandum to President
 - Tab 1 Department of State Issue Paper
 - Tab 2 Department of Treasury Issue Paper
- Tab D List of Participants
- Tab II McFarlane Talking Points

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143128	MEMO FROM MCFARLANE RE. MEETING WITH NSC	2	ND	B1

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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NATIONAL SECURITY COUNCIL MEETING

Tuesday, August 28, 1984

Cabinet Room

11:00 a.m. - 12:00 p.m.

IMF MEMBERSHIP FOR POLAND

Agenda

- | | | |
|------|--|---|
| I. | Introduction | Robert C. McFarlane
(5 minutes) |
| | ° Background | |
| | ° Issues for Decision | |
| II. | Intelligence Assessment
(Poland's Political/Financial
Situation) | Director Casey
(5 minutes) |
| III. | U.S. Policy Toward Poland
(Background/Current Situation/
Next Steps) | Secretary Shultz
(5 minutes) |
| IV. | Poland and the IMF | Under Secretary Sprinkel
(5 minutes) |
| V. | Discussion | All participants
(35 minutes) |
| VI. | Summary | Robert C. McFarlane
(5 minutes) |

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143130	PAPER RE. NSC MEETING	1	ND	B1

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(With Secret Attachment)

21/1/84 P 7: 04

DEPARTMENT OF STATE
WASHINGTON
August 24, 1984

MEMORANDUM FOR: THE PRESIDENT
FROM: Kenneth W. Dam, Acting *(initials)*
Donald T. Regan *(initials)*
SUBJECT: Polish Membership in the International
Monetary Fund

The National Security Council will meet on Tuesday, August 28, to review the U.S. position on next steps with regard to Poland's application for membership in the International Monetary Fund (IMF).

Your statement of August 3, 1984, indicated that:

complete and reasonable implementation of the amnesty will create a positive atmosphere that would allow reactivation of Poland's application for membership in the IMF. The U.S. would, of course, consider any final application on its merits, including Poland's willingness to fulfill the obligations of IMF membership.

From everything we have seen to date, the amnesty has been reasonably implemented. However, Polish authorities have not yet made public the final accounting of the amnesty, although the release of prisoners formally was to have concluded August 21. We therefore are not yet in a position to judge whether the amnesty is "complete."

The IMF does not intend to proceed until it receives a clear U.S. signal that the conditions in your August 3 statement have been satisfied. Once these conditions are met and a determination has been made that the amnesty has been completely and reasonably implemented, we recommend that the following steps be taken:

- (1) State and Treasury will coordinate the preparation and release of a public statement on the implementation of the Polish amnesty that would be released following the consultations outlined below.

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BY RW NARA DATE 4/8/16

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(With Secret Attachment)

- (2) The Secretary of State will inform our Allies, the Vatican, and the Polish Government of our decision that the conditions for reactivation of Poland's application for IMF membership have been met.
- (3) The Secretary of the Treasury will inform the IMF that:
 - (a) The U.S. considers that the conditions for reactivating the Polish membership application have been met;
 - (b) We would expect the IMF to follow the normal application procedures that apply to any country seeking membership;
 - (c) The United States will consider the final application on its merits, including Poland's ability and willingness to fulfill the obligations of membership.

Approve _____

Disapprove _____

Attachments:

- 1) Treasury Background Paper on Poland and the IMF
- 2) State Issue Paper on Poland

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(With Secret Attachment)

~~SECRET~~ISSUE PAPER ON POLANDBACKGROUND

U.S. Policy Towards Poland: The U.S., in cooperation with its Allies, set sanctions against Poland after the imposition of martial law in December 1981 in order to persuade the Polish authorities to end martial law, release all political prisoners, and restore a genuine dialogue between the regime and the main components of Polish society. In a December 10, 1982 speech, the President laid out his step-by-step approach to relations with the Polish Government: "If the Polish Government introduces meaningful, liberalizing measures, we will take equally significant and concrete actions of our own."

Pursuant to this policy, in October 1983 we decided to resume Paris Club talks on Polish debt rescheduling and to allow discussions on fishing cooperation and in January 1984 the U.S. granted a Polish request for 88 charter flights and agreed that Poland could resume harvesting fish in the U.S. exclusive economic zone. These steps were taken in response to the release of the vast majority of political prisoners then under detention in Poland together with the formal end to martial law, the successful visit of the Pope to Poland in June 1983, and a December 1983 appeal from Lech Walesa that our sanctions be eased.

August 3 White House Statement: In response to the July 21, 1984 amnesty declaration in Poland, the White House announced on August 3 that the President had "authorized the lifting of the ban on landing rights for regularly scheduled flights of the Polish state airline LOT, subject to regularization of our civil aviation relationship, and the full reestablishment of scientific exchanges between the U.S. and Poland." In addition, the White House statement said that the President "has indicated that complete and reasonable implementation of the amnesty decision will create a positive atmosphere that would allow the reactivation of Poland's application for membership in the International Monetary Fund", stating that "the U.S. would of course consider any final application on its merits, including Poland's willingness to fulfill the obligations of IMF membership."

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IMPLEMENTATION OF THE PRESIDENT'S DECISIONS

General Implementation: In carrying out the President's decision, we have briefed our Allies in Washington as well as NATO. We informed the Vatican, given the Pope's special interest in Poland. We of course also informed the Polish Government in Washington and in Warsaw.

Reaction to the President's decision made public on August 3 has been generally positive. Our Allies, who all agree that the amnesty is a significant step, have been supportive. The Vatican, which in May gave us a note asking for the gradual elimination of sanctions, is pleased. Lech Walesa has said that as a Pole the decision makes him happy. Reiteration of the language about IMF in the President's August 17 remarks to a representative group of Polish Americans at a White House luncheon drew a prolonged round of applause. The mainstream Polish American Congress has advocated for months that the U.S. drop its opposition to Poland's membership in the IMF if eleven prominent political prisoners, the KOR Four and the Solidarity Seven, were released. On the other hand, the AFL-CIO continues to favor a cautious response, arguing that all sanctions should stay in place until trade union rights are fully restored. Pomost, a group largely composed of recent emigres from Poland, also opposes relaxation of sanctions.

Implementation of Air and Science Decisions to Date: An eleven-page Polish diplomatic note, delivered to us on August 16, characterized the President's decisions as positive, after lengthy, familiar argumentation about the unjust and illegal nature of our sanctions policy. The Polish note expressed willingness to enter into discussions on civil aviation and science exchanges, but without preconditions. Both sides initialed but did not sign a new science and technology agreement in October 1981; negotiations on that text or a somewhat modified version should pose no major obstacles. Discussion of a new civil aviation agreement will be more contentious. We have told the Poles that they must drop their arbitration claim against the U.S. under the now expired U.S.-Poland aviation agreement before we will sign a new agreement. It is unlikely that the Poles will readily agree to do this. Dates for discussion of these subjects will be set in diplomatic channels.

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Implementation of the IMF Decision: The prisoner-release phase of the amnesty was scheduled to end within thirty days of the announcement of amnesty and the question now is whether it has been carried out in a reasonable and complete fashion, as the President specified it must before we would in effect lift our opposition to IMF consideration of Poland's membership in the Fund.

Under the provisions of the amnesty passed by the Polish parliament on July 21, 1984, 35,000 prisoners were to be released from prison, including the 652 prisoners acknowledged by the government to have been convicted of, indicted for, or suspected of political crimes. Any amnestied prisoner convicted before December 31, 1986 of a crime similar to the one covered by the amnesty faces possible reimposition of the original sentence or charges. Underground Solidarity activists may be spared formal punishment if they turn themselves in to the authorities before the end of 1984, sign a detailed confession, and hand over any materials or equipment used in the underground.

Warsaw undoubtedly will soon claim that all 652 political prisoners acknowledged by the GOP have been released. Our Embassy in Warsaw, in close contact with the Church committee that maintains rosters of political prisoners (this contact should not be referred to publicly), will then attempt to confirm that the 652 prisoners are in fact out. To date all of the leading activists (the so-called Solidarity Seven and KOR Four) have been released, and there have been no reports of rearrests or blatant harassment of released political prisoners. One member of the Solidarity Seven, Jan Rulewski, as well as another prominent activist, Wladyslaw Frasnyniuk, have been reprimanded by the authorities for addressing Church gatherings in a manner which could potentially threaten public order but neither has been incarcerated. So far the secret police have watched closely but not interfered with gatherings at churches to welcome the released political prisoners.

Two underground activists arrested in June, Bogdan Lis and Piotr Mierzejewski, have been accused of treason, a crime explicitly excluded from the amnesty, but neither has been formally indicted. It remains possible that the authorities will reduce the charges to an infraction included under the terms of the amnesty.

Next Steps: Once we have determined that the amnesty decision has been completely and reasonably implemented, we should inform our Allies, the Polish Government, and subsequently the public that the positive atmosphere has been created that would allow reactivation of Poland's application for IMF membership. A draft press statement along these lines is attached.

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DRAFT ANNOUNCEMENT

In accordance with the White House announcement of August 3, the President has determined that implementation of the release of political prisoners in Poland has created a positive atmosphere that will allow the reactivation of Poland's application for membership in the International Monetary Fund. As announced on August 3, the U.S. will consider any final application on its merits, including Poland's willingness to fulfill the obligations of IMF membership.

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Issue Paper on Poland

Drafted by: EUR/EEY:DRPozorski *Dep*
 08/22/84:21070:0556m

Clearances: EUR/EEY:RECombs *REC*
 EUR/EEY:MAPeters *MAP*
 EUR:JKelly *JK*
 E:EHurwitz *EH*
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 L/EUR:DWirth *DW*

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Treasury Background Paper
on
Poland and the IMF

NLRR M434/4 #143133
BY RW NARA DATE 4/8/16

Poland was an original member of the International Monetary Fund (IMF) and the World Bank (IBRD) but withdrew from the institutions in 1950 rather than provide economic and financial data in support of its application for an IBRD loan. At the time, Poland charged that the institutions were American-dominated and serving U.S. international interests. A new application for membership was submitted in November 1981 and some preliminary discussions with IMF staff were held, but the discussions were effectively put on hold following the imposition of martial law.

Following the announcement by the Polish government of its amnesty decision, the President's statement of August 3, 1984 stated that:

complete and reasonable implementation of the amnesty will create a positive atmosphere that would allow re-activation of Poland's application for membership in the IMF. The U.S. would, of course, consider any final application on its merits, including Poland's willingness to fulfill the obligations of IMF membership.

This paper provides background on the procedures that the IMF would follow in processing Poland's application once the Fund is informed that the application could be reactivated. The paper also addresses some of the issues that might arise in connection with the application.

Membership Procedures

The IMF has established a series of procedural steps in considering all applications for membership. These include:

- submission of a written request for membership (Poland's 1981 application is still on the table);
- formation of an IMF technical team to collect the necessary economic data (including national income, exports and imports, official reserves, balance-of payments, exchange rate and financial arrangements), review the country's economic policies, and to calculate a quota and the terms of payment of the quota subscription;
- formation of a "membership committee" of the Executive Board, composed of 5-8 Executive

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Directors, to consider the application and make a recommendation to the full Executive Board;

- preparation of a membership report for the Executive Board containing the proposed terms and conditions which the country has agreed to accept;
- submission of a membership resolution to the IMF Board of Governors which must be approved by a 50 percent majority vote (the U.S. has about 20 percent of the total IMF voting power); and
- completion of the necessary legal steps by the country to allow it to fulfill the obligations of membership and make the quota subscription.

In 1981, it was expected that the application process for Poland might take 8 to 9 months to complete. However, it is likely that a somewhat slower pace may be required this time and that the membership process could take about one year because:

- the IMF technical team on Poland has been dissolved and assigned to other countries. A new team will have to be assembled with technicians who were not involved in the earlier effort;
- IMF staff indicate that a technical team could not depart for Warsaw until October due to the September Fund/Bank meeting and other commitments; and
- there has been very little IMF contact with the Poles for the past two years, and the process of collecting data and assessing economic policies would essentially have to start over, possibly with Polish officials that are less reform oriented and technically competent.

The attached table sets forth a possible schedule for the membership application process.

Possible Issues Concerning Poland's Application

It is difficult to anticipate the particular problems that might surface during the application process. Based on past experience, including the 1981/82 IMF discussions with Poland, the following issues may arise.

a) Data. As noted above, the IMF's data requirements are quite comprehensive, and timely and complete information is

critical in assessing the applicant's economic policies and determining the appropriate quota. In the past, the Poles have been very vague regarding their current and prospective policies and have lacked basic data which the IMF would require. Failure to provide comprehensive and timely information could pose a problem in terms of Poland's ability to fulfill its membership obligation.

b) IMF obligations. The IMF requires that a country agree formally to fulfill all membership obligations. These include:

- pursuing policies that will promote orderly economic and financial conditions and avoiding manipulating exchange rates or its balance of payments to obtain an unfair competitive advantage;
- permitting its currency to be used in IMF operations by agreeing to convert IMF holdings of its currency into hard currency when it is in a relatively strong balance of payments and reserve position;
- obtaining prior IMF approval before the member may impose or intensify payments restriction and/or engage in discriminatory currency arrangements; and
- providing any information which the IMF deems necessary for its activities.

It could prove difficult for Poland to accept fully these obligations in light of its denunciation of the IMF at the time of the 1950 withdrawal (the Fund may insist on a repudiation of that statement) and questions about Poland's control over its economic policies. Moreover, the failure of Poland to meet its financial commitments to official creditors could also raise questions about its ability to fulfill IMF obligations.

c) Quota size. Negotiations on the size of a new member's quota are usually difficult, because of the importance of quotas in determining the amount of access to IMF financing, the share of any SDR allocation, and voting power. Preliminary estimates made in 1981 indicated a quota in the range of SDR 750 million (about \$765 million at current exchange rates). The Poles are likely to press for a larger quota although subsequent economic developments could, in fact, point to a lower figure.

d) Quota subscription. The IMF Articles of Agreement provide that a portion (about 25 percent) of the quota subscription be paid in reserve assets. The Poles may have difficulty getting enough hard currencies (about \$190 million) to make the payment, although it is certainly possible that commercial banks

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would be willing to provide financing on a short-term basis. (The hard currency quota subscription could be immediately reclaimed by the Poles).

e) Representation. The Poles would initially have to join an existing IMF constituency in order to be represented on the IMF Executive Board. (The Romanians are represented by the Dutch and the Hungarians by the Belgians.) However, membership in these groups could alter the voting power in the constituency and affect the ability of the Dutch and Belgians to elect the Executive Director. It is not clear what other member would be willing to represent Poland. Subsequently, the Poles, Romanians and Hungarians (and possibly Yugoslavia) might attempt to form their own constituency and elect an Executive Director, an event that could upset the present balance in the Executive Board and create an Eastern European "bloc" with troublesome implications for the IMF.

IMF Financing

Upon payment of its quota subscription, Poland could as indicated above, immediately withdraw its hard currency portion although this would not provide any net new financing. Beyond that, the completion of the membership process would not mean any immediate IMF credit to Poland. Traditionally, the IMF has resisted providing financing to a new member for at least six months following membership in order to be sure that the country is fulfilling the obligations of membership and to allow the new member time to develop experience with the IMF's operation and lending requirements. Moreover, any substantial IMF financing for Poland would require the negotiation and implementation of a major adjustment program to deal with the country's deep seated economic problems. It would likely take six months to a year following membership to negotiate and obtain approval for such an IMF adjustment program.

Under the IMF legislation enacted in 1983, the Secretary of the Treasury is required to certify and document in writing upon request and notify and appear, if requested, before Congress that certain criteria have been satisfied before the U.S. supports IMF financing for a communist dictatorship. The Secretary must determine, inter alia, that the IMF financing would provide a basis for correcting the country's balance of payments problem; reduce the severe constraints on labor and capital mobility or other highly inefficient labor and capital supply rigidities and advances market-oriented forces in the country; and is in the best interest of the majority of the people in the country. The implementation of this legislative requirement for Poland could pose serious problems.

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Relationship with IBRD (World Bank)

On joining the IMF, Poland would also become eligible for membership in the IBRD. Eligibility for borrowing from the IBRD would depend, inter-alia, on a calculation of Poland's per capita GNP in U.S. dollar terms and on Poland's willingness to liberalize its economy. Should Poland be found eligible, this would raise additional domestic political issues in the United States, and would seriously erode Congressional support for these institutions, particularly the IBRD which has come in for extremely sharp Congressional criticism in recent months.

Paris Club

Poland's outstanding debt totals \$27 billion; \$17 billion of this amount is due this year including \$11 billion in arrearages from 1981-1984. In March, the Paris Club creditors proposed, and the Poles accepted, a payments schedule to clear up outstanding arrearages under the 1981 rescheduling agreement. These payments were a precondition to rescheduling the remainder of the arrearages.

Currently, there is an impasse in the Paris Club regarding the Polish payments under the 1981 agreement. The impasse is due to a disagreement regarding two issues: the cutoff date for computing the initial Polish payment and whether the non-rescheduled amounts owed to the U.S. (\$35 million, including late interest) should be paid in full prior to the start of negotiations on Poland's 1982-84 debts. The Paris Club creditors are willing to be flexible on the cutoff date but have insisted that the U.S. be paid in full.

Recommendation

The IMF does not intend to proceed until it receives a clear U.S. signal that the conditions in the President's August 3 statement have been satisfied. Once these conditions are met and a determination has been made that the amnesty has been completely and reasonably implemented, the following steps should be taken:

- (1) State and Treasury will coordinate the preparation and release of a public statement on the implementation of the Polish amnesty which would be released following the consultations outlined below;
- (2) The Secretary of State will inform our Allies, the Vatican, and the Polish Government of our decision that the conditions for reactivation of Poland's application for IMF membership have been met;
- (3) The Secretary of the Treasury will inform the IMF that:

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- (a) The U.S. considers that the conditions for reactivating the Polish membership application have been met;
- (b) We would expect the IMF to follow the normal application procedures that apply to any country seeking membership; and
- (c) The United States will consider the final application on its merits, including Poland's ability and willingness to fulfill the obligations of membership.

Cleared by:
State/EB:Elinor Constable
State/EUR:Richard Burt

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POLISH IMF MEMBERSHIP APPLICATION PROCESS

Steps in Procedure

Possible Schedule

- (1) Formal application. November 1981, on hold since early 1982.
- (2) Staff does initial technical work. Late October 1984.
- (3) Based on this work, the Managing Director recommends and the Executive Board decides to proceed with a formal investigation of the application. Appoints a Membership Committee. February or March 1985.
- (4) Membership Committee requests information from applicant, including data on national income, exports and imports, reserves, balance of payments, exchange rate, exchange arrangements and policies, commercial and financial arrangements, and other economic criteria. March or April 1985 to July 1985.

Sends a fact-finding/negotiating team; develops proposals on a quota range; determines form and terms for payment of hard currency subscription. Quota and payment terms must be based on principles consistent with those of other members.
- (5) Membership Committee report discussed by the Executive Board; if terms of membership acceptable, report adopted. August 1985.
- (6) Board of Governors vote on membership, at next meeting or by mail. September 1985.
- (7) Applicant has 6 months to accept membership. Must take domestic legal steps necessary to accept membership and fulfill membership obligations in this period, providing legal documents to IMF. No reservations on obligations accepted.
- (8) New member can ask an existing Executive Director to look after its interests (but not cast its votes) until it can vote for an Executive Director.

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NLRR M434/4 # 143134
BY RW NARA DATE 4/8/16

POLISH IMF MEMBERSHIP APPLICATION PROCESS

Steps in Procedure

Possible Schedule

- | | |
|---|--|
| (1) Formal application. | November 1981, on hold since early 1982. |
| (2) Staff does initial technical work. | Late October 1984. |
| (3) Based on this work, the Managing Director recommends and the Executive Board decides to proceed with a formal investigation of the application. Appoints a Membership Committee. | February or March 1985. |
| (4) Membership Committee requests information from applicant, including data on national income, exports and imports, reserves, balance of payments, exchange rate, exchange arrangements and policies, commercial and financial arrangements, and other economic criteria.

Sends a fact-finding/negotiating team; develops proposals on a quota range; determines form and terms for payment of hard currency subscription. Quota and payment terms must be based on principles consistent with those of other members. | March or April 1985 to July 1985. |
| (5) Membership Committee report discussed by the Executive Board; if terms of membership acceptable, report adopted. | August 1985. |
| (6) Board of Governors vote on membership, at next meeting or by mail. | September 1985. |
| (7) Applicant has 6 months to accept membership. Must take domestic legal steps necessary to accept membership and fulfill membership obligations in this period, providing legal documents to IMF. No reservations on obligations accepted. | |
| (8) New member can ask an existing Executive Director to look after its interests (but not cast its votes) until it can vote for an Executive Director. | |

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NATIONAL SECURITY COUNCIL MEETING
Tuesday, August 28, 1984
Cabinet Room -- 11:00 a.m.
IMF MEMBERSHIP FOR POLAND

LIST OF PARTICIPANTS:

The President

Office of the Vice President

Admiral Daniel J. Murphy
Mr. Donald Gregg

State

Secretary George P. Shultz
Mr. Richard R. Burt (Assistant Secretary for European and
Canadian Affairs)

Treasury

Mr. Beryl W. Sprinkel (Under Secretary for Monetary Affairs)

Defense

Secretary Caspar W. Weinberger
Mr. Ronald S. Lauder (Deputy Assistant Secretary for European and
NATO Policy)

Commerce

Deputy Secretary Clarence J. Brown
Mr. Lionel Olmer (Under Secretary for Trade)

OMB

Dr. Alton Keel

CIA

Director William J. Casey
Mr. George Kolt (NIO for Europe)

USUN

Ambassador Jeane J. Kirkpatrick

USTR

Ambassador William E. Brock

JCS

General John W. Vessey, Jr. (Chairman)
Admiral Arthur S. Moreau

USIA

Director Charles Z. Wick
Charles E. Courtney, Acting Associate Director for Programs

White House

Mr. Edwin Meese, III
Mr. James A. Baker, III
Mr. Michael K. Deaver
Mr. Robert C. McFarlane
Mr. Richard Darman

NSC

Mr. Robert M. Kimmitt
Paula Dobriansky

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REQUEST FOR APPOINTMENTS

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on August 28, 19 84

for The President of _____:
(NAME OF PERSON TO BE VISITED) (AGENCY)

OVP
Vice President
Admiral Daniel J. Murphy

JCS
General John W. Vessey
Admiral Arthur S. Moreau

State
Sec George P. Shultz
Mr. Richard R. Burt

USIA
Mr. Charles Z. Wick
Mr. Charles E. Courtney

Treasury
Mr. Beryl W. Sprinkel
Mr. Charles Dallara

White House
Mr. Edwin Meese, III
Mr. James A. Baker, III
Mr. Michael K. Deaver
Mr. Robert C. McFarlane
Mr. Richard Darman

Defense
Sec Caspar W. Weinberger
Mr. Ronald S. Lauder

NSC
Mr. Robert M. Kimmitt
Ms. Paula Dobriansky
Mr. David Wigg

Commerce
Dep Sec Clarence J. Brown
Mr. Joseph Dennin

OMB
Dr. Alton Keel

CIA
Mr. William J. Casey
Mr. George Kolt

USTR
Ambassador William E. Brock

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NLRR M434/4 # 143138
BY RW NARA DATE 4/11/16

MEETING LOCATION

Building White House

Requested by Carol Cleveland

Room No. Cabinet Room

Room No. 372 Telephone 3044

Time of Meeting 11:00 am

Date of request August 28, 1984

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OEOB - 395-6046 or WHITE HOUSE - 456-6742