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Czyrek's Visit: Warsaw's Pressing Agenda

The Jaruzelski regime is pleased with the lifting of US sanctions, and now wants to test quickly US willingness to take concrete steps that will result in real economic gains. Politburo member Josef Czyrek's visit to Washington represents the highest level bilateral talks here since martial law was declared. The high-level congressional and administration appointments set up for Czyrek are viewed in Warsaw as indicating Washington's intention to fully normalize relations and cooperate in helping Warsaw achieve its broader goals.

Czyrek probably will present a list of specific requests for US economic assistance, especially for debt relief and new credits. To buttress his appeal for US assistance, he will highlight several "positive" political developments, such as the creation of new institutions that the Poles claim will encourage broader participation in the political process. Czyrek is likely to insist, however, that Warsaw will proceed at its own pace and with clear limits on its tolerance of dissent.

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This memorandum was prepared by [redacted] East European Division, Office of European Analysis. It was requested by Mr. Martin Wenick, Director of East European Affairs, State Department. Comments and questions are welcome and should be addressed to [redacted] Chief, East European Division [redacted]

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Czyrek's Goals and Approach

Czyrek is the ranking foreign affairs expert in Poland and reportedly the most influential civilian in the Polish party. His close ties to Jaruzelski and his reputed high standing in Moscow make him an ideal emissary for the delicate task of convincing US officials that Poland's political liberalization is genuine and further political concessions should not be necessary to obtain economic assistance. [redacted]

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Czyrek will argue that Poland, for its own domestic purposes, is irrevocably committed to broad political dialogue and national reconciliation; he will point to the Social Consultative Council, which met for the second time last Friday, as proof of the regime's determination to broaden its political base. We believe Czyrek, who has a reputation for avoiding confrontation, will seek to fend off US criticism of the regime's political record with protestations that reform takes time and that the "new team" led by Jaruzelski is open minded about further reforms. [redacted]

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Czyrek probably views his main task as shifting the focus of US-Polish bilateral contacts from Polish political matters to measures for rebuilding Poland's depressed economy, and to make a personally favorable impression so as to build a US constituency for economic assistance -- especially measures to deal with Poland's serious financial problems. In keeping with the regime's repeated assertion that the formal repeal of US sanctions should be accompanied by positive actions, we expect Czyrek will present a list of specific requests for US economic assistance, probably including:

- o Debt Relief Warsaw wants US support for a long-term solution to Poland's current stalemate with the Paris Club over 1986 and 1987 maturities. Warsaw may seek to reopen bilateral rescheduling agreements to obtain more concessionary terms -- including greater US flexibility on repayment schedules and reduced interest rates on arrears.
- o Softened Conditions Warsaw probably will ask the US to use its influence within the IMF to secure softer IMF conditions in negotiations over a standby agreement expected to begin this year. The Poles probably are interested in extending the time periods for meeting proposed IMF conditions, especially on price reforms, currency devaluation, and increased current account surpluses.

[redacted] ILLEGIB

- o New Credits The Poles will lobby for new CCC and Ex-Im Bank credits arguing that open credit lines are necessary to help the Polish economy get back on its feet. Improved domestic grain production in recent years will reduce Poland's need for CCC credits, but vast capital goods import requirements may prompt the Poles to table requests for larger Ex-Im credits, which were relatively small prior to 1981. Czyrek may also complain that reserve margins required on US bank loans to Poland discourage new commercial lending.
- o S & T Cooperation Warsaw will pursue a generous US contribution to the Science and Technology cooperation agreement currently under negotiation. Poland desperately needs assistance in development of high technology industrial processes, environmental research, pollution control, and medical research and development. Environmental assistance could be the politically most cost effective US aid to Poland. Ecological programs would be a relatively inexpensive, highly visible means for providing assistance that would improve the lot of average citizens while pointing out a fundamental shortcoming of the Marxist economic system -- its inability to deal effectively with the negative social consequences of rapid industrial development. Environmental assistance would also provide opportunities for US business in areas of nonsensitive technology. [redacted]

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Warsaw has publicly asserted that the sanctions had a direct cost to Poland of more than \$15 billion. Restitution of this amount has been one of the Polish preconditions for a normalization of relations with the US. The Czyrek delegation may use this figure as a starting point in appealing for US assistance.

The Polish estimate is based on highly questionable methodology and is greatly exaggerated. Analysis of Western trade data indicates that Polish exports to the United States -- and other developed Western countries -- began to decline sharply prior to the suspension of Poland's Most Favored Nation (MFN) status on 1 November 1982. Slumping industrial production caused by domestic political unrest and the inferior quality of Polish exports, rather than the repeal of MFN status most likely accounted for the decline in exports to the West. The ban on official credits undoubtedly reduced Poland's access to hard currency imports used in export production, but Poland's abysmal creditworthiness almost certainly would have choked off the flow of new credits anyway. [redacted]

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Defending the Regime's Political Record

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Aware of the de Facto linkage of economic aid to continued liberalization, Czyrek will highlight several "positive" political developments in Poland for his audiences by arguing that:

- o Poland is already a pluralistic society due to the government's persistence in creating new institutions and "platforms" designed to encourage genuine political dialogue with all social sectors.
- o "New initiatives" such as the national ombudsman program currently under discussion in Poland show that political liberalization is an ongoing process.
- o Church-State relations are "good and improving," and therefore demonstrate that Poland has room for Catholics as well as Marxists. It is possible that the regime will soon reach a fundamental accomodation with the Church -- exchanging legal recognition of the Church for Church cooperation with the new "reform" institutions and muting of its politically active clerics.
- o The new trade unions have replaced Solidarity as the watchdog of worker rights and are gradually gaining acceptance in the workplace as they show their willingness to oppose government policies deemed injurious to worker rights. [REDACTED]

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As a corollary to an upbeat focus on the future, Czyrek can be expected to repeat regime arguments that the Solidarity era is over both for the union and the government. In the regime's view, it took the tough step of repudiating the party's past mistakes and it has no intention of repeating them. The regime's political appeal to the US should thus, according to spokesmen like Czyrek, rest on the regime's efforts to make new beginnings which the US also wishes and which favorable US attitudes can abet. [REDACTED]

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By noting that the Solidarity era is over, the regime is signalling that there are clear limits to its toleration of dissent. Czyrek will insist that the government earnestly hopes to avoid new arrests and trials and, in deference to domestic and foreign political pressures, will ignore minor irritants by the opposition. He will attempt to trivialize the government's tactics of punitive fines and property confiscations aimed at keeping the lid on opposition activity. If pressed, Czyrek will likely argue that such fines are lenient and justified measures which the government must use to maintain social peace and which should not offend US sensitivities. [REDACTED]

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Czyrek may convey Warsaw's readiness to deal with specific political issues. He could, for example:

- o Indicate that the regime will "review" the treatment of the Krakow-7 "leaflet bombers", widely regarded in the West as the last "political prisoners" in Poland. Quick action on the case, however, is unlikely, lest it appear Poland "caved in" to foreign pressure.
- o Show a forthcoming attitude toward the postponed visit by Senator Kennedy, if it is conducted "privately."
- o Offer in the regime's name new willingness to cooperate on terrorism and narcotics trade.
- o Welcome a "balanced" visit by AFL-CIO leader Kirkland.
- o Submit an agenda of political visits and cultural exchanges to maintain the momentum of US-Polish dialogue.
- o Offer to settle any outstanding access problems for USIA activities in Poland.

Outlook

The removal of US sanctions has improved the political climate and bolstered somewhat the confidence of Western businesses and banks to increase commercial ties with Poland. Advertising expenditures and representative office openings by Western firms have reportedly grown rapidly in recent months. Warsaw is now reportedly in the final stages of negotiations with Italian and Japanese automobile makers over a \$1.3 billion project to modernize the Polish automobile industry. Such a deal would mark the first major official credits granted to Poland since 1981. The West Germans and others may offer Poland additional limited credits as a gesture of approval for recent political developments. [redacted]

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Despite marginal improvements in economic relations with the West, Poland will continue to face serious economic problems for the next few years, ensuring that the US will retain some leverage for influencing political developments. As long as it is in arrears, Warsaw is not financially eligible for US government credits, and few other lenders will be interested in making new loans at a time when Warsaw is trying to reschedule existing commitments and has not yet concluded an IMF standby agreement. Many creditors probably believe that in the absence of major economic reforms, new credits would only worsen the already unmanageable debt problem. [redacted]

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We do not believe that restoration of MFN status will bring about a significant increase in Polish exports to the US in the near term. The Poles have done little to modernize their economy, develop new products, or improve product quality and marketing techniques, making it unlikely that Warsaw will recover markets lost to more competitive Newly Industrializing Countries. Moreover, continuing financial problems will restrict Warsaw's ability to obtain the hard currency required to boost export production. According to Poland's deputy foreign trade minister, exports to the US should expand by \$30-\$50 million annually over the next two years. Consumer goods such as clothing, footwear, and glassware probably offer the best prospects for export increases. [REDACTED]

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The regime will not share political power with its opponents, but we think it will continue its search for symbolic and cosmetic reforms which it believes will broaden its appeal and thus help it sell its economic reform program. The opposition probably hopes the normalization of ties with the US will make repression by the regime more difficult, creating more room at the margins for it to maneuver. To the extent that it articulates popular and viable economic and political options to government policy, the opposition will be able to keep genuine domestic pressure on the regime to maintain its gradual pace of reform. The Church may increasingly stake out a middle ground -- between the party and Solidarity and, with the right inducements, may cautiously back some regime efforts -- such as the Consultative Council -- to reach national reconciliation. [REDACTED]

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