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To the Management Committee cc: Messrs Hartwich, Greppi, Treumann, Silvain, Marchat, Christie, Käser, Bergmann
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Tél.

Date

K. G. Schmidt	4234	23/5
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Today's Financial Times carries the attached article. I asked Mr McDonough about the background on the passage marked red. His answer to me is also attached.

*K. G. Schmidt*

## EUROPEAN NEWS

# EC cool on loans for Poland to encourage reform

By David Buchan in Brussels

A PROPOSAL to encourage Poland's political reforms by lending European Community finance to the deeply-indebted Warsaw government yesterday ran into objections from the UK and some other EC member states.

The European Commission proposal, which would involve the Luxembourg-based European Investment Bank (EIB) lending for the first time to a Comecon country, won backing from Germany and Denmark at yesterday's meeting in Brussels of EC foreign ministers.

Mrs Lynda Chalker, the UK foreign office minister for European affairs, said it was beyond the EC's competence to consider issues relating to the debt of Poland, or of any other country.

Her stance received some support from France and the Netherlands. However Mr Jacques Delors, the Commission president, said he hoped to raise the Polish debt issue at forthcoming summits of the EC and the Group of Seven in industrialised countries.

Mrs Chalker gave support to the other suggestions made by Mr Frans Andriessen, the EC external affairs commissioner, yesterday that in view of the Warsaw government's recent political reforms, including legalising the Solidarity trade union and holding relatively free elections next month, the EC should admit more Polish industrial and agricultural goods.

"The key to arriving at an agreement

with Poland will be to offer it a timetable for abolishing quantitative restrictions, on similar lines to the agreement reached with Hungary," she said.

Last year Hungary signed a trade and economic co-operation agreement with the EC by which the latter is to phase out all quotas on Hungarian industrial goods by 1986. At the time, Brussels officials said this was in view of Hungary's record of relative political liberalism, and no other Comecon country could count on receiving the same treatment.

The EIB said yesterday there would be no constitutional block on loans to Comecon countries, once they had a formal co-operation agreement with the

EC. But it pointed out its lending last year outside the Community amounted to Ecus 700m (£455m), out of total EIB lending in 1988 of Ecus 10.2bn.

Mr Andriessen also sketched out to EC ministers yesterday the mandate which Brussels wants for the opening of negotiations with Moscow this year for an eventual EC-Soviet trade and economic co-operation accord.

The mandate, still to be agreed by EC governments, should in the Commission's view include co-operation on research into nuclear safety, as well as science and technology, an area that will be watched closely by the US for any sign of the EC breaching CoCom export security controls.

Mr Schmidt

23/5/89

Subject: Financial Times article on EC loans for Poland

1. David Buchan, head of the FT's bureau in Brussels rang last night (about 19.00) to ask what the EIB's "position" was concerning a proposal made at the EC Foreign Ministers meeting that the Bank could lend in Poland. I explained to him that the EIB operated outside the Community only in the Mediterranean Countries under EEC cooperation agreements and the ACPs under the Lomé Convention.
2. I said that theoretically the EIB could be asked to lend in Poland and, indeed, anywhere in the world. But I emphasised that this would be up to the Board of Governors to decide, which had repeatedly underlined that the EIB's priority lies in the Community. Any EIB activity in Poland would presuppose a formal cooperation agreement being concluded with the Community. I then gave him the statistics he used in the story.
3. The whole conversation took about 10 minutes. I had the impression that I was able to "tone down" the EIB aspect in his article.
4. Mr Buchan also mentioned that there would be a survey on Luxembourg again this year and he expected that he or one of his colleagues would write an article on the Bank.

Adam McDonough