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SECRETARY OF STATE FOR TRADE AND INDUSTRY

British Export Opportunities: The GDR, Czechoslovakia and Poland

1. You may find it useful to have my view of the bilateral trade prospects, following my visit to East Berlin, Prague and Warsaw. They vary. In East Berlin, if a quarter of what I heard is to be believed, the outlook shows some real promise. In Prague, the situation is less clear-cut, and in Warsaw it is pretty bleak.

Poland

2. Fresh credits from the West are the main Polish preoccupation. The Poles said they wanted more trade with Britain. Poland was trying hard to pay her debts and was grateful for UK support in the Paris Club and with the IMF. Frozen credits should now be released and bilateral discussions should begin on new credit.

3. They said Poland had faithfully honoured its coal delivery contracts during the British miners' strike. Yet Britain was still blocking completion of vital Polish/British projects such as Ursus and PVC by refusing credit. The West's sanctions had overall cost Poland US\$15 billion, had hurt the Polish people we claimed to love so much, and made it all the harder for Poland to move in the direction the West wanted. Poland wanted improved relations with Western countries, but not on her knees.

4. In response I stressed that Poland, like many other countries, had a legacy of over-borrowing. Some belt tightening and prudence was now needed. There could be no thought of new credit until a rescheduling agreement had been signed and was firmly in place.



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5. Despite the increases in UK exports achieved in 1983 and 1984, it is clear that the prospects for the future are limited by Poland's continuing economic difficulties.

Czechoslovakia

6. The Czechoslovaks said they were aware of the criticism that they had tried to reduce foreign debt too quickly. After 1985, new imports would be possible. They were interested in buying British technology.

7. Specific instances of UK/Czechoslovak cooperation discussed were: Northern Engineering Industries with Skoda Plzen and Brown Boveri Kent with Sklounion. They said the Joint Commission, together with the BRNO fair and Czechoslovak Economic days, were important for furthering trade. I said Paul Channon was looking forward to his visit in May and would pursue these matters.

8. These Czechoslovak hints are encouraging. At this stage they are no more than words, but British firms in my view are well placed to take advantage of any expansion of Czechoslovakia's trade with the West.

East Berlin and the GDR

9. I was conscious of the good work put in by Paul Channon at the Leipzig Spring Fair. I went over some of the same ground with Honecker and the Politburo's trade man, Mittag. Mittag told me that he had been instructed to come up with concrete proposals to double total bilateral trade from DM1 billion a year to 2. He listed projects in which UK firms had shown a strong interest:

- an ammonia plant at Piesteritz worth over £70 million
- ICI plus two West German firms, Kloeckner and Uhde;

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- a fluegas de-sulphurisation plant at Rummelsberg power station, East Berlin, worth over £30 m
 - Davy McKee;

- two natural gas purification plants, together worth over £70 m - Davy McKee;

- a film production plant for 'diskettes' worth from £30m-£45m - Kodak; and

- a variety of textile machinery - SPT Ltd and Crosrol.

10. Mittag estimated the value of these contracts at DM800-900 million. All of the projects figure in the GDR 5-year plan for 1986-90. The GDR side were keen that British textile machinery suppliers should exhibit at the Leipzig Fair in September this year. (I hope this will prove possible.) I also mentioned Catalytic International's interest in a lignite liquefaction plant, and ICI's ambition to treble their turnover in chemical products business with the GDR. The GDR side referred to a possible export opportunity for GKN in lorry components manufacture.

11. We have had fine words from the GDR in the past. The proof of the pudding will be in the eating. But in the light of these high-level GDR expressions of interest, I am sure that it is worth the while of the British companies concerned to strengthen their efforts in the market.

12. The GDR is proud of its hard-earned reputation for prompt payment: its financial position and track record are not perfect, but are in no way comparable with, say, Poland or Romania. Western banks are lending to the GDR. My time in East Berlin convinced me that Paul Channon is justified in investing effort in the GDR export market.



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13. It is however a tough nut to crack. GDR negotiators drive a hard bargain, often threatening to buy from the Federal Republic on allegedly more favourable terms. (Incidentally, if Davy McKee feel that the GDR's standard contract conditions are unduly stringent, now is the time to thrash out the problem with the GDR. If they can come up with hard evidence that other companies are allowed more favourable contract terms, we can complain at a senior political level with some prospect of being heard.)

14. I am delighted that Michael Jopling intends to visit the Leipzig Fair in September. Ministerial visits bring access to GDR decision-makers which can be vital for the commercial prospects of British exporters. I hope that Politburo member Werner Felde, a rising figure in the Party, will see Michael Jopling. The Spring Fair is perhaps the grander of the two occasions, and the biggest event in the GDR's commercial calendar. The British Trade Information Office, set up each Spring under DTI auspices, served as the focal point for over 100 British firms represented at Leipzig last month and forms an indispensable part of the British trade effort.

15. If the GDR delivers one or more of the contracts listed in paragraph 2 above, I hope that you will be sufficiently encouraged to consider making your way to East Berlin/the GDR in the next 18 months to push the UK export effort still further. Your visit would be the first by a Cabinet Minister responsible for trade since Edmund Dell in February 1977.

16. I am copying this minute to the Prime Minister,

/Nigel



Nigel Lawson, Michael Jopling, and Paul Channon.

A handwritten signature in black ink, appearing to be 'N. Lawson', with a stylized flourish and a period at the end.

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