

APPENDIX G

[Wall Street Journal, June 19, 1985, explains how Poland borrows from the United States and then lends to the Soviet Union]

POLAND GIVES CREDIT WHERE IT'S DUE: TO RUSSIA

(By Zdzislaw M. Rurarz)

As almost everybody knows by now, Poland's economy is in terrible shape, sending Gen. Wojciech Jaruzelski scrambling for Western credits. Just last week, in fact, the general met with the Japanese foreign minister, and his angling for credits through the International Monetary Fund has been given much coverage.

But there is one development that has gone virtually unreported: Polish credits to the U.S.S.R. That Poland is heavily indebted to the West, to the tune of \$27 billion to \$28 billion, is no secret. Nor is its indebtedness to the Soviet Union, about \$5 billion.

For obvious reasons, given the situation of present day Poland, anything even resembling a credit extended by that country to the U.S.S.R. could never have been announced. That is why Polish official sources make oblique references to the event, though not all the details are officially known.

What does appear certain right now is that Poland is to provide the U.S.S.R. with credits amounting to about 900 billion zlotys over the years 1986 to 2000. What this translates to in dollars is difficult to say, because one of the quirks of the artificially set currencies of the U.S.S.R. and its Eastern European satellites is that it costs more to buy U.S. dollars with Polish zlotys than it does with Russian rubles. But a reasonable estimate would put these credits' real worth at about \$10 billion.

On the other details, the only known fact is that the Polish credits will go toward three projects; the construction of the gas pipeline from Kobryn and Brest in the Soviet Union to Warsaw, the Yamburg gas pipeline, and a coal-gasification plant in the U.S.S.R. It also appears that apart from material deliveries, Polish specialists and workers would be used in those projects within the credit terms.

This is extremely bad news for Poland. It appears that Polish planners themselves were surprised by the credits under consideration. For this reason, these credits to the U.S.S.R. were not originally included in Poland's future 5-year plans.

The credits to the Soviets also come at a time when Poland—after several years that saw the level of investments fall sharply—is scheduled to increase the level of investments through the end of this century. In the energy field alone, such investments are to increase eightfold, with overall investments increasing at a rate not much below this—excessive, according to most Polish experts. Under the best of conditions—Poland's yearly growth in gross national product on a per-capita basis may be no more than 2.5 percent.

Even more disturbing is the fact that Poland's terms of trade with the U.S.S.R. continue to work to the Soviets advantage. This is because the price of imported Soviet oil is only now catching up with its world level of a few years ago, when world oil prices had peaked. According to the odd price system used within the Council for Mutual Economic Assistance, the price of Soviet oil is taken from the average of world prices from the preceding 5 years; hence the benefit to the Soviets now.

In any case, within Polish Soviet economic relations this development represents a sharp reversal of the practices of the recent past, when beginning in 1980 the U.S.S.R. provided Poland with credits. Not only is this era over, but the roles have now reversed.

It is still unclear why the Soviets have opted for this change. Certainly there are purely economic motives: Simply to maintain the present level of oil extraction in the U.S.S.R. means a great increase in costs. The Soviets quite recently have also been rather frank with their satellites, telling them that if they wish to maintain their level of energy imports from the U.S.S.R. they must participate in various credit investments.

Yet the Soviets are not blind to the fact that Poland is in particularly bad shape economically and that any new burdens absent an inflow of fresh credits from the West, the IMF or the World Bank may lead to serious social tensions.

Still, it is quite likely that the Soviets believe the Polish regime has learned how to behave in tense situations. They may even want the Polish authorities to learn yet harsher measures to deal with various upheavals. In fact, the Polish regime—whatever its head would be—really has no alternatives.

Anything like Polish credits for the U.S.S.R. which probably would be tolerated under normal Polish-Soviet conditions, will today be seen by the Poles as the cause

of all their country's woes. Understandably, then, the Jaruzelski regime is not eager to say anything openly about these credits. But this silence carries the risk that there will be an even more hostile reaction from the public once it learns about the agreement. This in turn may lead to some developments that may take both the Soviet and Polish regimes by surprise, something not uncommon in Poland's troubled postwar history.

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