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10 DOWNING STREET

*From the Private Secretary*

15 November 1984

Aid Trade Provision

The Prime Minister has noted the Foreign Secretary's minute of 14 November to the Secretary of State for Trade and Industry in which he proposes reducing the planning figure for the aid trade provision.

I am copying this letter to Callum McCarthy (Department of Trade and Industry) and David Peretz (HM Treasury).

(C.D. POWELL)

L.V. Appleyard, Esq.,  
Foreign and Commonwealth Office.



Prime Minister  
CAP  
14/11

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SECRETARY OF STATE FOR TRADE AND INDUSTRY

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Aid Trade Provision

1. As you will know, the outcome of the PES round is that I have been obliged to operate my programmes covering the FCO as a whole in 1985/86 and subsequent years with the provisions remaining at the level previously planned. The bids I made for additional resources were unsuccessful. I must therefore find from elsewhere in my programmes savings which will allow me to deal with the impact of overseas inflation which is on average higher than ours, unfavourable exchange rate changes and other inescapable additional expenditure on our overseas representation work, the British Council and the BBC External Services.

2. I am clear that all parts of my operation will have to bear some part of the cuts needed. Overseas representation, the British Council and the BBC External Services must bear a share of the cuts. Some must also fall on the aid programme. Given the present public attitude towards the aid programme because of the famine in Ethiopia and the same kind of difficulties in many other African countries a decision by the Government now to cut aid will be exceedingly difficult to explain and defend.

3. In these circumstances I feel I must find some of the aid cuts by reducing the planning figure for the Aid Trade Provision from £66 m. to £60 m., at least in 1985/86 and possibly in each of the next two years. Our ATP planning figure for 1985/86 is, of course, not known

/publicly.



publicly. In proposing the cut I have taken into account the fact that the £66 m allocation for 1985/86 includes £3 m. originally shifted to the ATP from the Zimbabwe regular country programme; now that Zimbabwe's debt problems remove any possibility of a mixed credit package we are obliged to honour the £3 m. commitment by supplementing the Zimbabwe allocation for regular bilateral aid. The £6 m. cut I propose is feasible in terms of existing commitments and outstanding offers against the ATP allocation in those years. It would still leave us with a substantial ATP allocation, quite sufficient to reject any suggestion that we are "disarming unilaterally" in the mixed credits area.

4. I recognise that such a cut would leave little scope for new offers bearing in mind the lines of mixed credit we have outstanding. I do not minimise the difficulties such a step would present in explaining the position to some of our exporters of capital goods. Nevertheless I am convinced that such a step is necessary as part of the total package of cuts which I am being compelled to apply. If the Government is to defend its position effectively this package will need to be seen by all our supporters as reasonably balanced and be seen to be sensitive to the widespread concern about Ethiopia and Africa generally and the overall level of the aid programme.

5. In making such a cut in ATP (the 1985-86 figures would also be £6 m. lower than this year's figure) I think there is also an opportunity to present it positively in international terms, particularly to the Americans, and as part of our joint determination to limit and eventually eliminate mixed credits. George Shultz has recently written to me emphasising the importance they attach to curtailing tied

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aid credits aimed principally at export promotion. Donald Regan wrote to the Chancellor in the same vein. We should therefore be in a position to use the reduction as an illustration of our firmness of purpose in urging the OECD countries to curtail what we all agree is a mutually damaging system of export promotion.

6. I am copying this minute to the Prime Minister and the Chancellor of the Exchequer.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

14 November 1984

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