

PREM19

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PAKISTAN

(Sale of cargo ships to  
Pakistan by British  
Shipbuilders)

Confidential Filing

The proposed sale of Ships  
to Pakistan from the Austin &  
Pickersgill yard of British Shipbuilders

PAKISTAN

JULY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>14.8.79</del> 28.8.79							
PREM 19/99							



Pakistan

OUTWARD

ODFO 5/24

RR ISLAMABAD

RR WASHINGTON

23 AUG 1979

GPS 380A  
UNCLASSIFIED  
AID IN CONFIDENCE

AID IN CONFIDENCE

Mr. Paltim

FM ODA LONDON 240900Z AUG 79  
TO ROUTINE ISLAMABAD  
MODEV 160 OF 23 AUG  
INFO UKDEL IMF/IBRD WASHINGTON

ra  
24/8

YOUR MODEV 368.

SHIPS FOR PAKISTAN.

MINISTERS HAVE RE-CONSIDERED THE QUESTION OF PROVIDING AID FOR THIS TRANSACTION AND YOU ARE NOW AUTHORISED TO INFORM GOP THAT THE OFFER IS CONFIRMED OF AN AID GRANT OF UP TO £9.6M OF THE PROPOSED CONTRACT PRICE OF £20.6M APPROX OF THREE SD18 CARGO SHIPS. THE OFFER IS SUBJECT TO THE CONDITION THAT THE AID OFFER IS ACCEPTED AND THE CONTRACT IS PLACED WITH BRITISH SHIPBUILDERS BEFORE 30 SEPTEMBER 1979. THIS GRANT WILL BE FINANCED FROM THE AID TRADE CONTINGENCY PROVISION AND NOT THE NORMAL AID PROGRAMME.

2. YOU SHOULD MAKE IT CLEAR THAT THE RE-AFFIRMATION OF THE OFFER OF AN AID GRANT CARRIES NO REPEAT NO ASSURANCE OF ECGD COVER BEING AVAILABLE FOR A COMMERCIAL CREDIT FOR THE REMAINING £11M OF THE PRICE. THE QUESTION OF AVAILABILITY OF ECGD COVER FOR THE PROJECT CAN ONLY BE ANSWERED WHEN WRITTEN UNEQUIVOCAL EVIDENCE IS PRODUCED BY GOP OR BRITISH SHIPBUILDERS THAT THE CONTRACT HAS BEEN FIRMLY AWARDED TO BRITISH SHIPBUILDERS. SUBJECT ONLY TO THE AVAILABILITY OF AN £11M COMMERCIAL CREDIT ON THE TERMS PREVIOUSLY PROPOSED IE 14 EQUAL HALF YEAR INSTALMENTS SPREAD OVER 7 YEARS FROM EACH DELIVERY AT 7 AND A HALF PER ANNUM INTEREST. IT WILL BE MOST CONVENIENT IF GOP WOULD PROVIDE SUCH EVIDENCE BOTH TO YOU (FOR ONWARD TRANSMISSION BY CABLE AND IN ORIGINAL TO ECGD AND ODA) AND TO BRITISH SHIPBUILDERS AS SOON AS POSSIBLE.

3. A DRAFT EXCHANGE OF LETTER TO COVER THE ATCP GRANT ELEMENT WILL BE PREPARED AND FORWARDED ASAP. HOWEVER THIS TELEGRAM AND YOUR SUBSEQUENT COMMUNICATION TO GOP MAY BE REGARDED AS THE FORMAL "OFFER" OF AN AID GRANT FOR THE PURPOSES OF PARA 2 ABOVE.

4. FOR YOUR INFORMATION, THE BALANCE OF THE FULL PRICE OF £26.9M APPROX OF THE SHIPS WILL BE MET BY A GRANT OF £6.3M FROM THE SHIPBUILDING INTERVENTION FUND PAYABLE DIRECT TO BRITISH SHIPBUILDERS THUS ENABLING THE LATTER TO OFFER THE PROPOSED CONTRACT PRICE OF £20.6M APPROX AS ABOVE.

5. PLEASE ADVISE BY TELEGRAM AS SOON AS YOU HAVE CONTACTED GOP SO THAT DOI CAN TELL BRITISH SHIPBUILDERS THAT THE OFFER HAS BEEN CONFIRMED. WE ARE GIVING THE OFFER NO REPEAT NO PUBLICITY.  
CARRINGTON

NNNN

FCO EXAMINERS PLEASE PASS COPIES IMMEDIATELY TO MISS S.M. BULL  
FRD/FCO MR R. LAVERS SAD/FCO MR ALSTON JNU/FCO AND  
PS MR BLAKER FCO.

DISTRIBUTION

PS TO MR MARTEN				
MR. I.M. PATTISON 10 DOWNING STREET		MR. R. LAVERS	SAD	FCO
PS TO SECRETARY OF STATE FCO		MR. R. BRAZIER		TREASURY
PS TO LORD PRIVY SEAL		MR. B. DAVISON		ECGD
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SENT240945ZDSS

RECD240945ZBD

24 AUG 1979



CONFIDENTIAL



File B

10 DOWNING STREET

*From the Private Secretary*

14 August 1979

The Prime Minister has seen your letter of 10 August to me, reporting that your Secretary of State and the Foreign and Commonwealth Secretary have reached agreement on the outstanding issues over the proposed sale of three ships to Pakistan from the A & P yard of British Shipbuilders.

I have also reported to the Prime Minister our discussion about the basis on which Sir Keith Joseph and Lord Carrington were able to agree. The Prime Minister has commented that this is not entirely consistent with what Sir Keith had led her to understand, but she is nevertheless content to allow the offer to be confirmed.

I am sending copies of this letter only to Paul Lever (Foreign and Commonwealth Office) and Martin Vile (Cabinet Office).

M. A. PATTISON

Peter Mason, Esq.,  
Department of Industry.

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← B

PRIME MINISTER

Your note below

I understand that the arrangement is not for full reimbursement of the £9 million. Sir Keith Joseph has struck a gentleman's agreement with Lord Carrington, under which he will surrender £2 million from his PESC allocation in a future year to the aid programme. This £2 million is equivalent to the amount which the aid programme will have to find in the current year for these ships. It is the current year which presents the greatest difficulty to Lord Carrington and Mr. Marten. So the arrangement covers only £2 million of £9 million.

*Yes*  
This understanding cannot be set down, as it would attract criticism from the Comptroller and Auditor General. It seems to be much less than Sir Keith Joseph led you to understand. Nevertheless, you did tell Sir Keith to sort this out with Lord Carrington. They have reached the agreement. It is argued that the order would be crucial for the health of one of the most modern and efficient of British Shipbuilders yards.

Can I therefore confirm that you are content for Sir Keith Joseph and Lord Carrington to proceed on the basis of their understanding?

*MAJ*

*Yes - I will  
talk to K.S. about  
it when next I see  
him.*

13 August 1979





CONFIDENTIAL

DEPARTMENT OF INDUSTRY  
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PS/ Secretary of State for Industry

10 August 1979

Mike Pattison Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

PRIME MINISTER

I think you touched on this  
this morning. You were previously  
against it. Lord Carrington  
has now reluctantly acquiesced,  
given the strong views of colleagues.  
Accept? *MAP 10/8/79*

Dear Mike

Thank you for your letter of 9 August about the proposed sale  
of three ships to Pakistan from the Austin & Pickersgill yard  
of British Shipbuilders.

Further to the Prime Minister's comments recorded in that letter,  
and the discussion with the Prime Minister which I understand  
took place this morning, my Secretary of State and Lord Carrington  
met this afternoon and reached agreement on the outstanding  
issues. My Secretary of State believes, therefore, that the  
way is now clear for these orders to go ahead.

I am sending copies of this letter to Paul Lever (FCO), the  
private secretaries to other members of E(EA) and to Martin  
Vile (Cabinet Office).

Yours sincerely

*Peter Mason*

PETER MASON  
Private Secretary

*K. J. tells me that*  
*reimburses*  
*fund over*  
*the line.*  
*So ODA does not*  
*use £9m.*  
*ans.*  
*look*

CONFIDENTIAL

VLS



cc FCO CST  
D/M CO  
DOE  
SO  
WO  
J/T  
J/N

10 DOWNING STREET

*From the Private Secretary*

9 August 1979

The Prime Minister has seen your Secretary of State's minute of 3 August, reporting a discussion in E(EA) of the proposed sale of three ships to Pakistan from the Austin and Pickersgill yard of British Shipbuilders. She has noted the arguments raised in discussion, and the conclusions reported by Sir Keith. She nevertheless considers that, if he wishes to go ahead with this, the funds should properly come from the Department of Industry's budget. The proposal seems to have nothing to do with aid, but is essentially a straightforward subsidy to shipbuilding. She would therefore not wish to see confirmed the provisional terms proposed by the previous Government for financing the construction of the ships, if this is to involve a substantial charge on the reduced aid programme.

I am sending copies of this letter to Paul Lever (F.C.O.), the Private Secretaries to other members of E(EA) and to Martin Vile (Cabinet Office).

M. A. PATTISON

Peter Mason, Esq.,  
Department of Industry.

CONFIDENTIAL

VLS



PRIME MINISTER  
SHIPS FOR PAKISTAN

*If Industry wishes to go ahead with this - it must come from Industry budget. It has nothing to do with Aid. It is a straight-forward subsidy to shipbuilding.*

*PRIME MINISTER  
E(CEA) have concluded that an aid-supported ships for Pakistan deal should go ahead. But Mr Marten reserved had Carrington's right to appeal further to you. Do you endorse E(CEA) decision?  
MAD 3/VIII*

On Tuesday, the sub-Committee endeavoured to resolve an issue on which Adam Butler and Neil Marten had been unable to agree. The Government of Pakistan recently accepted the provisional terms proposed earlier this year by the previous Government for financing the construction of three ships by the Austin and Pickersgill yard of British Shipbuilders. The terms would require a grant from the aid programme of some £9 million to supplement the maximum that the EEC Commission would allow us to provide from the Intervention Fund. Adam Butler argued that this order was crucially important just now to provide work for our most modern and efficient shipyard - one which above all others we could ill afford to close. He pointed out that when we decided - and you endorsed - a few weeks ago a policy of severe contraction in the industry, we had undertaken to help British Shipbuilders as best we could to secure orders. In this context we had particularly in mind that part of the aid programme - the Aid/Trade Contingency Provision (ATCP) - which is set aside specifically for projects where the developmental justification is weak but the need to help our industries great.

Neil Marten argued that, following the recent public expenditure cuts, the aid programme could not afford to contribute to a project the main justification of which was to help an ailing domestic industry, and that the ATCP was over-committed for the present financial year. Moreover, not only was the developmental justification extremely weak, but there were foreign policy objections - notably Pakistan's



nuclear weapon ambitions - to helping her in this way at the present time.

The weight of opinion in the sub-Committee was clearly in favour of confirming the terms which had provisionally been offered to the Pakistan Government and had now been accepted by them.

Several of us were however concerned that we would be seen by our supporters to be adopting a policy which we had in Opposition criticised strongly in relation to shipping orders from Poland, India and Vietnam. But we were persuaded that we could present a decision to accept the terms for this order as a commitment inherited from the previous administration; and as Jim Prior pointed out, the situation of the shipbuilding industry had deteriorated substantially in recent months. He warned us that the levels of unemployment in those areas where inevitably there would shortly be yard closures were becoming an increasingly sensitive issue and he spoke strongly in favour of the proposal. Norman Tebbit, representing John Nott, said that, although his Department was concerned that our own shipping interests would be adversely affected by any increase in world tonnage, he too was able to accept this project - albeit reluctantly - as it involved only the replacement of existing ships.

We were all anxious to ease the burden that would fall on the aid programme and John Biffen suggested that, within the limitation imposed by the Commission on the total contribution from the Intervention Fund, it might nevertheless be possible to phase the incidence of its payments so as to reduce the loading on the ATCP in the early years. Adam Butler and Neil Marten have been able to agree arrangements which, as far as practicable, will help to

/achieve ...



achieve this and which will be acceptable to the Chief Secretary.

Our conclusions were therefore that we should tell British Ship-builders that we are prepared to confirm the provisional offer made to the Pakistan Government, involving contributions from both the Intervention Fund and the Aid/Trade Contingency Provision of the aid programme.

Neil Marten did however say that Peter Carrington might wish to take the matter further with you, notwithstanding the decision by the sub-Committee. We need however to resolve this question quickly now. With every week that passes, the risks increase that the matter will be taken out of our hands by Pakistan's placing the order elsewhere. They have already placed orders for sixteen out of the twenty-one new ships for which they invited quotations. Our negotiations with them have been the most protracted and I do not doubt that they would very easily be able to find takers elsewhere who would be prepared to match our terms .

I am copying this minute to members of the sub-Committee, to the Minister of State, Foreign and Commonwealth Office, and to Sir John Hunt.

KJ

K J

3 August 1979

Department of Industry  
Ashdown House  
123 Victoria Street



- 3 AUG 1979

END

Filmed at the National  
Archives (TNA) in London

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