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PREM 19/1504

Part 2 ~~SECRET~~

Confidential File

Strategy on Foreign Policy and Defence Issues.

FOREIGN POL

Part 1: April 1

Part 2: ~~October~~ ^{January}

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
17.10.82		11.1.85					
2.1.84		7.1.85					
13.1.84		11.1.85					
27.1.84		24.1.85					
22.2.84		7.2.85					
27.2.84		11.2.85					
27.2.84		13.2.85					
5.3.84		13.3.85					
15.3.84		12.3.85					
31.5.84		25.3.85					
1.6.84		1.4.85					
18.6.84		29.3.85					
29.6.84		ENDS					
7.7.84							
13.7.84							
16.7.84							
20.7.84							
4.7.84							
27.8.84							
29.10.84							
2.11.84							
21.11.84							

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PART 2 ends:-

HMT to CDP 29.3.85

PART 3 begins:-

FCO to HMT 1.4.85

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard, 22 March 1984,
columns 1186-1270 "Foreign Affairs"

Signed Wayland Date 6 May 2014

PREM Records Team



CC/PO
[Handwritten initials]

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 March 1985

Charles Powell Esq
10 Downing Street
LONDON
SW1

Dear Charles,

THE FOREIGN OFFICE PROGRAMME: DIPLOMATIC WING

In his letter of 13 February Andrew Turnbull recorded that the Prime Minister had raised the question of the impact of exchange rate movements on the FCO (Diplomatic Wing) programme. Sir Peter Middleton and Sir Antony Acland have now agreed the attached report on the current arrangements for dealing with overseas price movements and on the points of differences between the FCO and the Treasury

I am copying this letter to Len Appleyard (FCO).

*Yours ever
Rachel*

MRS R LOMAX
Principal Private Secretary

THE FCO DIPLOMATIC WING PROGRAMME: OVERSEAS PRICE EFFECT

BACKGROUND

Since 1982-83 the combined effect of exchange rate and overseas inflation movements - the 'overseas price effect (OPE)' - has been disadvantageous to FCO. Nearly 40% of the FCO Diplomatic Wing's provision of about £600 million is affected. The breakdown by activities is given in Annex A. The breakdown by votes is as follows:-

	Total (1985-86) £ million	Affected by OPE £ million	%
II.1 - Overseas representation	384	165	43
II.2 - International subscriptions	84	50	60
II.3 - BBC External Services	88	7	8
II.4 - British Council (2/3 of basic budget - balance comes from ODA)	48	17	35
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2. The letter of 23 July 1984 from the Prime Minister's Private Secretary said "Additional bids as a result of exchange rate changes should be treated as reflecting revised economic assumptions rather than policy changes. This treatment should not prejudice finding some offsetting savings if possible".

Treasury and FCO subsequently agreed to an arrangement described in the Foreign and Commonwealth Secretary's observations to the Select Committee on Foreign Affairs (Cmnd 9367 of October 1984) - Annex B.

3. There is agreement:

- (a) on how to measure the overseas price effect;
- (b) on the procedure for dealing with the effects of overseas price movements in the year in which they occur.

4. The continuing areas of disagreement are:

- (a) the outcome of the 1984 Survey as it affects 1986-87 and 1987-88.
- (b) the treatment of adverse overseas price movements in future Public Expenditure Surveys; in particular, whether in-year compensation should automatically be carried forward into future years, subject only to offsetting savings as defined in paragraph 7 below.

ADJUSTMENTS WITHIN ONE YEAR

5. The in-year arrangements worked satisfactorily in 1983-84 and 1984-85. For 1983-84 an overseas price effect of £8.7 million was identified. This was met mainly by agreed one-off savings - mostly extra receipts and unavoidable postponements of BBC transmitter projects. For 1984-85 the effect was £15.2 million and was met again by agreement from similar offsetting savings within FCO programmes and £9 million from the central Reserve for that year only. If the effect in both 1983-84 and 1984-85 had been carried forward, the cumulative amount would have been £25.4 million in 1986-87 and £26.0 million in 1987-88 (subject to further adjustment for recent currency changes).

FUTURE PES TREATMENT - "THE LONG TERM PROBLEM"

6. Both departments agree that, from now on, in years when the overseas price effect is favourable this should be shown as a reduced requirement for future years in the ensuing Public Expenditure Survey. The Foreign Secretary is conscious that in 1979-80 to 1981-82, when he was Chancellor, FCO surrendered underspends totalling £62 million; no reductions in baseline were made, but this was under the old volume planning system.

The FCO View

7. FCO believes that the obverse of this coin should be the consolidation into the baseline of any adverse price effect measured during the year up to the October of the Survey in question. The FCO will of course always look for offsetting savings and in its view already makes available the results of a sustained search for economies. But offsetting savings should not be such as to conflict with "the Government's foreign policy requirements" as defined for in-year purposes in Cmnd 9367 (see Annex B). Without some predictable system of adjusting the baseline sensible planning would be impossible and FCO resources would be cumulatively reduced by the vagaries of overseas price movements, so long as their net effect is adverse - as in recent years.

8. The UK's success in controlling inflation compared to other countries', combined with a particular additional price effect for the goods and services which FCO buys abroad (such as rents, maintenance and local staff salaries) suggests, in the FCO's view, that even if the sterling index remains constant, FCO now faces an adverse cumulative trend of about £10 million a year. Exchange rate and overseas inflation developments since the last base date in October 1984 may add a further requirement of about £15-20 million during 1985-86 if sterling remains at its present level.

The Treasury View

9. In the Treasury view it has not been established that the FCO faces any long-term adverse effect from overseas price movements. Nevertheless Treasury accept that any adverse effect which does occur at a particular time should be treated in PES as a changed economic assumption. This means that it becomes an additional bid (just as a favourable effect is a reduced requirement) and is fully taken into account in the Survey. As with increases in demand-led programmes, however, this does not mean that an addition to the baseline of any particular amount should necessarily be granted. Account should also be taken of the Government's overall public expenditure targets, the other additional bids being made both by the FCO and other departments and the scope for off-setting savings. As with all other departments, it should be open to Ministers to consider planned reductions over the PES period if the public expenditure situation requires this. The PES is the only forum in which the needs of the FCO can be considered alongside those of other departments. No department can have an assurance that any part of its forward plans will always be implemented regardless of the economic situation. The FCO can in the Treasury's view, however, reduce the element of uncertainty in its planning by maintaining a sufficient margin of flexibility within its provision, as is necessary for all departments under a cash planning system rather than assume that its programme is fixed in volume terms and submit every small change thereafter as an additional bid. (There were 26 cash bids of an average size of around £2 million in the last PES). Thus the Treasury does not accept that there is a "long-term problem" which cannot be dealt with under existing arrangements.

THE 1984 SURVEY

10. In the 1984 Survey MISC 106 recommended settlement at baseline, subject to minor adjustments. This followed a failure in the bilateral discussions to reconcile the Treasury's proposals for reduction below baseline of the combined FCO/ODA programmes with the FCO's bids for additional funds. The MISC 106 recommendations were accepted by Cabinet without discussion. They required the overseas price effect of £25-26 million a year referred to above, together with any bids the Foreign Secretary regarded as essential (these in his view ranged from £13 million to £21 million a year) to be offset by savings from FCO programmes in the three survey years. At the time when this calculation was agreed, it was recognised in Ministerial meetings that any net savings required might be made by relatively modest reductions in the Aid figure of £1,130 million.

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11. The scale of subsequent parliamentary interest in aid in the light of the Ethiopian famine made it clear that this presented formidable political difficulties. In those circumstances the Chancellor agreed for 1985-86 only to add £9 million to the FCO's provision by rounding up the Autumn Statement figures and to make a further £9 million available if overseas price movements between October 1984 and October 1985 were not in the FCO's favour. The Chancellor made this concession with the intention that it would give the Foreign Secretary an additional year's breathing space in which to plan reductions to come within the baseline figures for 1986-87 and beyond. This left the remaining bids to be offset by certain cuts (including 10 post closures) which the Foreign Secretary announced to the House of Commons on 22 November 1984. These will have the effect of saving £11.3 million in 1986-87 in addition to £4.2 million savings identified during the Survey. The Foreign Secretary has not accepted that the addition agreed by the Chancellor should be for one year only since in his view the political difficulties which it was intended to avoid will be equally serious in later years.

The FCO View

12. In FCO's view there should be special emphasis on the nature of the £25.4m overseas price effect which has a much greater proportionate impact on the FCO than on other departments and whose impact continues into successive years. But the FCO does not consider it is trying to exempt itself from the normal PES procedure of seeking offsetting savings. It considers that the various cuts and other savings for 1986-87 (£15.5m) should be seen as offsetting its "ordinary" bids (£21.6m) which were designed mainly to maintain existing levels of service, eg by making up for certain home risen costs and postponed capital projects. (It is prepared to deal with the £6.1m balance separately in discussion with Treasury). Offsetting savings of this sort are what would rightly be expected of any department. But offsetting savings should only be set against the overseas price effect if that can be done without conflicting with the government's foreign policy requirements.

The Treasury View

13. In the Treasury's view, in reaching their decision that FCO programmes should be held at baseline, MISC 106 and Cabinet clearly rejected the FCO's "ordinary" bids for additional provision, along with the Chief Secretary's proposals for cuts below baseline. The majority of other departments' additional bids in the Survey were also rejected. While it would be open to the FCO, if

wished, to resubmit them in the 1985 Survey, they have no present validity. Therefore the £15.5m savings identified by the FCO so far are an offset in the Treasury's view to the £25.4m overseas price effect, leaving further savings of only £9.9 million to be found in 1986-87 and a similar amount in 1987-88. These differing viewpoints are summarised in Annex C.

THE IMPLICATIONS FOR UK REPRESENTATION OVERSEAS

The FCO View

14. In the FCO view there is no prospect of making the savings required without a policy decision to make major cuts in programmes or geographical coverage. Significant efficiency savings have been made and running costs are kept under close control by an inspection system which the Public Accounts Committee has welcomed. The Select Committee on Foreign Affairs' report of 4 July 1984 said "The squeeze on the Diplomatic Service manpower has probably gone far enough and additional significant reductions would only be made at the cost of accepting a reduced level and quality of service". The demand for consular and commercial services is rising. For example, FCO Consular Department's caseload increased 40% and market information enquiries 48% between 1980 and 1984.
15. FCO points out that its £284 million running costs (see Annex A) include about £22 million for GCHQ and other agencies and about £40 million represents work on behalf of other government departments but not charged to them; to take one example, in the Washington Embassy 20% of the costs of FCO-funded staff (themselves only 37% of the total UK staff) are in support of other departments. The FCO's capital programme of only £30 million must cover vehicles, computers, communications and £18 million for the overseas estate (including much needed security works). There is a £12 million maintenance backlog and a rent bill likely to rise by 10% each year unless more of the estate can be moved into owned property.
16. In the FCO's view, the room for manoeuvre in making further reductions in the FCO's £290 million programme expenditure (see Annex A) is very limited and in all cases there is likely to be strong parliamentary opposition. The only alternative to reduction in these programmes would be to close further posts in addition to the 10 announced last November or to reduce FCO functions and services to the public. The shortfall for 1986-87 of £25.4 million represents 8% of the cost of the Diplomatic Service, equivalent to the costs of the 98

smallest FCO posts (out of 219); or 19 the size of Helsinki or Tel Aviv; or nearly two-fifths of all commercial work. (Staff in the 10 largest posts, cut by 10% in 1979, are the ones facing the greatest workloads). Reduction on this scale would do serious damage to our credibility as a country with world wide diplomatic capability in the eyes of the United States and other allies. It would do quite disproportionate damage to HMG's ability to conduct a global foreign policy and weaken our position as a trading nation. Diplomatic resources should be seen alongside resources for defence (up 10% in real terms between 1982-83 and 1985-86) and intelligence resources which have been increased over the coming PES period on the grounds that - Sir R. Armstrong's minute of 28 January - "at a time when the world becomes more dangerous rather than less and when the dangers to British interests increase rather than lessen our defences must to a large extent depend on our intelligence effort".

The Treasury View

17. The Treasury takes a different view. As to the opinion of the Foreign Affairs Committee, it points out that most departmental Select Committees add to the pressure for expenditure increases. It believes that savings of the order required could be made without the need for a large number of post closures, by such measures as:

- (i) cuts in staff in line with that projected for the Home Civil Service over the period 1979 to 1988 concentrating on the larger missions overseas and staff based in the UK;
- (ii) in addition, a reduction in the staff training margin which is currently standing at 5.5% and is considerably higher than Treasury considers necessary to cope with hard language training and transfers between posts;
- (iii) charging for services, especially commercial work;
- (iv) housekeeping measures to reduce the cost of overheads and information services;
- (v) reductions in programme expenditure eg UNFICYP and military aid.

POINTS FOR DECISION BY MINISTERS

18. (a) Should the Cabinet decision on FCO programmes in the 1984 PES be reviewed? If so, should the FCO proposal that £25.4 and £26.0 million corresponding to the overseas price effect be added to the FCO PES baseline for 1986-87 and 1987-88 respectively be accepted in whole or in part?
- (b) In future Surveys should the PES baseline be adjusted fully up or down by the amount of the overseas price effect, subject only to offsetting savings as defined in paragraph 7 above? Or should overseas price movements be taken into account as reduced requirements or additional bids on the basis in paragraph 9?

FCO EXPENDITURE : BREAKDOWN BY ACTIVITY£ million
(1985-86)

(i) Programme Expenditure

British Council (Diplomatic Wing contributions)	48
BBC External Services (including FCO transmitters)	108
International Subscriptions (including peacekeeping)	84
Military Aid	14
Overseas Students' Scholarships	11
Grants to non-governmental organisations	5
Information (mainly COI)	20
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	290
	<hr/>

(ii) Diplomatic Service

Capital	30
Running Costs	284
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	314
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EXTRACT FROM CMND 9367

"It has now been agreed that rises in expenditure resulting from exchange rate movements and differential inflation will be considered as requirements based on changed economic assumptions. Procedures are already in operation, and are being refined, to estimate as closely as possible what the magnitudes will be. In the short term period of any one financial year, Parliament will when necessary be invited by a Spring Supplementary Estimate to vote those resources which the Foreign and Commonwealth Office cannot find from offsetting savings acceptable to Ministers in the light of the Government's foreign policy requirements and its responsibilities for British interests overseas, including cultural interests. When overseas costs move favourably the windfall benefits will be surrendered to the Consolidated Fund. In fixing the longer term programmes of the Department in the Public Expenditure Survey, account will be taken of changes of economic assumptions up or down in setting the baseline for future years. Exactly the same arrangements will apply to the problem of the British Council's overseas risen costs."

EXPENDITURE: BIDS AND SAVINGS

£ million

1986-87

1987-88

Costs

Overseas risen costs	1983-84	9.2	9.5
Overseas risen costs	1984-85	16.2	16.5
A. Total overseas risen costs		25.4	26.0
B. Other bids for which MISC 106 did not provide funds (see below)		21.6	21.3

Savings and Offsets

During Survey		4.2	3.7
C. Since Survey (see below)		11.3	11.9
D. Total		15.5	15.6
E. <u>Balance*</u> :			
Treasury view (A-D)		9.9	10.4
FCO view (A)		25.4	26.0

Notes

B OTHER BIDS CONSIDERED
ESSENTIAL BY FCO
(1986-87 BREAKDOWN)C SAVINGS AGREED SINCE 1984 SURVEY
(1986-87 BREAKDOWN)

	£ million		£ million
Other British Council risen costs	1.6	COI cut	1.5
BBC, mainly audibility	8.4	BBC absorbing some risen costs	1.4
PSA's excess PRS charges	3.8	British Council absorbing some risen costs	1.2
Moscow Embassy	2.0	Rephasing FOLIOS	1.6
Security Works	1.4	Post closures	1.1
FOLIOS electronic office	3.2	Military training cut	0.5
One-off items, eg EC Presidency	1.2	Further aid contributions to British Council	1.0
		Miscellaneous economies	1.4
		Entry Certificates:	
		New charge	1.6
	21.6		11.3

*E. In 1985-86 the balance was met by the aid carry-over of £6.2 million, savings agreed since the Survey of £9.3 million and the Chancellor's addition of £18 million (subject to overseas costs not moving in FCO's favour). For 1986-87 FCO plan to deal with the balance between Line B and Line D (£6.1 million) in separate discussions with the Treasury on the funding of the BBC External Services.

THE FCO DIPLOMATIC WING PROGRAMME: OVERSEAS PRICE EFFECT

Q.

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EXTRACT FROM CMND 9367

"It has now been agreed that rises in expenditure resulting from exchange rate movements and differential inflation will be considered as requirements based on changed economic assumptions. Procedures are already in operation, and are being refined, to estimate as closely as possible what the magnitudes will be. In the short term period of any one financial year, Parliament will when necessary be invited by a Spring Supplementary Estimate to vote those resources which the Foreign and Commonwealth Office cannot find from offsetting savings acceptable to Ministers in the light of the Government's foreign policy requirements and its responsibilities for British interests overseas, including cultural interests. When overseas costs move favourably the windfall benefits will be surrendered to the Consolidated Fund. In fixing the longer term programmes of the Department in the Public Expenditure Survey, account will be taken of changes of economic assumptions up or down in setting the baseline for future years. Exactly the same arrangements will apply to the problem of the British Council's overseas risen costs."

£ million

FCO EXPENDITURE: BIDS AND SAVINGS

	1986-87	1987-88
<u>Costs</u>		
Overseas risen costs 1983-84	9.2	9.5
Overseas risen costs 1984-85	16.2	15.5
A. Total overseas risen costs	25.4	25.0
B. Other bids for which MISC 106 did not provide funds (see below)	21.6	21.3
<u>Savings and Offsets</u>		
During Survey	4.2	3.7
C. Since Survey (see below)	11.3	11.9
D. Total	15.5	15.6
E. <u>Balance*</u> :		
Treasury view (A-D)	9.9	10.4
FCO view (A)	25.4	26.0

Notes

B OTHER BIDS CONSIDERED
ESSENTIAL BY FCO
(1986-87 BREAKDOWN)

	£ million
Other British Council risen costs	1.6
BBC, mainly audibility	8.4
PSA's excess PRS charges	3.8
Moscow Embassy	2.0
Security Works	1.4
FOLIOS electronic office	3.2
One-off items, eg EC Presidency	1.2
	<u>21.6</u>

C SAVINGS AGREED SINCE 1984 SURVEY
(1986-87 BREAKDOWN)

	£ million
COI cut	1.5
BBC absorbing some risen costs	1.4
British Council absorbing some risen costs	1.2
Rephasing FOLIOS	1.6
Post closures	1.1
Military training cut	0.5
Further aid contributions to British Council	1.0
Miscellaneous economies	1.4
Entry Certificates:	
New charge	1.6
	<u>11.3</u>

*E. In 1985-86 the balance was met by the aid carry-over of £6.2 million, savings agreed since the Survey of £9.3 million and the Chancellor's addition of £18 million (subject to overseas costs not moving in FCO's favour). For 1985-87 FCO plan to deal with the balance between Line B and Line D (£6.1 million) in separate discussions with the Treasury on the funding of the BBC External Services.

Foreign PA 12

Strategy

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MAR 1985

B. P. 10
CO
①
PRIME MINISTER

FCO: Overseas Risen Costs

You suggested that the Treasury and FCO Permanent Secretaries get together to look at this problem and produce a paper on the issues for Ministerial decision.

The paper is attached. There is to be a meeting on Tuesday with the Chancellor, Foreign Secretary, Chief Secretary, Peter Middleton and Antony Acland.

Although every inch of the paper has been fought over, it does nothing to bring a solution any nearer.

The FCO say they must have the extra overseas costs due to currency movements and overseas inflation - amounting to £25.4 million in 1985/6 and £26 million in 1987/8 - restored to their budget. Otherwise they will have to make swingeing cuts in our representation overseas. We should no longer have a 'world-wide diplomatic capability'. We would lose credibility with the Americans.

The Treasury say that this is rubbish, that the Foreign Office must cope with unexpected factors like any other department and that the necessary savings to offset the overseas price effect can be found without resorting to the scale of cuts suggested by the FCO. Any adverse effect on the FCO programme from overseas price movement should be treated in the usual way as an additional bid.

In short, exactly the argument as you tried to adjudicate last summer and again in the PES round.

[To follow] I attach the Policy Unit's views.

My only comment is that there is little point in another candle-ends exercise or the sort of horse-trading which ends up with the FCO getting a proportion of its money. Either we

decide to go on being represented in the great majority of countries and go on providing the same services as now: in which case it must be done properly. It has to be assumed that this was the intention of Ministers when they originally agreed the sums for the FCO which were subsequently eroded by Overseas Risen Costs.

Or you take a considered decision to reduce the scale of our overseas representation and the services provided. In which case the word can go out to make very substantial economies. The result would be an overseas effort concentrated on fewer countries and fewer tasks, though there would be scope - and need - for reductions in our bigger missions as well.

The worst solution would be to go on as at present: trying to maintain the present level of overseas representation without enough money to do it properly as a result of uncertainty as to how much of your budget is going to be pre-empted by unpredictable currency movements.

Would you like me to show the paper to Sir Robin Ibbs to see if he has some comments?

Yes please

C.D.P.

29 March 1985

CCNO



Treasury Chambers, Parliament Street, SW1P 3AG

L V Appleyard Esq
 Private Secretary to
 Secretary of State
 Foreign and Commonwealth Office
 Downing Street
 London
 SW1

BT / Pl away FC
 ref
 AD

25 March 1985

Dear *hen*

ASSET RECYCLING AND END-YEAR FLEXIBILITY FOR THE DIPLOMATIC ESTATE

Thank you for your letter of 13 February which we have also discussed. The Chief Secretary has given this problem close personal attention and he has considered very carefully how far he can meet the Foreign Secretary's concerns without jeopardising the essential requirement of overall control over annual public expenditure.

Extensive discussions at official level led the Treasury to propose that all receipts from sales for which provision had been made in the main Estimates could be recycled within a financial year; that up to £5 million of such receipts could automatically be carried over to the following financial year; that a target for a reduction in the running costs of the diplomatic estate should be set, at £6-8 million a year after 10 years; and that the receipts of about £2 million a year which are currently incorporated in the PES figures should continue to be surrendered to the Treasury. The Chief Secretary believes that these proposals represent a considerable advance on those first put forward by Treasury officials and, in his view, would represent a prudent and reasonable basis to allow rationalisation to proceed. Nevertheless he has considered making some further adjustments in the hope that this will allow your Secretary of State to endorse the package as well.

In your letter of 13 February, you proposed an automatic carry-over facility of £12.5 million. The Chief Secretary is concerned about the precedent such a high limit would set. Even the £5 million the Chief Secretary is proposing would represent some 25 per cent of the present annual capital programme and a much greater proportion of receipts than allowed to any other department. Nevertheless, to secure agreement, the Chief Secretary would be prepared to allow automatic carryover for sums up to £5 million, and to give his personal assurance that sympathetic consideration would be given to any special situation which might involve the carry forward of sums higher than £5 million.

Your letter of 13 February also proposed a target reduction for annual running costs of £2-4 million compared with the Treasury's proposal of £6-8 million. The Chief Secretary takes it as the aim of the rationalisation exercise to secure maximum savings in running costs. He thinks it right too that targets should be challenging. In view of the uncertainties, the Chief Secretary would be prepared to adopt the middle point between his and the Foreign Secretary's proposals as the target - £5 million. If the Foreign Secretary feels strongly that a target range is needed the Chief Secretary would be prepared to accept £4 - 6 million in an endeavour to reach agreement.

Finally, the Chief Secretary would be prepared to halve the level of receipts due to the Treasury under the present PES provision from the present figure of about £2 million a year to the £1 million which you say in your letter of 13 February the Foreign Secretary agrees is reasonable. This can be dealt with technically as an agreed additional bid in the Survey.

The Chief Secretary feels he has gone very far to meet the Foreign Secretary's concern and he hopes the Foreign Secretary will recognise how far he has gone. He has asked me to stress that he has made these further proposals in an attempt to reach agreement and he does not think he can develop them further. He very much hopes that the Foreign Secretary will feel able to agree to them.

I am copying this letter to Charles Powell at No. 10.

Yours sincerely
Richard Broadbent

R J BROADBENT
Private Secretary

Foreign Policy : Strategy Pt 2

25 MAR 1965





Prime Minister ⁽²⁾
 MAR 12/3

FCS/85/58

MINISTERS IN CHARGE OF DEPARTMENTS

Contacts between Ministers and minority groups from other countries

1. Ministers may find it helpful to have advice on problems that can sometimes arise in responding to approaches from constituents or others who form part of "separatist" or "dissident" minority groups in other countries, often in the Commonwealth.
2. A number of such minority groups, particularly from the sub-continent, are active in lobbying MPs and members of the Government in support of their objectives. FCO Ministers do, of course, meet Ministers and a wide range of legitimate political figures from Commonwealth countries. But we do not receive representatives of "separatist" or "dissident" minority groups as such.
3. This is because of the need to take the utmost care to avoid any suggestion that the Government might be prepared to consider interfering in the internal affairs of other countries. I am sure you appreciate the importance of this.
4. Obviously one cannot apply quite such strict guidelines to contacts between Ministers and groups of their own constituents. There must be room for judgement in individual cases. But I hope that Ministers can try always to bear in mind, when

/meeting



meeting or receiving papers or petition from such groups, the importance of not giving any impression (which might spring from Ministerial status itself) that the Government are perhaps prepared to lend support to a minority group's case in a dispute with any other government.

5. I am copying this minute for information to the Prime Minister, the Lord President and to Sir Robert Armstrong and should be grateful if you could bring it to the attention of Ministerial colleagues in your department.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office
12 March 1985

112 MAR 1985

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10 DOWNING STREET

From the Private Secretary

4 March 1985

PERSONAL

Just to say that the Prime Minister read and found very useful your report of your recent visits to Egypt, Pakistan and Oman. She is grateful to you for having sent her a copy.

(CHARLES POWELL)

A handwritten signature in dark ink, appearing to be 'CP' or similar initials.

Field Marshal Sir Edwin Bramall, GCB, OBE, MC.

PRIME MINISTER

CDS' Visit to Egypt, Pakistan and Oman

I attach a very full report by CDS on his recent visit to Egypt, Pakistan and Oman. You will not wish to read it all but I commend:

- (i) Paragraphs 16-24 on Pakistan. The particular points which merit attention are CDS' judgement that "those who wish to go further in answering the Mujahedin's (in Afghanistan) insistent pleas for more sophisticated weapons would do well to think the problems and the strategy through very carefully, lest excessive enthusiasm make the problems worse not better for Pakistan"; his assessment of the continuing deterioration in Pakistan/India relations; the positive picture he draws of General Zia's role; and the firm indication that the Type 21 Frigate deal will go through.
- (ii) His disquisition in paragraph 34 on the risks of over-selling Tornado to the Omanis. It would use up most of their equipment budget, thus stripping the Army, which is considerably more important, of much needed modern equipment. It would also extend the need for the Omani Air Force to be run by British officers to cope with a weapon of this sophistication. You will also want to note the tribute to General Watts in paragraph 37.

C.D.P.

C. D. Powell

27 February, 1985

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>1504</i> (one piece/item number)	Date and sign
Extract/Item details: <i>Report on CDS' visit to Egypt, Pakistan and Oman, 12-24 February 1985 (CDS 1227/101)</i>	
CLOSED FOR YEARS UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	<i>6 May 2014 C. Wayland</i>
MISSING AT TRANSFER	
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NUMBER NOT USED	



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10 DOWNING STREET

From the Private Secretary

13 February 1985

THE FOREIGN OFFICE PROGRAMME: DIPLOMATIC WING

During the bilateral with the Chancellor yesterday, the Prime Minister raised the impact the exchange rate was having on the Diplomatic Wing of the foreign Office programme. She would be grateful if the Chancellor and Foreign Secretary could consider the implications of this for the UK's representation overseas.

She has suggested that the two Permanent Secretaries might prepare a report setting out current understandings and points of difference between the Foreign Office and the Treasury about the way movements in the exchange rate should be taken into account; and setting out the consequences in terms of closure of posts and offices of the existing provision. When such a paper has been prepared she would be ready to hold a meeting to discuss it. Could it be available by the end of the month?

BF

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office).

AT

Mrs. Rachel Lomax,
HM Treasury



Foreign and Commonwealth Office

London SW1A 2AH

13 February 1985

*Pl. await
Chief Secy's
reply
on*

Dear Richard,

Asset Recycling and End-Year Flexibility for the
Diplomatic Estate

The Foreign Secretary recently called for a report and papers on the progress of discussions on this subject. This led to his seeing Brian Unwin's letter of 24 January to John Whitehead, our Chief of Administration. He was very disappointed to note that after a year of negotiations there is still a wide gap to be bridged and that we are a long way from overcoming the rigidity of annual accounting. This is likely to be criticised by the Public Accounts Committee, who endorsed the idea of enabling receipts to be used to finance estate rationalisation and who are to take evidence from the Treasury and FCO on 6 March, on the basis of a further report from the Comptroller and Auditor-General.

*will request
if required*

Sir Geoffrey Howe is clear that the Prime Minister, the Chief Secretary and he are agreed that, in the interests of value for money, arrangements need to be made to remove as many as possible of the difficulties surrounding the already formidable task of managing an Estate spread over nearly two hundred cities in one hundred and thirty countries. In particular the rent bill for the two-thirds of our properties which we do not own is now £30 million and is rising by 10% per year. In accordance with the Financial Management Initiative the obvious way to improve things is to enable the FCO's Overseas Estate Department to work in accordance with the best practice in Estate Management in the private sector. As Mr Idris Pearce, a leading practitioner in the field, told us when we sought his advice, this means not being constrained by the bonds of annuality whereby one must predict well ahead in which year sales will occur, and to what value, if the proceeds are not to be surrendered to the Treasury.

Sir Geoffrey Howe's own interpretation of the best way to obtain what he and his Ministerial colleagues are looking for is by a free standing revolving fund somewhat analagous to the Crown Estates. The freedom to operate on commercial

/lines



lines would release considerable assets for recycling and would enable the minimum costs (notably rent) of the Estate to be reduced.

The Foreign Secretary recognises, however, the problems of precedent and of Government Accounting which the ideal solution might pose. He is therefore reluctantly prepared to envisage a scheme with some annual limitations on the pattern of that under discussion between officials, provided that they are not too restrictive and do not frustrate the object of the exercise. The key differences between the two sides can be summarised as follows:

	<u>£ million</u>	
	<u>Treasury</u>	<u>FCO</u>
Receipts to be surrendered to Treasury every year	2.0 (approx)	1.0
End-Year flexibility (carry forward of underspends)	5.0	12.5
Target for reduction in annual running costs (now about £48m excluding furniture) after 10 years	6-8	2-4

It is hard to see why the Treasury should take any cut of sales deliberately made for rationalisation purposes. This only discourages improvements to the Estate by preventing the replacement of the property sold or reducing the working capital with which properties are bought to enable others to be sold. There will, however, still be receipts from windfalls and other sales unconnected with rationalisation which we will predict to £1 million and which we are prepared to offer. We cannot be sure of a higher figure than this in advance.

The essential requirement of any scheme is the ability to carry forward receipts into future years. Any ceiling imposed must be adequate to handle the largest sales even if they are infrequent and hence the ceiling is not reached in most years. It would be senseless to destroy the working capital of the system because a major property was sold in March rather than April or because the obstruction of a foreign government meant two big sales in a single year. It is vital to have the flexibility to buy and sell at the best moment in terms of market conditions. A limit of £5 million would be far too low for an Estate whose book value is at least £350 million. The comparison should not be with our capital subhead for the Estate of £20 million since most of that must



be spent on inescapable non-rationalisation commitments forced on us, e.g. by the move of the Saudi capital to Riyadh. Simulations have been carried out which show that at the forecast level of turnover a ceiling of £12.5 million is likely to be required no more than three times over 10 years of operation, but it is very important to have that degree of flexibility and carry over.

The level of carry forward is a major determinant of the amount which can be spent on new property. That amount will in turn determine the level of any running cost savings. We cannot accept a target as high as the Treasury figures: the latter assumes there will be savings due to non-rationalisation factors e.g. reductions in manpower, but that is to inject a totally different element and we should confine ourselves to those savings which will be directly created by the new asset recycling scheme. The FCO is prepared to set a target of a 5-10% saving (in rents, maintenance etc) on the purchases and construction resulting from the amount of property which we could recycle over 10 years with £12.5 million end-year flexibility; at present we reckon this saving would be £2-4 million. In the interests of reaching agreement Sir Geoffrey Howe is prepared to maintain this target with a carry forward of only £10 million. This must however be subject to a genuine process of annual review agreed by officials.

Sir Geoffrey Howe hopes that the Chief Secretary can agree that officials should be instructed to reach an arrangement on the lines he has suggested as quickly as possible.

I am sending a copy of this letter to Charles Powell at No 10.

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

R J Broadbent Esq
PS/Chief Secretary
HM Treasury

FEB 13 1985





cc - Mr Cartledge
 Miss Lambert
Mr Powell (No. 10)
 Sir R Nicholson

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A085/476

12 February 1985

Briefing for the Prime Minister

At our meeting on Friday 25 January with Robin Butler and Charles Powell, we discussed ways of improving the briefing for the Prime Minister at bilateral and multilateral summit meetings. We agreed that, while it was impossible to invent the perfect briefing system, the present system should be modified to take account of the fact that the Prime Minister and other senior Ministers have been so long in office and know the issues so well. Taking into account the points made at our meeting, and in particular the proposals put to us by Charles Powell, I suggest that we might in future aim to arrange the briefing along the following lines.

As regards the general drafting of briefs, we noted that the Prime Minister wanted briefing which concentrated on specific, concrete objectives, and which was set out in annotated rather than narrative form. In particular, after six years in office, she is familiar with much of the background and does not need verbatim speaking notes. Instead of "points to make" or "speaking notes", briefs should list the arguments to be deployed in support of our objectives, including tactical arguments which could be used if necessary to put the other side on the defensive.

On the format of the briefing, we need to distinguish between three types of international meeting:

/i. the short

Sir Antony Acland KCMG KCVO

i. the short (ie less than half a day) talk with another Head of Government or other overseas visitor, usually tete-a-tete or with Foreign Ministers and a few officials only present;

ii. the full-scale Prime Ministerial visit (inward or outward) with or without the participation of other Ministers; together with major bilateral summits (on the Anglo-French or Anglo-German pattern) at which the Prime Minister leads a team of Ministerial colleagues; and

iii. multilateral meetings of Heads of Government.

Short Bilateral Meetings

The proposals put forward by Charles Powell (annexed to this letter) are essentially designed for this sort of bilateral meeting, for which the briefing is at present normally supplied by the Foreign and Commonwealth Office in the form of a single or a very restricted number of briefs cleared as necessary with other Departments. You agreed that, for future such meetings, the briefing should follow the new format. I hope that it will normally be possible for there to be a single brief covering all the subjects likely to be raised, with any necessary detailed background in annexes.

Full-scale Prime Ministerial Visits and Major Bilateral Summits

It is more difficult to apply this format to briefing for Prime Ministerial visits and major bilateral summits, given that the briefing may have to serve Ministers other than the Prime Minister (and senior officials), and will normally need to cover a larger number of subjects. We agreed that it would not be sensible to prepare different sets of briefs on the same subjects for different Ministers attending summits. Bearing this in mind, I suggest that the present system could be modified as follows:

a. The scene-setting letter which you send me about a month before the summit, copied to Permanent Secretaries in other Whitehall Departments, should continue. It should, however, concentrate on setting out more clearly United Kingdom objectives and the objectives and subjects likely to be raised by the other side - information on the latter to be based on whatever our post is able to glean from the other Government. There should also be a clear distinction between major and minor objectives - one of the criticisms of the old "objectives" letter which preceded the "scene-setting" letter was that no distinction was made between major objectives such as reforming the Community budget and minor bilateral problems.

b. A proposed list of briefs should be, as at present, circulated with the scene-setting letter. This list should relate clearly to the objectives set out in the letter and should include only subjects likely to be raised substantively at Head of Government level. The list should be cleared in advance with the OD and European Secretariats of the Cabinet Office. My office will then, again as at present, issue a commissioning letter with the list of

/briefs,

briefs, revised if necessary to take into account any comments received from Departments in reply to the scene-setting letter.

c. The steering brief - as I think we might go back to calling the "general brief" - will be the vital brief, and should be drafted in such a way that the Prime Minister need not read any of the other briefs, although they will be available for consultation if required. For summits with Community countries there will also be a separate steering brief covering Community matters. For the main subjects likely to come up at Head of Government level, the steering brief should be cast in the format set out in the annex to this letter, excluding the press line. All the more minor subjects which are unlikely to be more than briefly touched upon at Head of Government level - eg at the reports on the bilateral in the plenary - should be covered, as at present, in a separate section at the end headed "Other Subjects Which May Be Raised". In this section, each subject should be covered in a single paragraph setting out pithily which side may raise it and what each side's objectives are. As the steering brief is the most important brief, it should in the case of the major Western European summits be cleared (as at present) through Bryan Cartledge's MISC 76 Committee and it may occasionally be worthwhile to set up similar ad hoc arrangements for other important summits (eg Anglo-American).

d. Subject briefs should as at present be restricted to subjects likely to come up substantively at Head of Government level. Departments should, again as at present, provide their own Ministers with separate briefing on subjects only likely to come up substantively at their own tete-a-tetes with their opposite numbers. The individual subject briefs for the Prime Minister should normally need to do no more than set out the background on the subject in question, the objectives and arguments will have been included in the steering brief.

Multilateral Summits

For European Councils, Economic Summits and Commonwealth Heads of Government Meetings, the briefing should as far as possible follow a similar pattern to that for full-scale bilateral summits. The steering brief should follow the format set out in the annex for the main subjects on the agenda, and then have a separate section with brief paragraphs on the more minor subjects which may come up. The steering brief will also need a further section listing any bilaterals in the margins of the main meeting and describing briefly the objectives for each. As in the case of bilateral summit steering briefs, the steering brief for multilateral summits will normally need to be looked at by a Cabinet Office Committee - EQS in the case of the European Council Steering brief.

For the longer and more complicated multilateral summit meeting - especially the Commonwealth Heads of Government Meeting - there will probably need to be rather more subject briefs. For instance, most if not all the subjects mentioned in the steering brief under "Other Subjects Which May Be Raised"

/will probably

RESTRICTED

will probably need their own subject brief, as if they do come up they may do so in some detail, and it will be less easy than at bilateral summits for the Prime Minister to remit discussion to other Ministers if she feels that the subject is inappropriate for discussion at her level. For the main subject on the agenda, on which objectives and arguments will have been included in the steering brief, the subject brief should need to be no more than a background brief. For other subjects, the individual briefs may need to contain objectives and arguments. There will also need to be separate briefs for the individual bilaterals. These should follow the format at Annex. Finally, I propose that we should take stock of these arrangements in about July to see whether they are in fact meeting the Prime Minister's needs. By then we shall have had the experience of two European Councils, the Economic Summit and various bilateral meetings to go on.

I am sending copies of this letter to Permanent Secretaries in charge of Departments.

ROBERT ARMSTRONG

BRIEFS FOR THE PRIME MINISTER'S MEETINGS
WITH FOREIGN HEADS OF GOVERNMENTS AND MINISTERS

Briefs should be set out under six headings as follows:

(i) Our objectives

This should set out pithily what we want to achieve from the meeting. The objectives should be expressed as specifically as possible (ie not just goodwill and harmony). If none can be identified, it will have been a waste of time to ask the Prime Minister to have the meeting.

(ii) Arguments to use

This should list arguments which can be used to get our way. They should be related specifically to the goals and not be "the world would be a better place if ..." sort of argument.

(iii) Tactical arguments

These will be arguments designed to highlight the weak points in the other side's policies (not necessarily those related to the specific questions being discussed). Inclusion in the brief does not mean that the arguments will necessarily be used: only that the Prime Minister will have the option of using them if the discussion takes a particular turn.

(iv) Their objectives

This will set out our estimate of what the other side expects to get out of the meeting and the specific points which they are likely to raise. It will be based on contacts which our Embassy will have had beforehand with the other Government.

How the Prime Minister should reply to points which they will raise.

(vi) Press Line

What we hope to be able to say to the press afterwards. Obviously this may need to be modified, depending on how the meeting goes.

Background should be attached to the main brief. It should be a staccato summary of relevant facts and dates and not a narrative. It should mention the last occasion when the Prime Minister met the visitor in question.

A mock-up brief is attached.

PRIME MINISTER'S MEETING WITH THE PRESIDENT OF TRANSYLVANIA

Our Objectives

To persuade the President:

- (a) to order BAe Trainer Aircraft for the Transylvanian Air Force
- (b) to maintain Transylvania's abstention on the Falklands at the UN
- (c) to explain why we cannot change our policy on student grants.

Arguments

- (a) the BAe Trainer has been bought by X countries including neighbouring Lusitania and Carpentia: is 15% cheaper than the French competitor: might enable us to take back aging Hunters as part of the deal.
- (b) the arguments will be well-known to the Prime Minister.
- (c) pressure on public expenditure: anyway 50 scholarships reserved for Transylvanians: ready to discuss use of higher proportion of our aid programme for student grants.

Tactical Arguments

Attention can be drawn to Transylvania's human rights record and the forthcoming vote at the X Committee of the UN, on which our position has not been decided.

- 2 -

s Objectives

- (a) our support for preferential access for Transylvanian cowpeas to the EEC.
- (b) extradition to Transylvania of the leader of the outlawed Transylvanian Liberation Front (TLF).
- (c) to persuade the Prime Minister to visit Transylvania.

Your Response

- (a) they have our full support but unfortunately the French and Italians are blocking. They should make representataions in Paris and Rome.
- (b) he has been granted asylum in Britain and under our legal procedures cannot be extradited.
- (c) accept in principle but not yet possible to fix a date.

Press Line

[See FCO model]

Background

Prime Minister last met the President at the UN in October 1982.

2. BAe offering aircraft at £1m each with credit at 9% over 15 years.

3. The French and Italians argue that cowpeas compete with their horsebeans, are unlikely to budge and cannot be outvoted.

4. PM's travel programme full until late 1986.



Sir Antony Acland KCMG KCVO
Permanent Under-Secretary of State

Foreign and Commonwealth Office

London SW1A 2AH

11 February 1985

R P Hatfield Esq
CABINET OFFICE

Dear Richard,

BRIEFING FOR THE PRIME MINISTER

1. Many thanks for your letter of 6 February enclosing a draft of one which Sir Robert Armstrong might send to Sir Antony Acland setting out revised arrangements for briefing for the Prime Minister. The arrangements follow the agreement reached between Sir Antony Acland, Charles Powell and the Cabinet Office. We accept them and are already putting them into effect, as for example for last week's visit of the Nicaraguan Vice President, Ramirez, and in preparing the briefing for the Prime Minister's forthcoming meetings with Sig Craxi this week and with President Reagan and others in Washington next week.

2. The new arrangements seem to us particularly well suited to short bilateral meetings of the Ramirez type. And in the case of major bilaterals and the European Council we had already tried to put all the main arguments in the steering brief (we welcome the return to the traditional title) confining the separate subject briefs to background only.

3. We have one or two comments on the new arrangements:

- (i) different meetings require different sorts of briefs. Our experience of CHOGMs, for example, has been that the Prime Minister has needed quite detailed background briefing on a range of subjects and countries with which she is less familiar than, say, European Community matters. There will also be occasions when a visitor to Downing Street may raise an abstruse subject of importance to him if not to us. We suggest that background briefing for occasions such as these is sent to Charles Powell in a detachable form, so that he can decide whether or not to show it to the Prime Minister.

call

ERS

FGRB

CDD

12/L



(ii) the promotion of goodwill and harmony will be an important objective sometimes, not because this is an end in itself, but because (as the Falklands conflict showed) it is sometimes vital to have a reservoir of goodwill on which to draw in difficult times. But we shall make sure that briefing for such meetings stresses specific rather than general objectives.

4. We do not think that these comments in any way invalidate the approach in the draft letter, and we suggest that Sir Robert Armstrong should now write formally to Sir Antony Acland promulgating the new arrangements. Perhaps he could, however, propose that we take stock and see if they are in fact meeting the Prime Minister's needs after we have had some experience of them. July might be a good time to do this, since we shall by then have had experience of two European Councils, the Economic Summit, and various bilateral meetings.

5. I am copying this letter to Charles Powell.

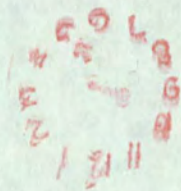
Yours ever,

Michael Jay

M H Jay
Private Secretary

Strategy

: FOR POL Pt 2.



12 FEB 1985



10 DOWNING STREET

From the Private Secretary

MR. HATFIELD

CABINET OFFICE

BRIEFING FOR THE PRIME MINISTER

You wrote to Michael Jay on 6 February inviting comments on the draft of a letter which Sir Robert Armstrong might send to Sir Antony Acland setting out revised arrangements for briefing the Prime Minister.

We are content with this subject to two minor amendments:

- (i) In sub-paragraph (i) at the head of page 2, add "or other overseas visitor" after "Head of Government";
- (ii) At the end of the third sentence of sub-paragraph (c) on page 3, add "excluding the press line".

I am copying this minute to Michael Jay (Foreign and Commonwealth Office).

Charles Powell

R07

7 February 1985

010

Charles
Content subject to
his marginal points I have noted.
I think this is
useful.

FERB.
6.2.



FERB
What started out as a
relatively simple exercise risks
getting lost in a
wealth of instructions. Do
you have any
comments you want to
make?

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A085/398

6 February 1985

Dear Michael

I don't intend to
show it to the PM now,
but do so container
research in a couple of
weeks time.

Briefing for the Prime Minister

CDD .6/K

Following a meeting in Sir Robert Armstrong's Office on 25 January, we have prepared a draft of a letter which Sir Robert Armstrong might send to Sir Antony Acland setting out revised arrangements for briefing for the Prime Minister. I attach this draft and would be grateful to know whether you or Charles Powell (to whom I am sending a copy of this letter) have any comments before Sir Robert Armstrong writes formally.

Yours

(R P Hatfield)
Private Secretary

M H Jay Esq

Ref. A085/

Briefing for the Prime Minister

At our meeting on Friday 25 January with Robin Butler and Charles Powell, we discussed ways of improving the briefing for the Prime Minister at bilateral and multilateral summit meetings. We agreed that, while it was impossible to invent the perfect briefing system, the present system should be modified to take account of the fact that the Prime Minister and other senior Ministers have been so long in office and know the issues so well. Taking into account the points made at our meeting, and in particular the proposals put to us by Charles Powell, I suggest that we might in future aim to arrange the briefing along the following lines.

As regards the general drafting of briefs, we noted that the Prime Minister wanted briefing which concentrated on specific, concrete objectives, and which was set out in annotated rather than narrative form. In particular, after six years in office, she is familiar with much of the background and does not need verbatim speaking notes. Instead of "points to make" or "speaking notes", briefs should list the arguments to be deployed in support of our objectives, including tactical arguments which could be used if necessary to put the other side on the defensive.

On the format of the briefing, we need to distinguish between three types of international meeting:

/i. the short

Sir Antony Acland KCMG KCVO

or other
research
visitor

i. the short (ie less than half a day) talk with another Head of Government, usually tete-a-tete or with Foreign Ministers and a few officials only present;

ii. the full-scale Prime Ministerial visit (inward or outward) with or without the participation of other Ministers; together with major bilateral summits (on the Anglo-French or Anglo-German pattern) at which the Prime Minister leads a team of Ministerial colleagues; and

iii. multilateral meetings of Heads of Government.

Short Bilateral Meetings

The proposals put forward by Charles Powell (annexed to this letter) are essentially designed for this sort of bilateral meeting, for which the briefing is at present normally supplied by the Foreign and Commonwealth Office in the form of a single or a very restricted number of briefs cleared as necessary with other Departments. You agreed that, for future such meetings, the briefing should follow the new format. I hope that it will normally be possible for there to be a single brief covering all the subjects likely to be raised, with any necessary detailed background in annexes.

Full-scale Prime Ministerial Visits and Major Bilateral Summits

It is more difficult to apply this format to briefing for Prime Ministerial visits and major bilateral summits, given that the briefing may have to serve Ministers other than the Prime Minister (and senior officials), and will normally need to cover a larger number of subjects. We agreed that it would not be sensible to prepare different sets of briefs on the same subjects for different Ministers attending summits. Bearing this in mind, I suggest that the present system could be modified as follows:

a. the scene-setting letter which you send me about a month before the summit, copied to Permanent Secretaries in other Whitehall Departments, should continue. It should, however, concentrate on setting out more clearly United Kingdom objectives and the objectives and subjects likely to be raised by the other side - information on the latter to be based on whatever our post is able to glean from the other Government. There should also be a clear distinction between major and minor objectives - one of the criticisms of the old "objectives" letter which preceded the "scene-setting" letter was that no distinction was made between major objectives such as reforming the Community budget and minor bilateral problems.

b. a proposed list of briefs should be, as at present, circulated with the scene-setting letter. This list should relate clearly to the objectives set out in the letter and should include only subjects likely to be raised substantively at Head of Government level. The list should be cleared in advance with the OD and European Secretariats of the Cabinet Office. My office will then, again as at present, issue a commissioning letter with the list of briefs, revised if necessary to take into account any

/comments

comments received from Departments in reply to the scene-setting letter.

c. the steering brief - as I think we might go back to calling the "general brief" - will be the vital brief, and should be drafted in such a way that the Prime Minister need not read any of the other briefs, although they will be available for consultation if required. For summits with Community countries there will also be a separate steering brief covering Community matters. For the main subjects likely to come up at Head of Government level, the steering brief should be cast in the format set out in the annex to ~~this letter~~. All the more minor subjects which are unlikely to be more than briefly touched upon at Head of Government level - eg at the reports on the bilateral in the plenary - should be covered, as at present, in a separate section at the end headed "Other Subjects Which May Be Raised". In this section, each subject should be covered in a single paragraph setting out pithily which side may raise it and what each side's objectives are. As the steering brief is the most important brief, it should in the case of the major Western European summits be cleared (as at present) through Bryan Cartledge's MISC 76 Committee and it may occasionally be worthwhile to set up similar ad hoc arrangements for other important summits (eg Anglo-American).

excluding
HC press
line?

d. subject briefs should as at present be restricted to subjects likely to come up substantively at Head of Government level. Departments should, again as at present, provide their own Ministers with separate briefing on subjects only likely to come up substantively at their own tete-a-tetes with their opposite numbers. The individual subject briefs for the Prime Minister should normally need to do no more than set out the background on the subject in question, the objectives and arguments will have been included in the steering brief.

Multilateral Summits

For European Councils, Economic Summits and Commonwealth Heads of Government Meetings, the briefing should as far as possible follow a similar pattern to that the full-scale bilateral summits. The steering brief should follow the format set out in the annex for the main subjects on the agenda, and then have a separate section with brief paragraphs on the more minor subjects which may come up. The steering brief will also need a further section listing any bilaterals in the margins of the main meeting and describing briefly the objectives for each. As in the case of bilateral summit steering briefs, the steering brief for multilateral summits will normally need to be looked at by a Cabinet Office Committee - EQS in the case of the European Council Steering brief.

For the longer and more complicated multilateral summit meeting - especially the Commonwealth Heads of Government Meeting - there will probably need to be rather more subject briefs. For instance, most if not all the subjects mentioned in the steering brief under "Other Subjects Which May Be Raised" will probably need their own subject brief, as if they do come

/up they

up they may do so in some detail, and it will be less easy than at bilateral summits for the Prime Minister to remit discussion to other Ministers if she feels that the subject is inappropriate for discussion at her level. For the main subject on the agenda, on which objectives and arguments will have been included in the steering brief, the subject brief should need to be no more than a background brief. For other subjects, the individual briefs may need to contain objectives and arguments. There will also need to be separate briefs for the individual bilaterals. These should follow the format at Annex.

I am sending copies of this letter to Permanent Secretaries in charge of Departments.

BRIEFS FOR THE PRIME MINISTER'S MEETINGS
WITH FOREIGN HEADS OF GOVERNMENTS AND MINISTERS

Briefs should be set out under six headings as follows:

(i) Our objectives

This should set out pithily what we want to achieve from the meeting. The objectives should be expressed as specifically as possible (ie not just goodwill and harmony). If none can be identified, it will have been a waste of time to ask the Prime Minister to have the meeting.

(ii) Arguments to use

This should list arguments which can be used to get our way. They should be related specifically to the goals and not be "the world would be a better place if ..." sort of argument.

(iii) Tactical arguments

These will be arguments designed to highlight the weak points in the other side's policies (not necessarily those related to the specific questions being discussed). Inclusion in the brief does not mean that the arguments will necessarily be used: only that the Prime Minister will have the option of using them if the discussion takes a particular turn.

(iv) Their objectives

This will set out our estimate of what the other side expects to get out of the meeting and the specific points which they are likely to raise. It will be based on contacts which our Embassy will have had beforehand with the other Government.

How the Prime Minister should reply to points which they will raise.

(vi) Press Line

What we hope to be able to say to the press afterwards. Obviously this may need to be modified, depending on how the meeting goes.

Background should be attached to the main brief. It should be a staccato summary of relevant facts and dates and not a narrative. It should mention the last occasion when the Prime Minister met the visitor in question.

A mock-up brief is attached.

PRIME MINISTER'S MEETING WITH THE PRESIDENT OF TRANSYLVANIA

Our Objectives

To persuade the President:

- (a) to order BAe Trainer Aircraft for the Transylvanian Air Force
- (b) to maintain Transylvania's abstention on the Falklands at the UN
- (c) to explain why we cannot change our policy on student grants.

Arguments

- (a) the BAe Trainer has been bought by X countries including neighbouring Lusitania and Carpenchia: is 15% cheaper than the French competitor: might enable us to take back aging Hunters as part of the deal.
- (b) the arguments will be well-known to the Prime Minister.
- (c) pressure on public expenditure: anyway 50 scholarships reserved for Transylvanians: ready to discuss use of higher proportion of our aid programme for student grants.

Tactical Arguments

Attention can be drawn to Transylvania's human rights record and the forthcoming vote at the X Committee of the UN, on which our position has not been decided.

His Objectives

- (a) our support for preferential access for Transylvanian cowpeas to the EEC.
- (b) extradition to Transylvania of the leader of the outlawed Transylvanian Liberation Front (TLF).
- (c) to persuade the Prime Minister to visit Transylvania.

Your Response

- (a) they have our full support but unfortunately the French and Italians are blocking. They should make representations in Paris and Rome.
- (b) he has been granted asylum in Britain and under our legal procedures cannot be extradited.
- (c) accept in principle but not yet possible to fix a date.

Press Line

[See FCO model]

Background

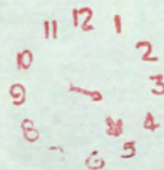
Prime Minister last met the President at the UN in October 1982.

2. BAe offering aircraft at £1m each with credit at 9% over 15 years.

3. The French and Italians argue that cowpeas compete with their horsebeans, are unlikely to budge and cannot be outvoted.

4. PM's travel programme full until late 1986.

- 6 FEB 1985



SECRET AND PERSONAL



file No 5
no 2nd carbon

10 DOWNING STREET

From the Private Secretary

29 January 1985

I enclose a copy of a note recording a discussion which Percy Cradock and I had with the Prime Minister on 28 January. It is for the eyes of the Foreign Secretary and Sir Antony Acland only.

CHARLES POWELL

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

SECRET AND PERSONAL

cc- PS/Sir A Acland
Mr Cartledge
Mr Butler / Powell *em.*
Miss Lambert

Ref. A085/273

NOTE FOR RECORD

cc Those present

Briefing for the Prime Minister's Foreign Affairs Meetings

Note of a Meeting held in Sir Robert Armstrong's Office on
FRIDAY 25 JANUARY 1985
at 3.30 pm

PRESENT

Sir Robert Armstrong
Sir Antony Acland
Mr F E R Butler
Mr B G Cartledge
Mr C D Powell
Miss S J Lambert
Mr R P Hatfield

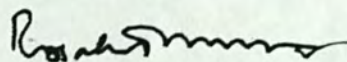
The Meeting had before it Mr Powell's minute of 25 January to Mr Hatfield which set out a possible format for the Prime Ministers steering brief for meetings with Heads of State. The format was designed particularly with short bilateral meetings in mind but was also intended as a guide for briefing for longer Summit meetings, and meetings of the European Council. It was based on the requirements which the Prime Minister herself had specified. The Prime Minister wanted briefing which concentrated on specific concrete objectives and which was set out in annotated rather than narrative form. She preferred each sentence to contain a specific point. After more than 6 years

in office she was familiar with much of the background covered by the subject briefs and was therefore less inclined to read it. Generally she found the subject briefs to be too long and too wordy.

2. Sir Robert Armstrong said that he thought it would always be desirable to prepare full and detailed background briefing for foreign affairs meetings for the use of other Ministers and officials if not the Prime Minister. It was never possible to predict with certainty the subjects the other side would raise and it was valuable for the team to be supplied with background information and speaking notes on a wide range of subjects to be used on a contingent basis. It would not be sensible to try and prepare different sets of briefs for different Ministers attending Summits.

3. During discussion, it was agreed that in the early planning stages before briefing was written, officials should first of all establish the main objectives of the meeting before drawing up the list of briefs after which the Head of Department should produce the steering brief along the lines of Mr Powell's format.

4. Summing up the discussion Sir Rober Armstrong said that the Cabinet Office would prepare a letter for him to send to Sir Antony Acland setting out proposals for tailoring briefing to best meet the Prime Minister's wishes. This would be based on the points raised at the meeting and would be cleared in draft with Sir Antony.



ROSALIND MULLIGAN

28 January 1985

MR POWELL25 January 1985MEETING WITH PRIME MINISTER, 28 JANUARY mf

1. The Prime Minister may find it helpful to have a note as background to our talk.

EAST/WEST RELATIONS: GENEVA TALKS

2. The Russians have so far single-mindedly pursued the objective of frustrating the SDI and look likely to continue in this way. They cannot realistically hope to prevent US research; but they may well aim for an early agreement banning the deployment of any elements of SDI, calculating that with the road blocked by such an agreement research would wither away. For the same reasons, the Americans could not commit themselves in advance to such a self-denying ordinance; the most they could tolerate would probably be a ban on full scale engineering development, field testing and deployment during the lifetime of a strategic arms agreement, the ban to operate from the singature of such an agreement. The main battle is therefore likely to be fought around the issue of US freedom to explore the possibilities of SDI without prior commitments. The negotiating machinery agreed at Geneva offers the Russians considerable opportunities to make progress on long and intermediate range missiles hostage to satisfactory progress over space and to appeal to West European opinion in this sense. I assume, perhaps charitably, that they may wish to accomplish more than this and in certain circumstances would be ready to reduce offensive missiles; but, even so, they will certainly exploit to the full their propaganda openings in search of an agreement well-weighted in their favour.

3. We are therefore likely to face a testing time in the West, given the President's commitment to SDI, our own reservations and general West European antipathy. The media reaction to Geneva revealed the vulnerable state of Western opinion - its unwillingness to face the reality of continuing East/West struggle and its appetite for dramatic and simplified solutions. We must expect a series of seductive Soviet proposals on offensive missiles contingent on satisfactory resolution of the space issue. We must also expect Soviet pressure to suspend deployment of intermediate range missiles in Western Europe while negotiations proceed. This skirmishing could go for a long period. Meanwhile US and Soviet research on space will presumably go ahead. During this time we shall need to stay in very close touch with the Americans to see the way their minds are moving, to feed in our ideas on strategic and medium range weapons and, more difficult, to bridge the potential US/ European gap over space. Equally we shall have to keep close to our European allies to prevent the development of too extreme or unrealistic European positions.

4. I assume the above will be the principal objective of the Prime Minister's Washington visit. We have passed the point of simply expressing our reservations about SDI. We must now take SDI research as a fact and concentrate on how to put forward a practical scheme for negotiations of which it could be part. (The Cabinet Office will be submitting separately detailed suggestions including a possible mix of warheads and launchers for a framework START agreement, a time limited ban on further testing and deployment of ASATS, a re-commitment to the ABM Treaty, and a US/Soviet understanding of what might be done in the way of strategic defence during the lifetime of a START agreement). But above all we need to obtain the US assessment of how the Russians are likely to play the game and how the Americans propose to respond.

EAST/WEST RELATIONS: OTHER ARMS CONTROL ISSUES

5. The Prime Minister may also wish to address two other arms control issues when in Washington:

- a. Chemical weapons and
- b. Nuclear proliferation

a. On the first, we shall need to argue that Article X of the US draft (no refusal provision), is unrealistic and its end effect is likely to limit rather than enhance the deterrent effect of challenge inspection. It would be more sensible to follow the lines of the UK proposal for a graduated response. This would imply a Soviet right of refusal but it would be at considerable cost: a cumulative build-up of domestic and international support for counter measures, eg chemical warfare re-armament.

b. The Non-Proliferation Treaty renewal conference this year in September has to be a success. We have already put forward a proposal for a technical cooperation fund to benefit NPT parties from the developing world. We should also consider certain minor nuclear testing measures in order to show our regard for Article VI of the treaty, requiring parties to pursue in good faith negotiations on nuclear disarmament.

EAST/WEST RELATIONS: VISITS

6. On the UK/Soviet side we are well placed at present following the Gorbachev visit and with Gromyko expected this summer. We must assume that the Russians will continue with their attempts at wedge-driving, but these contacts are useful both for serious communication and for presentational purposes. We should plan other inward visits and consider a visit by the Prime Minister to Moscow before too long. As

SECRET

regards Eastern Europe, again we have been active and a visit by Kadar would be another coup.

MIDDLE EAST

7. Despite the President's promises it is doubtful whether the Americans seriously intend to tackle the central Arab/Israel issue. The Israeli withdrawal from the Lebanon provides them with an excuse and in face of the resulting instability we shall want to show willingness to assist with UNIFIL. But this is essentially a side show, and we shall need to remind the President that on the main question time is not on our side. King Hussein's efforts need support.

THE GULF

8. The Iran/Iraq war smoulders on but at present at a tolerable level. The Iranians are planning medium offensives but now seem to recoil from all-out effort. The Iraqis, armed with new Mirages, have stepped up their attacks on shipping recently, but without notable success. Improved US/Soviet levels of communication following Geneva should help to avoid misunderstandings in this area.

CENTRAL AMERICA

9. There is little to add here. Most soundings in Washington indicate that, short of a Soviet provocative move, such as supplying Migs, there is no present US disposition to attack Nicaragua. But containment and harrassment cannot of themselves meet longer-term US objectives and will only consolidate the position of the Sandinistas. The basic issue remains the existence of a closed regime linked with Cuba and the Soviet Union on the Central American mainland. A regime likely to grow stronger and increasingly to influence its neighbours. What should the US Administration do? In the meantime in El Salvador

SECRET

Duarte looks rather less firm than we hoped: the right wing have recovered their self-confidence and are planning impeachment attempts and coups.

INDIA

10. Rajiv's succession may offer opportunities to the West to recover some of the ground lost to the Soviet Union and to push India more in our direction. The Prime Minister may wish to mention this to President Reagan. A more forthcoming US attitude on technology transfer would help. We should also consider again whether there is anything we, and particularly the Americans, can do to check the very dangerous India/Pakistan nuclear spiral. I myself would also see merit in the Prime Minister calling in on Rajiv on her way back from South East Asia in April.

CHINA

11. We are in high favour and should exploit the situation commercially. Lord Young's ten industrialists are about as many as the Chinese can take at one time. We need to do as much preparatory work as we can before they go, ensuring that the Chinese are well aware of their ambitions and that we shall not be fobbed off with generalities. I have suggested that the Prime Minister's meeting should be first with our own side, then a joint session with the Chinese Embassy.


SOUTHERN AFRICA

12. I have the impression of a promising situation threatening to stagnate or slip back. We need to do all we can to maintain the momentum. In particular the security situation in Mozambique looks worse than ever, which imposes great strains on Machel.

GENERAL

13. Last year was a good one for our foreign policy: Fontainebleau; Hong Kong; Gibraltar; Gorbachev. The Prime Minister's pre-Christmas programme summed it up. We cannot expect a similar score this year. But we should be able to keep the US/UK relationship in good shape and navigate some of the shoals of SDI; maintain good East/West communications without giving away anything of substance; and, perhaps assisted by Community enlargement, keep close to France and Germany and reduce the risk of an exclusive relationship between them. On Argentina, we should continue to put forward practical but carefully circumscribed proposals for more normal relations, recognising we are unlikely to get very far. Cyprus has slipped badly, but is probably not irretrievable and this is an area where we have direct influence.

On the negative side, this year nuclear proliferation will be much on our minds. We shall have to continue to devote intense attention to terrorism, particularly the Irish variety, also possible US reactions to Shia terrorism. We remain very vulnerable to the interplay between our ethnic communities and our foreign policy, particularly in the case of India. Doubts on US ability or willingness to do much about the deficit still overhang the whole international scene. And nearer home, I am worried about the impact on our ability to conduct the sort of foreign policy we need if the Foreign Office continues to be caught by Overseas Risen Costs.


PERCY CRADOCK

PERSONAL AND CONFIDENTIAL



Sir Antony Acland KCMG KCVO
Permanent Under-Secretary of State

Foreign and Commonwealth Office

London SW1A 2AH

11 January 1985

C D Powell Esq
No 10 Downing Street

NBPM
Pl. put with other
PPS on this meeting.
CDP
15/1

Dear Charles,

1. I was most grateful to the Prime Minister for inviting me to Chequers last Saturday. I very much enjoyed it, and greatly valued our conversation.
2. I am writing now to follow up one or two points which arose during our talk.
3. During our discussion of financial matters I showed the Prime Minister a graph of comparisons of the various parts of overseas expenditure in cost terms. The Prime Minister noted that it showed an increase in the overseas representation programme in 1984/85 and asked the reason behind this. I said that I would find out. The 'Overseas Representation' PES programme is the cost of the Diplomatic Service at home and abroad. Because of the fall in sterling and higher overseas inflation it had to be topped up in 1984/85 from other FCO programmes (eg slippage on a BBC transmitter project). We also secured a one-off contribution from the central Reserve. But this did not involve any increase in activity. Indeed the diagram understates the reduction in activity over the period because, though expressed in constant UK prices, it takes no account of sterling or overseas prices.
4. Secondly, the Prime Minister said she would like to see Julian Bullard's notes on his visit to East Germany. I enclose a copy.
5. In our discussion of the working methods within the FCO I commented on the long hours which departments frequently work and I undertook to let the Prime Minister see the results of an internal study on the problem. I do not want to bother the Prime Minister with the whole paper but the conclusions, based on a representative sample of 5 departments were that in 4 out of the 5 departments, the range of hours worked, including a lunch hour that is generally notional, was as follows:

PERSONAL AND CONFIDENTIAL



Heads of Department: 50-75 hours per week (an average of 57)

Assistant Heads of Department: 45-60+ hours per week (an average of 55+)

Grade 5 Desk Officer: 50-60 hours per week (an average of 55)

6. The study also found that the long hours extended down the scale with less senior desk officers and support staff working an average of 45 hours per week (in one department the registry staff were all voluntarily working a 45-50 hour week). All these figures relate to normal working (conditioned hours are 41 per week including a 1 hour lunch break) and do not take account of extra hours worked at times of crisis or of course of travelling time. Because of high costs in central London a lot of junior staff live quite a way out, so it is a long day and they do not see much of their families during the week.

7. Finally, I undertook to let the Prime Minister see the Daily Press summary prepared by the FCO News Department. We have since had a word about this, and I explained that having looked at the summary again, I did not think that it was quite what the Prime Minister had in mind. It is very much in summary form, and tailored to our own needs. But I enclose a copy for your own information.

Yours ever
Antony

Antony Acland

SELECTION OF TODAY'S PRESS : FRIDAY 11 JANUARY 1985

Arms Control - Further reaction to Shultz/Gromyko talks	All papers: Guardian, FT, DT, Times (3) Economist (leader NS (leader), IHT (4), D Mail, MS
Defence - Chemical warfare, UK position	NS, IHT, D Mail (2), Guardian (2) FT, DT
Atom tests in Australasia	Times, DT, Guardian
Africa - S of S's visit - Namibia	DT, MS
Senator Kennedy's S African tour - more acrimony	DT, Times, FT (2) IHT, D Mail (lead- er + 1), DE, Guardian
Nicaragua - Mr Kinnock's visit	DE (leader) DT, Guardian
Gibraltar - UK/Spain pre-border opening talks	DT, Times



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cpc

10 DOWNING STREET

From the Private Secretary

7 January, 1985.

Dear Anthony,

Your invitation from the Prime Minister to tea on Saturday resulted in rather an interesting conversation about aspects of the Foreign Office's work and management. It may be helpful if I were to record some of the main points.

FCO Expenditure

At the Prime Minister's invitation, you explained the consequences for the service provided by the FCO and the Diplomatic Service overseas which would flow from the reductions required by the PES figures for 1986-8. In summary, savings of some £30 million would have to be found. Substantial economies had already been made in this and earlier years and there were now very few options left for making further savings on the scale required. In practice, they could only be achieved by closing significant numbers of posts (or drastically reducing functions - e.g., consular work). This would mean in effect withdrawing British

STRICTLY PERSONAL AND CONFIDENTIAL

jc

representation from various parts of the world. Furthermore, the effectiveness of the Diplomatic Service in such areas as training, acquisition of hard language skills, etc. would suffer. This in turn would have implications for our relations with the United States. Their readiness to maintain a privileged dialogue with us depended in part upon our continued world-wide coverage.

You continued that you wondered whether this was what Ministers really intended. You drew attention in particular to the consequences of not allowing Overseas Risen Costs to be treated as revised economic assumptions and thus built into the expenditure base line. If this could be allowed, as the Prime Minister herself had suggested last summer, it would benefit the FCO programme by some £26 million.

The Prime Minister said that the central fact was that public expenditure was now higher than it had ever been. Savings had to be made and no part of Government could be exempt. Her general approach to FCO staffing and expenditure was that she preferred to see our effort concentrated in key places with our people properly housed and with adequate allowances, than dispersed in too many small packets. The implication was that she would not in principle be averse to some further post closures in certain parts of the world, and she noted the arguments about the relationship with the United States, though she did not like talk of withdrawal. She continued to believe that there was scope for staff economies in some of our overseas posts: and she understood that the

scale of staffing in the FCO itself was very generous, with a great deal more double-banking (i.e. Counsellors re-doing the work of First Secretaries, Under-Secretaries re-writing the work of Counsellors) than in Home Departments. You contested this. You said that you really did not think that there was slack in any part of the Foreign and Commonwealth Office, and very long hours were being worked by many officers. The Prime Minister also wondered whether there might not be scope for shifting some FCO expenditure, e.g. UNFICYP and military training, on to the Ministry of Defence's programme; and for further savings in our subscriptions to, and activities within, multilateral organisations.

There was considerable discussion about the Embassy in Washington. You explained that only 37% of UK-based staff came from the Foreign and Commonwealth Office, and you listed other departments and organisations represented there. The Prime Minister seemed to agree that in view of the complexity and importance of our relationship, it was right to be well staffed in Washington as in other key posts from the point of view of the national interest.

Having made clear that the FCO could not be exempt from the general search for economies and savings, the Prime Minister said that she sympathised with the FCO's predicament over Overseas Risen Costs. She recognised that the FCO and MOD cases were not parallel. The problem could not be re-opened for 1985-6 (you said that there was no suggestion or question of that), but she would be prepared to have

a private word with the Chancellor about it as far as future years were concerned, to find a solution on the lines which she herself had suggested last summer, but which had been disallowed in MISC 106. She suggested that you should also speak to Sir Peter Middleton. But it would be better not to commit anything to paper until after these informal contacts.

As regards other points which you had mentioned, she fully accepted the need for the Diplomatic Service to have an adequate manpower margin for training, contacts with Parliament and outside bodies, hard languages, and so on.

Style of Diplomacy

The Prime Minister recognised the considerable successes achieved over the past twelve months: Hong Kong, EC Budget, Gibraltar. But she continued to feel that British diplomacy was not aggressive or confident enough in style. There was a tendency to defensiveness, to concentrate on damage limitation rather on getting our way, and to be reluctant about exposing weaknesses and inconsistencies in the policies of others. For instance, we let the French off the hook far too easily on such matters as their non-participation in the military structure of NATO. It was important to focus on points which would put the other party on the defensive.

You will want to consider how this message can be got across to the Service.

FCO: Procedures

The Prime Minister raised a number of points here.

The first concerned briefing. She found a great deal of FCO (and other Whitehall) briefing stodgy, long-winded and repetitive. Briefing meetings for bilateral Summits and European Councils were usually of limited usefulness. She suggested:-

- (i) In advance of any major bilateral meeting involving her, our post concerned should obtain a clear picture of the particular points which the other Government intended to raise. It was not enough just to have a list of headings, e.g. East-West, European Community. We must know the specific points within those subjects on which they intended to speak. You said that an effort was always made in this sense, but you would consider how it could be improved.

- (ii) Written briefing should set out much more precisely specific UK objectives from the meeting in question. It should focus on these objectives and on any new points which we knew that the other side were going to raise. There was no need, at least in briefs for her, to recycle basic

information;

- (iii) Briefing meetings where needed should be smaller and more purposeful, concentrating on identifying specific UK objectives and how to obtain them.

You will want to consider the implications for FCO briefing: but perhaps we should both before that have a word with Sir Robert Armstrong.

The Prime Minister also commented on two further points. First she was dissatisfied with the quality of the drafting of some of the messages, letters, etc. sent across to her from the FCO. This extended even to basic points of English language. She hoped that this could be tightened up. We have discussed this before.

Secondly, she was concerned that she did not always receive adequate detailed information, particularly technical information, on major issues where she was involved. She cited the example of the 17 July briefing by the Pentagon of European allies on the Strategic Defence Initiative. It would have been of the greatest interest to her to have seen this in advance of her meeting with President Reagan.

Finally, you offered to send the Prime Minister the FCO Press Summary on a trial basis.

FCO: Policy Issues

The Prime Minister saw East-West relations and particularly arms control as the main issue in the coming months, though very close attention would also be required to the Middle East.

The Prime Minister suggested that it would be useful to have papers prepared of the implications of enlargement of the Community for the political balance within it, drawing conclusions for our future tactics. She would also like to see an assessment of the changing nature of Germany. You said that Julian Bullard was preparing something on the latter point.

FCO: Information

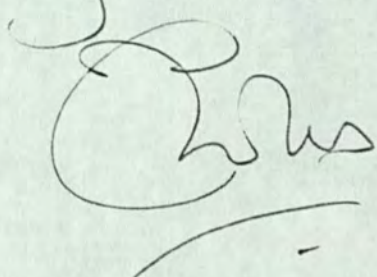
The Prime Minister lamented the passing of IRD. She thought that we did not do enough to use information to influence opinion. A number of suggestions had been made to her. She might well want to pursue some of them.

Prime Minister's Visits

The Prime Minister confirmed that she would visit Sri Lanka and South East Asia at Easter, even though it seemed that Indonesia might have to be omitted. She thought that she should visit Egypt soon. She would like to visit Brazil, but

wondered if there might be problems over such a visit. She was not enthusiastic about your suggestion of going to Turkey, although she recognised Turkey's importance, and was glad that Sir Geoffrey Howe was going. Another visit in due course to Eastern Europe would be desirable, particularly to Poland, but would be premature this year. She believes that a visit to South Africa would be useful but sees the difficulties. She has in mind the possibility of visiting Moscow en route to the Tokyo Economic Summit in 1986, and possibly Indonesia on the way back if it hadn't proved possible to go there before.

The Prime Minister would not wish this note to be shown to any other officials in the Foreign and Commonwealth Office.

Yours sincerely,


Sir Antony Acland, KCMG, KCVO.,
Foreign and Commonwealth Office.

PERSONAL

PRIME MINISTER

FOREIGN OFFICE

Antony Acland is coming to see you privately at Chequers tomorrow afternoon.

He wants to tell you what he sees as the likely operational consequences of the further cuts in FCO expenditure contained in the PES figures for 1986-8 (I attach the relevant section of the draft White Paper). He also wants to get some feel for where you believe cuts should be made, geographically and functionally, if choices have to be made.

FCO Expenditure

He will probably say that the PES figures for future years can only be reached by withdrawing British representation from certain areas of the world altogether e.g. Central America, French Africa, parts of Latin America. He will suggest that this could be politically damaging both domestically and in terms of our relations with the Americans who will show less interest in us if we give up a world-wide presence. He may also suggest that, to put it crudely, policy is being dictated by arbitrary expenditure cuts: it would be better to decide the policy e.g. by a discussion in OD and then tailor the means, reduced means if appropriate, to the policy.

Points which you might like to make are:

(i) the Foreign Office cannot be exempt from painful decisions on public expenditure. And these are likely to be even more painful for everyone next year than this.

(ii) you prefer to see a job done properly than effort too diffused. This points to not trying to be represented everywhere e.g. El Salvador. But you do want embassies to be properly housed and equipped where they exist. The

implication is that you would not shy away from further post closures if necessary.

(iii) is there not more to be done to reduce our involvement and representation in multilateral activities. UNESCO was a particularly glaring example. But are there not other institutions where we can make economies?

(iv) you wonder whether everything possible has been done to eliminate unnecessary functions and duplication of effort. For instance there seems to be much double-banking of staff (e.g. with Assistant Secretaries rewriting the work of Principals, and Under-Secretaries rewriting Assistant Secretaries) in the FCO than in some of the Home Departments. Is there not scope for more devolution of responsibility?

(v) the FCO should be prepared to divert resources if necessary from aid to overseas representation. This was difficult this year because of the coincidence with the Ethiopian famine and the feeling it aroused. But the Americans have taken and stuck to a policy decision to do less on overseas aid and more on defence/diplomacy.

(vi) you might agree to the idea of an OD discussion to set clear guidelines for the role and geographical scope of the Diplomatic Service in future, in the light of financial constraints.

FCO general

Beyond this, you might like to tell him some of the problems you have with the FCO and its work: the rather fuzzy and general nature of some of the proposals which come forward: the sometimes inadequate quality of drafting e.g. of messages: and other points you have reason to complain of.

FCO staff

You might take the opportunity to mention one or two

points which have been on your mind: your dissatisfaction with
Mr. Thomas: the future of Michael Alexander and David Goodall.

Substantive Foreign Policy Issues

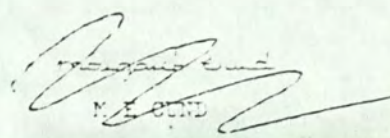
Current business you might mention includes Arms Control:
Northern Ireland: Falklands: your programme of foreign visits.

C.D.P.

4 January, 1985

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2. The gross aid programme is £1,205 million for 1985-86, consisting of the net overseas aid programme plus capital repayments. The net overseas aid programme in 1985-86 remains at £1,130, the same as shown in Cmd 9643 and £31 million higher than in 1984-85. In addition, sums equal to the repayments of capital on past aid loans are also available to be used as new aid grants or loans by the Overseas Development Administration; those due in 1985-86 total £75 million. The resulting gross aid programme is ODA's spending ceiling. It covers both provision in the Overseas Aid Vote (Class II Vote 8) and certain expenditure attributed to the aid programme, consisting mainly of the UK's share of overseas aid financed ^{from} ~~by~~ the European Community ^{budget}.


M. L. CLINE

3.2 Overseas Aid and Other Overseas Services

Table 3.2 £ million
1979-80 1980-81 1981-82 1982-83 1983-84 1984-85 1985-86 1986-87 1987-88

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Foreign and Commonwealth Office—ODA									
2.5 Overseas aid (net aid programme)	84	885	959	965	1,031	1,099	1,130	1,170	1,200
2.6 Overseas aid administration	14	18	19	19	25	25	27	30	30
2.3 Other external relations	5	60	69	75	82	85	92	90	90
Total	849	967	1,046	1,059	1,138	1,209	1,249	1,290	1,320
2.8 Public corporations finance			-2	-44	14	14	14	10	
Total FCO (ODA)	849	967	1,044	1,015	1,152	1,223	1,263	1,300	1,320
Foreign and Commonwealth Office—Other									
2.1 Overseas representation	192	219	230	288	323	329	332	340	340
2.2 Overseas information	75	94	104	116	126	159	172	180	180
2.3 Other external relations	58	39	59	90	96	84	95	80	80
2.4 Military aid	7	10	10	13	13	12	13	10	10
Total FCO (Other)	332	362	403	506	558	583	612	600	620
Total FCO	1,181	1,329	1,447	1,521	1,710	1,806	1,874	1,900	1,930
2.9 Commonwealth War Graves Commission	7	8	8	8	9	10	10	10	10
2.9 HM Treasury			2	-1	-3	-3	-3		
2.7 Net payments to European Community institutions (excluding overseas aid)				3	11	831	898	790	790
Net payments to Community Budget	854	285	243	74	1,066				
Contributions to reserves and capital of the European Investment Bank	15	4	11	5	16	21	18	20	20
Grants received from European Coal and Steel Community	-13	-8	-15	-47	-45	-39	-41	-20	-20
Less									
Contributions to Community Budget expenditure	-41	-60	-86	-102	-92	-123	-125	-130	-140
on overseas aid included in programme 2.5									
Total programme	2,030	1,558	1,609	2,127	2,606	2,503	2,631	2,560	2,570

(1) Included in these figures are the following amounts for loans and their repayments, to the Commonwealth Development Corporation from Voiced Expenditure:

Loans	30	24	30	34	37	36	41
Repayments	-1	-14	-1	-10	-10	-11	-12
Net	29	10	29	24	27	25	29

(2) Includes loans from the National Loans Fund and foreign currency borrowing by the Commonwealth Development Corporation (see note 1).

Total Current Expenditure	2,411	2,211	1,523	594	2,811	670	750	640	330
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Table 3.2.1 Analysis by broad economic category

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Pa.	135	162	169	177	194	197	197	203	214
Other current expenditure on goods and services	163	166	174	234	269	310	321	308	311
Subsidies and current grants	1,627	1,905	1,035	1,527	1,844	1,749	1,878	1,809	1,859
Total current expenditure	1,824	1,425	1,377	1,939	2,308	2,255	2,394	2,617	2,170
Gross domestic fixed capital formation	8	17	21	22	29	32	38	44	45
Capital grants, loans, etc.	97	115	211	210	271	217	184	160	158
Market and overseas borrowing by nationalised industries and some other public corporations				-44	-1		14	8	1
Total capital expenditure	105	132	232	188	299	248	237	212	204
Total programme	2,030	1,558	1,609	2,127	2,606	2,503	2,631	2,629	2,374

1. Table 3.2 covers the Overseas Development Administration expenditure on overseas aid and its administration, and the Foreign and Commonwealth Office's expenditure on overseas representation, official information services, military and various grants in aid to the BBC External Services and the British Council. Table 3.2.1 shows the programme broken down by economic category.

Foreign and Commonwealth Office—ODA

Overseas Aid (the Net Aid Programme)

2. The net overseas aid programme in 1985-86 remains as shown in Cmnd 9143. In addition to the net aid programme, sums equal to the repayments of capital on past aid loans are also available to be used as new aid grants or loans by the Overseas Development Administration. Adding these sums to the net aid programme gives the gross aid programme, which is ODA's spending ceiling. It covers both provision in the Overseas Aid Vote (Class II Vote 8) and certain expenditure attributed to the aid programme, consisting mainly of the UK's share of overseas aid financed by the European Community. The gross aid programme is £1,205 million for 1985-86, comprising net public expenditure provision of £1,130 million plus capital repayments of £75 million. The

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3. The fundamental objective of the aid programme is to promote economic and social development and alleviate poverty in developing countries, particularly the poorest ones. Alongside these objectives due account is taken of political and commercial considerations. Official aid is important, especially for the development of the poorest countries, but it is only one factor: trade, direct private investment, other private financial flows, and the policies pursued by the developing countries themselves are all important to their economic progress.

4. The main recipients of overseas aid in 1983 are shown in Table 3.2.2. Spending is divided 58:42 between bilateral and multilateral aid. A fuller discussion of the aid programme's aims and achievements are provided in "British Overseas Aid 1983" and "British Aid Statistics" (see bibliography).

Table 3.2.2 UK Aid by recipient 1983 (£ million)

Multilateral Aid		
EC (including European Development Funds)		166
International Development Association		204
UN Agencies		53
Regional Development Banks		15
Other multilateral aid		19
Total multilateral aid		457
Bilateral Aid		
i. Country programmes		201
South and East Asia		
of which:		
India	121	
Sri Lanka	29	
Bangladesh	24	
Africa, Mediterranean and Middle East		193
of which:		
Sudan	31	
Tanzania	27	
Kenya	19	
Latin American, Caribbean and Pacific		62
ii. Other bilateral aid		
Aid and Trade Provision	33	
CDC: exchequer advances	39	
British Council	33	
RTA interest	2	
Research, surveys and grants to UK institutions and the voluntary sector	44	
Pensions	13	
Total bilateral aid		622
Total expenditure (gross aid programme)		1,079

Bilateral Aid

5. The main political objectives of the bilateral programme are to maintain our links with commonwealth countries, which receive about three-quarters of total bilateral aid, and other friendly nations, and to discharge our responsibilities to our remaining dependencies. Bilateral aid is provided directly to nearly 130 countries, with about 80 per cent of this going to those countries with an income per head of less than \$795 in 1983, ie those eligible for International Development Agency (IDA) funding. During 1984 it was decided to extend the policy of giving aid in grant form to include all countries in this category: over 90 per cent of all aid is made available in the form of grants.

6. Financial aid is provided to help maintain existing productive capacity and for new investments. Technical cooperation is provided primarily to promote human resource development in recipient countries. Budgetary support is given for a small number of dependencies and recently-independent countries. Bilateral aid also covers financial assistance to a range of UK bodies providing help to developing countries (eg the voluntary agencies, research and development institutions), as well as the Aid and Trade Provision, loans to the Commonwealth Development Corporation and payments to overseas pensioners. In 1983 about 75 per cent of bilateral aid was tied to UK goods and services.

7. Many developing countries suffer from a shortage of trained manpower in key institutions and sectors. Technical cooperation is used to help them overcome these weaknesses through the direct provision of British experts and consultants and through training programmes designed to develop managerial and technical skills. In 1983 we provided some 3,800 man-years of work by British specialists and supplemented staff overseas, 5,500 man-years of training for nationals of developing countries, and 161 new consultancy contracts at a cost of £30 million.

8. The achievements and effectiveness of individual country aid programmes are assessed in two important ways. Firstly, the objectives and content of bilateral aid programmes are determined through a systematic programming exercise which takes account of the circumstances of the recipient country, the priorities of the recipient government, the activities of other donors, and what the UK has to offer by way of expertise, and goods and services. It is through this process that previous achievements are assessed, and the strategic objectives and the balance of the aid effort are set for the future.

9. Consideration is given, for example, to the amount of resources which should be devoted to supporting structural adjustment programmes assisted by the IMF and the World Bank, such as those in Ghana and Zambia. Assessments are also made of which sectors should be the focus of UK aid, and within these how aid—both financial and technical co-operation—can be used to encourage improvements in management and policies, as well as to finance specific activities. An example of sector aid is the £4 million for Kenya's railway system for immediate rehabilitation of locomotives and consultancy studies on future management, training and operational requirements. Agricultural sector aid in India includes £13.1 million being allocated for a fertiliser extension programme in six states, where some 28,000 farmers should benefit from an estimated increase in food grain production of about 80,000 tonnes.

10. Secondly, the purposes for which individual aid allocations are made are carefully appraised before approval is given. Wherever appropriate, standard investment appraisal techniques are applied (including economic rate of return calculations) using UK consultants and ODA's multi-disciplinary staff. Progress is then compared against targets to assist the monitoring process. A strengthened Project Completion Report system is now being introduced. Such a report is being produced on the £113 million Victoria Dam in Sri Lanka, which

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181 Measuring effectiveness

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183 Structural adjustment and sector aid

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185 Project completion reports

ODA - further development (unfunded)

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in more detail at ... central projects and all special issues. In 1983, 20 projects of programme were the subject of such ex-post studies. Current evaluations of ODA projects include a comparison of the costs and benefits of training Tanzanians in their own country and in the UK, the rate of return on power projects in Nepal, Tonga and Indonesia, the contribution of consultants in groundwater development in Indonesia, the cost-effectiveness and possible savings to the aid programme of using a particular form of contract for a road building project in Kenya; the impact of a sugar-mill in Pakistan; and, also in Pakistan, the impact of supplementary food aid given to children. Evaluations of this type include recommendations for improvements in aid administration. The results of aid-funded research projects are periodically reviewed by expert panels. The ODA also support international studies aimed at assessing the results and effectiveness of aid programmes.

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190 Sub-Saharan Africa

12. In recent months public attention has been focussed on the acute problems facing the drought-stricken countries of Sub-Saharan Africa. The aid programme responded swiftly to this crisis with emergency assistance and will continue to do so. But the bulk of the aid programme will focus on long-term development which requires particular attention.

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Lecture

13. Although the countries of Sub-Saharan Africa will benefit from a revival of international trade, major changes are needed in policies and management if their prospects for economic growth to improve. In response to these needs ODA are providing assistance directly in support of structural adjustment programmes. ODA are moving away from individual projects towards sectoral assistance, this provides the basis for a more effective policy dialogue and support for maintaining existing investments. Greater emphasis is also being given to manpower assistance. Effectiveness is being improved by focusing on the needs of particular institutions, and by further integrating the supply of British personnel to particular countries with programmes for training their nationals in Britain.

204 Aid and Trade Provision

14. Aid and Trade Provision spending amounted to £33 million in 1983. In that year seven new governmental aid agreements totalling £27 million of ATP commitments were concluded and these were associated with export orders worth £124 million. The Aid and Trade Provision is designed to match the mixed credit practices of other donors by providing aid in combination with export credits to help finance viable investments and projects in developing countries which are of particular commercial importance to Britain. The Government's objective is to obtain international agreement on the phasing out of such activities.

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Multilateral Aid

15. The British contribution to each multilateral agency is judged on its merits and having regard to our relative economic strength. We are concerned that multilateral agencies should make effective use of the funds they are given. We believe the World Bank Group in particular has a key role to play in meeting the needs of developing countries, and will continue to ensure that it has adequate resources for this purpose.

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Lecture

16. Contributions from voted expenditure are made by the UK to the European Development Fund. In addition the cost of the UK's share of European Community aid programmes financed from the EC Budget is attributed to the overall aid programme. In 1983 the UK contributed £51 million to the Community food aid programme (total cost £232 million). We also maintain a national food aid programme supplying 110,000 tons of food grain annually. Although we recognise that food aid is vital in emergency situations we are sceptical of its long term value in meeting food deficits. In 1983 we secured adoption by the EC of improved guidelines which inter alia give more emphasis to using food aid to increase agricultural production in the recipient countries. In 1983, 45 per cent of our multilateral aid went to the World Bank Group (including the International Development Association), 12 per cent to the various United Nations development agencies and 7 per cent to regional development banks, Commonwealth bodies and others. The share channelled through the European Community's institutions stood at 36 per cent in 1983.

230 Scientific Units

17. Following the completion in 1984-85 of the transfer of responsibility for executing overseas survey and mapping projects to the Ordnance Survey, ODA now has two in-house Scientific Units—the Tropical Development and Research Institute (TDRI) and the Land Resources Development Centre (LRDC). TDRI's main objective is the management of developing country food supplies through pest control and post-harvest technology. LRDC promotes the effective use of land resources for the development of agriculture, livestock husbandry and forestry.

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Overseas Aid Administration

18. The objective is to administer the aid programme in an efficient and cost-effective way. Class II Vote 9 provides for the salaries and general administrative expenses of the Headquarters staff of the Overseas Development Administration located in London and East Kilbride, and of a small number of staff serving in regional development divisions based in Kenya, Malawi, Thailand, Barbados and Fiji and in the United Kingdom Delegation to UNESCO in Paris. Provision is also made for the cost of various services carried out for the ODA primarily by the Crown Agents, the largest of these services being the administration of those UK funded pensions payable to former overseas military, civil and public servants. The salary and other costs of the ODA's Scientific Units are excluded, since these are paid from the aid programme.

246 Manpower

19. Provision is made for 1,565 staff at 1 April 1985 falling to 1,545 at 31 March 1986. There will be further reductions in total manpower number (Headquarters and Scientific Units) to 1,500 by 31 March 1988 as shown in Table 3.2.3. As part of its response to the Financial Management Initiative, and to improve the administration of the aid programme, ODA is taking steps to set objectives and targets for all staff. Wherever practicable these will be quantifiable and date specific.

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264 Overseas pensions

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267 Purpose

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269 Reorganisation

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271 Repayments

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274 Activities

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277 Investments

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285 Borrowing

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290 Aims and objectives

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Other external relations

20. Provisions for other external relations which makes up the major part of Class II Vote 7, primarily covers pensions supplements and other pension-related payments to about 25,000 past employees of former UK dependencies and about 8,000 widows and dependants of such employees. In approximately two-thirds of these cases the UK has assumed responsibility for the payment of the basic pensions. The overseas governments formerly responsible make capital payments to the UK government to fund the portion of the pensions earned for service after Independence. These receipts and associated pensions payments do not count as public expenditure. The pre-Independence service shares of the UK-funded pensions and widows' and dependants' pensions are paid from the aid programme. The remaining basic pensions, while still attracting supplements, continue to be paid by the overseas governments concerned. The levels of supplements are set by the UK government in line with other public sector pension increases.

Crown Agents

21. The Crown Agents for Oversea Governments and Administrations were incorporated on 1 January 1980 under the Crown Agents Act 1979. They provide mainly purchasing and management services to overseas institutions and to ODA. Their activities are described in detail in the Annual Report and Accounts (see bibliography).

22. In February 1984 the Minister for Overseas Development announced that, following the loss of a substantial contract with the Government of Brunei for the management of its investments, the Crown Agents would be reorganised and eventually privatised. The reorganisation plans allow for the reduction in staff numbers from about 1200 to under 900, changes in terms of employment of staff and the sale of the principal office at 4 Millbank. The Crown Agents' Accounts for 1983 include provision for the cost of this restructuring.

23. The figures in Table 3.2 shown for 1981-82 onwards cover repayments of principal on the Crown Agents' commencing capital debt to the National Loans Fund. The 1981-82 figure excludes a £6.77 million premature repayment of the debt, which resulted from the sale of an office building, and which is included in special sales of assets.

Crown Agents Holding and Realisation Board

24. The Crown Agents Act 1979 also created the Crown Agents Holding and Realisation Board whose purpose is to dispose of various assets acquired by the old unincorporated Crown Agents. Its activities are described in the Chairman's Review and Accounts (see bibliography). The major part of the Board's task was completed with the disposal in 1982 of its assets in Australia. The Australian sale, and the disposal of other assets elsewhere, has allowed some £25 million to be paid to the Exchequer by the end of 1984. These receipts are included in special sales of assets. The figures shown for 1982-83 and 1983-84 represent parts of the proceeds of the disposals used to repay past US\$ borrowings by the Board.

Commonwealth Development Corporation

25. This provision covers the estimated commercial borrowing of the Commonwealth Development Corporation (CDC) whose new investments, which totalled £79.3 million in 1983-84, are also financed from loans from the Aid Programme (£37 million in 1983-84) and from its own internal resources. The latter arise from the difference between the terms of Aid Programme loans to CDC, which are substantially softer than equivalent commercial terms, and the terms of CDC's own lending as well as from disposals of and dividends on equity investments.

26. In line with the recommendations of the 1981 Review of the Corporation's activities, CDC seeks to place at least half of its new commitments each year in renewable natural resources projects and at least half in poorer developing countries. In 1983-84 50.8 per cent of CDC's new commitments were in renewable natural resources and 66 per cent in poorer countries.

27. The Corporation borrowed £15 million from the National Loans Fund in 1983-84 and expect to borrow £15 million in 1984-85. It has been agreed that the Corporation may borrow commercially in foreign currency up to £15 million in 1985-86 and up to £10 million in 1986-87. A full description of the Corporation's activities is provided in its annual Report and Accounts (see bibliography).

Foreign and Commonwealth Office (Other)

28. The Foreign and Commonwealth Office's strategic objectives are:
(a) to enhance the security and prosperity of the UK and FCO Dependent Territories.

(b) to promote and protect British interests overseas, including the interests of individual British citizens. (This involves advising the Government on the formulation of their foreign policy and implementing that foreign policy.)

29. The totals for programmes 2.1 to 2.4 inclusive for 1985-86 and 1986-87 differ from the totals in Cmnd 9143. The two principal changes are the transfer of responsibility for the Passport Office to the Home Office (£22 million per annum) and the repayment in 1986-87 of part (£19 million) of the loan made to Yugoslavia in 1983.

30. In making comparisons with previous years it should be borne in mind that there have been various additions (eg Government Hospitality Fund 1982-83, Property Repayment Services 1983-84, Central Office of Information overseas activity (1984-85)) as well as subtractions (eg India Office Library 1981-82) and major one-off items such as loans to overseas governments.

31. Approximately 40 per cent of the programme as a whole, and more than 40 per cent of the overseas representation and other external relations programmes, are affected by movements in exchange rates and overseas inflation rates. The effects of movements to the end of September 1984 have been taken into

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32. The main objective of the overseas representation programme is the provision of a Diplomatic Service deployed worldwide to conduct inter-governmental business, report on developments and provide services to the public and to exporters. The expenditure covers the running costs of the Diplomatic Service, including the cost of the Foreign and Commonwealth Office (FCO) and the resident British Diplomatic and consular representation overseas.

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317 Political and economic work

33. Diplomatic or Consular relations are maintained with 161 countries with a total of 212 posts made up as follows: 42 High Commissions in Commonwealth countries, 87 embassies in other countries (countries without a resident mission are covered by multiple accreditation from missions elsewhere); 10 missions to international organisations and conferences; and 73 subordinate posts (Deputy High-Commissions, Consulates, etc) of which 12 are staffed solely by locally engaged officers.

This budget is a result of a reduction of 2 million... embassies and 8 subordinate posts with the merger of a mission with an embassy announced in Parliament in 12 Dec 1984.

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34. Political and economic work includes lobbying for support of HMG's policies in the UN and other multilateral fora; coordinating action with our allies and partners in international organisations such as NATO, EC, OECD and GATT; conducting negotiations; and analysing the internal and external policies of foreign governments.

L with overseas governments

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Commercial work

(1) 1

35. The FCO provides the staff and pays for commercial work overseas. The main effort of commercial work is on export promotion. Other activities include commercial policy and protection work and the promotion of inward and outward investment. Between 1979 and 1983 the number of British business visitors using the FCO's services increased by 17 per cent and the number of firms on outward missions by 43 per cent. There has been a shift in the work of commercial officers towards dealing with requests from UK companies and away from initiative work designed to establish new contracts and to identify export opportunities.

L of British commercial interests

L finance contracts have meant that there

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321 Consular work

36. Consular work is concerned with assisting British citizens abroad and carrying out certain statutory requirements. Immigration work involves the processing of visa or entry certificate applications from travellers wishing to visit the United Kingdom. As the number of British nationals travelling abroad has increased by nearly 300 per cent during the last 15 years, there has been a marked increase in the demand for advice and protection from consular staff. The level of passport applications has risen by about 40 per cent over the same period, while the number of visa and entry certificate applications has remained fairly constant. In 1983, overseas posts issued over 200,000 passports and around 730,000 visas and entry certificates.

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323 Information

37. The cost of providing the Diplomatic Service Staff for carrying out the Government's information effort overseas in support of both political and commercial objectives is also met from the overseas representation programme. Other costs are met from the overseas information programme (see below).

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325 Delegation

38. In 1983-84 overseas posts were given delegated authority for the direct management of fixed budgets covering about 20 per cent of their local expenditure. The indications are that in 1984-85 expenditure on the goods and services concerned will rise by about £0.5 million less than it would otherwise have done under the previous centralised control system.

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327 Overseas information

39. The main objectives of information work are to promote a wider understanding of Britain and of Government policies overseas and to encourage exports and inward investment. The overseas information programme comprises:

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(i) grants in aid to meet the cost of the BBC external broadcasting and monitoring services. The former grant includes provision for a programme designed to improve the audibility of the External Services throughout the world and also to modernise Bush House. The BBC External Services include the World Service which broadcasts 24 hours a day in English (240 hours a week including regional variants) and 484 programme hours a week in 36 vernacular languages. The total programme hours have remained broadly constant since 1979. BBC External Services programmes reach an audience of some 100 million regular listeners around the world. More details are available in the BBC Handbook (see bibliography).

(ii) a grant in aid in respect of the FCO (Diplomatic Wing) share of British Council expenditure incurred to promote wide knowledge abroad of the UK and the English language, and to foster cultural relations with other countries (the ODA share is met from the Aid Programme). The Council is at present represented in 81 countries overseas. In 1983-84 22,200 people came to Britain with British Council help, 6 million book issues were made from British Council libraries and 500,000 English class hours were taught. These figures show a slight increase over previous years.

(iii) expenditure at home and abroad on the broadcasting stations operated by the FCO on behalf of the BBC External Services and on the FCO's other operational activities, many of which are carried out by the Central Office of Information on the FCO's behalf on a repayment basis.

L these activities

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Other external relations

40. The main objective of this programme is provision of finance to support British membership of international organisations. 96 per cent of this expenditure is on various international commitments and subscriptions. These include UK subscriptions to the United Nations (including contributions to UN peacekeeping forces), The Organisation for Economic Co-operation and Development, the Council of Europe, the Western European Union, the Commonwealth Secretariat and the NATO civil budget; grants to various non-governmental organisations eg the Commonwealth Institutes; and support for conferences, scholarships etc. This programme also covers support for distressed British subjects.

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353 Military aid

41. The objective of this programme is to provide military training assistance for certain overseas countries. This mainly takes the shape of courses in Britain for service personnel from, and the loan of British personnel to, developing countries.

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423 Spending

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437 New system

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453 Effects

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... has been reduced by about 10 per cent since 1979. There will be a continuing steady reduction in manpower. These savings will largely be achieved by the implementation of existing plans for more productive and efficient working methods including computerisation by having off some communications work, and by contracting out services where this gives good value for money.

Table 3.2.4 Foreign and Commonwealth Office manpower target to 1988

1.4.85	1.4.86	1.4.87	1.4.88
8,354	8,306	8,105	8,022

43. Apart from heads of post (11 per cent), who cover all functions, Diplomatic Service and senior locally engaged staff overseas is distributed as follows:

	Per cent
Political/economic	18
Commercial work	32
Consular/immigration	22
Information	9
Other (aid, labour, agriculture, energy etc)	8

FCO UK-based staff overseas are distributed by region as follows:

	Per cent
West Europe	23
Middle East and Africa	25
North and South America	16
East Europe, Soviet Union	8
Far East, South East Asia and remainder	20
International organisations	8

This reflects a continuation of the pattern in recent years and is not expected to change markedly.

Commonwealth War Graves Commission

Aims and objectives

44. The UK Government contributes nearly 78 per cent towards the expenditure incurred by the Commonwealth War Graves Commission (CWGC) whose purpose is to maintain the graves of, and Memorials to, the Commonwealth dead of the two World Wars. In total 1,698,820 war dead are commemorated by the CWGC at an average cost for 1984-85 of £7.90 per commemoration. The CWGC has adapted its organisation and taken advantage of technological progress to improve its efficiency. In consequence it has made and is continuing to make appropriate savings.

45. Nearly two thirds of CWGC expenditure is incurred in foreign currencies and consequently sterling expenditure depends greatly upon the rates of exchange. The UK grant to the CWGC for 1985-86 is £10,599,000 and is not subject to cash limits.

Net Payments to European Community Institutions

46. The latest estimate of the UK's net payments to European Community Institutions in 1984-85 is £690 million, compared with £891 million in 1983-84. The projection for 1985-86 is £750 million, for 1986-87 and 1987-88, the figures are £640 million and £830 million respectively. Further details are given in Table 3.2. These estimates take account of the agreement reached by heads of Government at Fontainebleau on 26 June 1984 on the future financing of the Community.

Fontainebleau Agreement

47. It was agreed at Fontainebleau that, in 1985, the UK will benefit from an abatement of its VAT payments to the Community of 1,000 MECU in respect of its excessive contribution to the 1984 Community budget, and that, thereafter, the UK's VAT payments would be abated by an amount equal to 66 per cent of the difference between its VAT share of the Community's allocated budget and its receipts from the allocated budget. (The allocated budget includes nearly all items except overseas aid and some administrative expenditure; it represents some 90 per cent of total Community spending.) These abatements will be made evenly throughout the year following that to which the calculations relate.

48. The new system for budget abatements will mean that the UK will no longer have to rely on negotiating ad hoc deals on budget refunds with other member states. Since 1980-81, the UK has received around £2.5 billion (net) of budget refunds, but the negotiations on and subsequent implementation of these refunds had become increasingly difficult. In 1984, first other member states and then the European Parliament delayed the payment of the UK's 1983 refund. Under the new arrangements agreed at Fontainebleau, the UK's budget abatement will be determined according to a given formula and made automatically on the revenue side of the Community budget each year. The estimates of the UK's net contribution shown in Table 3.2 assume these provisions will be observed. The abatements payable in 1986 onwards are expected to be substantially larger than the 1,000 MECU abatement payable in 1985, and the 1983 refunds received in 1984.

49. The broad effect of the abatement agreement reached at Fontainebleau is that the UK's net payments to the Community in future years should be around half of what they would have been had there been no agreement, no refunds or abatements, and had the 1 per cent VAT ceiling been maintained. After abatement, the UK's VAT rate is likely to remain below 1 per cent, while the rate in other member states will be in excess of 1 per cent.

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into account

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457 VAT ceiling

50. The Fontainebleau Council also agreed on the need for greater discipline in controlling the growth of Community expenditure. In particular, it was agreed that agricultural market support expenditure should grow less rapidly than the rate of growth of the own resources base and that tight control should be maintained over the growth of other types of expenditure. Agreement has recently been reached on the detailed provisions necessary to implement these principles.

stet/

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459 Own Resources Decision

51. The Fontainebleau agreement also provided that the 1 per cent VAT ceiling should be increased to 1.4 per cent on 1 January 1986 at the latest. There was no agreement on the transitional arrangements which will be required to cover the Community's need for supplementary financing in 1985. In adopting the Draft Budget for 1985 the Council of Ministers undertook to bring in a Supplementary Budget to cover the Community's additional financing obligations in excess of the 1 per cent ceiling during 1985. ~~But there is no agreement on how this finance should be provided.~~ The projection of the UK's net payments to the Community contained in the accompanying tables assumes that a Supplementary Budget to finance additional agricultural expenditure will be adopted before the end of 1985.

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461 Net payments

52. Both the arrangements for UK abatement and the increase in the VAT ceiling will be incorporated in a new Own Resources Decision. A draft of this Decision is currently under discussion within the Community. The new abatement arrangements will last as long as the new VAT ceiling. It will not be possible to change them without the unanimous agreement of all member states.

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53. Tables 3.2.5 and 3.2.6 present the latest estimates of the UK's net budget contribution on a 'payments' and 'budget' basis, respectively. Table 3.2.5 shows the net payments actually made during UK financial years, irrespective of the Community budget to which they relate or from which they were financed. Table 3.2.6 shows the UK's net contribution in respect of a particular Community budget, regardless of when the payments and receipts actually took place. Thus our refunds for 1983 are shown against our net contribution to the 1983 budget, even though they were paid out of the 1984 budget.

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Table 3.2.5 European community budget: UK payments and receipts by UK financial years⁽¹⁾

	Gross payments	Public sector receipts	Negotiated refunds (gross)	VAT abatements	Net payments including overseas aid ⁽²⁾	Net payments excluding overseas aid ⁽²⁾
1979-80	1,665	781	—	—	884	839
1980-81	1,900	970	645	—	285	285
1981-82	2,330	1,128	959	—	243	157
1982-83	2,820	1,303	774	—	743	641
1983-84	3,097	1,846	239	—	1,012	920
1984-85	3,153	2,058	487	590	831	708
1985-86	3,533	2,106	2,106	224	898	773
1986-87	3,874	2,286	2,188	—	777	647
1987-88	4,118	2,278	—	—	867	834

(¹)For 1984-85 onwards, an exchange rate of 1.66 ecus to the £ is assumed
(²)Payments in respect of overseas aid are included within programme 2.5 in Table 3.2
(³)Included within programme 2.7 in Table 3.2

Table 3.2.6 UK contributions and receipts arising out of successive Community budgets⁽¹⁾

	1980	1981	1982	1983	1984
Allocated budget					
Gross contributions	1,834	1,849	2,459	2,841	3,165
Gross receipts	951	1,062	1,312	1,698	1,993
Net contribution	883	787	1,147	1,143	1,172
Unallocated budget					
Net contribution	31	118	-16	88	97
Negotiated refunds (net)	645	783	624	434	555
Net contribution after refunds	269	122	507	797	675

(¹)This table is intended to indicate the net financial obligations on the UK which result from successive Community budgets. It differs from the other tables in this chapter by bringing together as far as possible all transactions in respect of successive annual budgets, irrespective of when receipts and payments occur and by showing negotiated refunds against the annual budget in respect of which they are paid.

513 Gross receipts

54. Gross receipts from the budget by UK public sector bodies come mainly from the Agricultural Guidance and Guarantee Fund, the Social and Regional Funds, and refunds in respect of own resources collection costs. The expenditure by the Intervention Board for Agricultural Produce and other public authorities in the UK which gives rise to these receipts scores as public expenditure in the programmes concerned. Details about UK receipts are shown in Table 3.2.7

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Table 3.2.7 Gross receipts from the Community budget £ million

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Receipts other than negotiated refunds and VAT abatements									
Agricultural Guarantee and Guidance Fund	418	601	735 ⁽¹⁾	830 ⁽¹⁾	1,233 ⁽¹⁾	1,312	1,300	1,449	1,567
Social Fund	115	105	112	174	260	226	282	284	284
Regional Development Fund	117	119	136	125	177	190	236	252	268
Refund of own resources collection costs	112	110	113	131	133	149	147	151	154
Other receipts	19	35	32	43	43	665	627	688	681
Total	781	970	1,128	1,303	1,846	2,065	2,106	2,286	2,378
Negotiated refunds and abatements									
Financial mechanism	—	211	-211 ⁽²⁾	—	—	—	—	—	—
Supplementary measures (gross)	—	434	1,170	774	239	590	—	—	—
Vat abatements	—	—	—	—	—	—	825	819	850
Total refunds and abatements	—	645	959	774	239	590	825	819	850

(¹)The pattern of agricultural receipts between 1981-82 and 1983-84 partly reflects an uneven timing of payments
(²)The financial mechanism instalment received in 1980-81 was repaid in 1981-82 and converted into supplementary measures in 1981-82.

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550 Comparison with last White Paper

55 The projection of the UK's net payments to Community institutions in future years is higher than that contained in the last public expenditure White Paper (Cmd 9143), but the two projections are not directly comparable. The figures in the last White Paper did not take account of the increase in the VAT ceiling above 1 per cent, while future refunds were projected on the basis of a stylised assumption (concerning how large they were going to be, and at what point during the year they were to be paid over). It was explained that this refund assumption represented neither a forecast nor a negotiating objective.

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PERSONAL

CDP
5/Jan

PRIME MINISTER

Antony Acland

You will remember that he wanted to come and have a talk with you just before Christmas about the Foreign Office. Unfortunately there was a muddle over the time, and he missed his chance.

He is still very keen to have a talk if you are willing. You are out most of tomorrow. One possibility you might like to consider is Saturday afternoon at Chequers. He will be in the neighbourhood of Chequers at about 4.45 on Saturday if that happened to be convenient for you - although reluctant to break into your weekend.

Agree to ask him to Chequers for tea at 4.45 on Saturday? (If so, perhaps I could attend too).

CDP

Yes
ms

3 January 1985



INSTITUTE OF DIRECTORS

From the Director General

Director General
Sir John Hoskyns

21st November, 1984

The Rt.Hon. Margaret Thatcher, M.P.,
10 Downing Street,
London S.W. 1.

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pps R23

Dear Margaret.

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Telex 21614

Many thanks for your letter of 16th November which arrived while I was briefly abroad.

As you advise, I will keep the Schiller Institute at arms length. I would have preferred not to bother you with the papers but felt that, given the subject matter, you should see what they were saying. I have received some rather similar papers from time to time from the Duc de Grantmesnil (Kenneth de Courcy). I will not burden you with these but will check them out with Alfred first.

Yours ever

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10 DOWNING STREET

THE PRIME MINISTER

16 November 1984

Dear John

Thank you for your letter of 6 November with which you enclosed a letter and paper from Mr. Laurent Murawiec of the Schiller Institute in Wiesbaden, and for your subsequent letter of 12 November.

I share Alfred Sherman's assessment of the Schiller Institute and am unable to take Mr. Murawiec's paper seriously. To take but one example, the references to Western 'appeasement', 'moral weakness', and the 'New Yalta outlook' prevailing in Britain are clearly wide of the mark. In general the paper is a good deal stronger on unsubstantiated propositions than it is on facts.

I think the best answer, if you feel you have to reply, is a polite acknowledgement giving Mr. Murawiec no occasion to continue to press his views.

Yours
Margaret

Sir John Hoskyns, Kt.



10 DOWNING STREET

Prime Minister

John Haskyns

originally wrote sending you
a rather long paper
from an extreme right-wing
group (which he clearly
had not read). He then
wrote again, after
speaking to Alfred Sherman,
to disown any approval
of the views expressed.

CJP



Foreign and Commonwealth Office

London SW1A 2AH

14 November 1984

Dear Charles,

You wrote on 7 November enclosing, with a letter from Sir John Hoskyns, a letter and paper from a Mr Laurent Murawiec of the Schiller Institute in Wiesbaden.

We have made some enquiries both through our Embassy in Bonn and elsewhere about the Schiller Institute and its founder, Mr Lyndon Larouche, who is an American. The Schiller Institute is closely connected to the small extreme Right Wing 'European Workers' Party', which is led by Larouche's German wife. I have to say that these enquiries lead us to the conclusion that one should sup with Mr Larouche only with a very long spoon.

The contents of the Schiller Institute paper would seem to confirm the wisdom of this. It is a farrago of prejudiced and unsubstantiated propositions. We would not wish to attempt to comment on it in detail, but would simply draw attention as an example to the paper's comment on Lord Carrington: "the attitude of Henry Kissinger's business partner Peter Carrington has played a decisive role in convincing many pro-Western German policy-makers that nothing but a repeat of the performance of Neville Chamberlain and Edouard Daladier would be forthcoming from beyond the Rhine".

The description of Herr Brandt is equally eccentric. As an example of the Schiller Institute's judgement of international politics one might cite its description of the Reagan Administration's posture towards the Soviet Union as "equivocal" and such as to encourage the Soviets to proceed with their "planned strategic confrontation".

I enclose a draft reply to Sir John Hoskyns.

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

Bemaet

DSR 11 (Revised)

DRAFT: minute/letter/teletype/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Sir John Hoskyns Kt
 Director General
 Institute of Directors
 116 Pall Mall
 LONDON SW1Y 5ED

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PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

for your subsequent letter of 12 November

Thank you for your letter of 6 November with which you enclosed a letter and paper from Mr Laurent Murawiec of the Schiller Institute in Wiesbaden, ~~and~~ ^{we also share Alfred} The Schiller Institute from which Mr Murawiec writes is known to our Embassy. ~~It has close connections with a tiny fringe political party of the extreme Right wing, led by a Mrs Larouche, whose husband Lyndon Larouche, an American, is mentioned in the literature sent to you.~~ ^{Shenan's assessment of the Schiller Institute is not unhelpful to take}

~~It is difficult to know where to start in commenting on Mr Murawiec's paper, since the 'unpalatable facts' it purports to describe are so far outside our experience. Frankly I am unable to take this document seriously. The references to Western 'appeasement', 'moral weakness', and the 'New Yalta outlook' prevailing in Britain are clearly wide of the mark.~~ ^{now in the paper very wrong on facts.}

The paper reveals not only a disturbing sense of insecurity and ~~extremism~~ ^{extremism}, but also a startling ignorance of facts. We have made our commitment to the defence of the Federal Republic ~~absolutely clear.~~

In general the paper is a good deal stranger and unsubstantiated propositions than it is on facts. It is hard to take it seriously.

Enclosures—flag(s).....

OR.

I think the best answer, if you feel you have to reply, is a polite acknowledgement giving Mr Murawiec no occasion to continue to press his views.

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14 NOV 1984



INSTITUTE OF DIRECTORS

From the Director General

Director General
Sir John Hoskyns

12th November, 1984

C.D. Powell, Esq.,
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Dear Mr. Powell,

Thank you for your letter of 7th November. Perhaps you could, by copy of this note, tell the Prime Minister that I have since had an opportunity to talk about the subject of my earlier letter with Alfred Sherman. Alfred warns me that the Schiller Institute are dubious people and that we should take what they say with a very large grain of salt. He says that some of the things they say are right, some are wrong and there is often a note of right-wing hysteria in their analyses and proposals. All that may already be well-known to the Prime Minister, but I thought that I should mention it. As I said in my letter, I passed the papers on to her for what they are worth as I am obviously not qualified to judge in the foreign affairs field.

Yours sincerely,



10 DOWNING STREET

From the Private Secretary

7 November 1984

I am writing on behalf of the Prime Minister to thank you for your letter of 6 November and its enclosure. I will place your correspondence before Mrs. Thatcher and a reply will be sent to you as soon as possible.

(C.D. POWELL)

Sir John Hoskyns

Sir John Hoskyns

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10 DOWNING STREET

From the Private Secretary

7 November 1984

Sir John Hoskyns, the Director General of the Institute of Directors, has sent the Prime Minister the enclosed letter covering a paper from a Mr. Laurent Murawiec at the Schiller Institute in Wiesbaden.

I should be grateful for your advice and for a draft reply for the Prime Minister's signature by, if possible, Friday 9 November.

(C.D. POWELL)

C.R. Budd, Esq.,
Foreign and Commonwealth Office.

ecc



INSTITUTE OF DIRECTORS

From the Director General

Director General
Sir John Hoskyns

STRICTLY PERSONAL AND CONFIDENTIAL

6th November, 1984

*Pl. send to
FCO for
draft reply +
reference
CP
Ch*

The Rt.Hon. Mrs. Margaret Thatcher, M.P.,
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116 Pall Mall
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Dear Margaret,

I enclose a self-explanatory letter and paper from a Mr. Laurent Murawiec at the Schiller Institute in Wiesbaden. Mr. Murawiec rang me the other day to talk about the Schiller Institute's worries as regards the Greens in West Germany and the implications for NATO, etc. He said that he would send me something and I said that I would send a copy of it to you and to Geoffrey.

I have no way of judging the credibility or reliability of Mr. LaRouche but his vilification by the Soviet news agencies suggests that he is saying important things.

I asked Mr. Murawiec why he was ringing me, out of the blue, rather than talking to somebody at the Foreign Office. He said that they had given up attempting to talk to anyone in the Foreign Office or the State Department or their equivalents in West Germany. Too many of them had run out of mental energy for thinking about the Soviet threat while of course some of them - and particularly in the heavily penetrated West German government - were working for the other side anyway. They were therefore constantly looking around for people in other western alliance countries who were "prepared to face unpalatable facts".

I said that I would be able to get any paper he sent me directly into your hands and Geoffrey's. This I now do.

Yours ever

John

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Wiesbaden, October 30, 1984

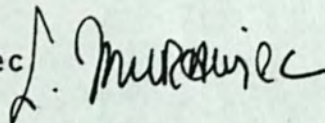
Dear Sir John,

Pursuant to our conversation yesterday, please find herewith a draft which outlines the basic views and proposals of the Schiller Institute and his initiator Mr. LaRouche, and also represents a 'self-introduction.' I have written the draft in separate form so that it can best serve the purpose discussed.

I look very much forward to our next discussion, in the hope that joint efforts can contribute to effect the urgent regeneration of steadfastness among our 'élites' and hope for our peoples.

Very sincerely yours,

Laurent Murawiec



It is the view of the Schiller Institute, a full presentation of which appears below, that the Atlantic Alliance and indeed, Western civilization as a whole face a life and death crisis in the weeks and months immediately ahead. The rising danger of a "Red-Green" seizure of power in West Germany, combined with the escalating policy of military intimidation and blackmail led by Moscow - one that could shift into military assault in short order - and the power of 'appeasement' in the West, represent a deadly combination that could bring Europe to fall into the Soviet sphere of influence, scatter NATO and leave the United States a crippled, isolated and impotent giant.

The recent local elections in North-Rhine Westphalia and Eaden-Wurttemberg have given an average 10% command of the electorate to the so-called "Green" party, an ecological-pacifist irrationalist movement better dubbed a 'nazi-communist' movement given its origins and connections, and its ideology. In several shocking, but important instances, that party gained 15% and more in major cities, making it West Germany's third political force, one committed to "making the Federal Republic ungovernable," in the words of one of its main leaders, of pulling in out of NATO and seeking 'reunification' on Russian terms.

Were Germany's political and intellectual leadership strongly opinionated, and more courageous than it has proved on recent record, the Greens' progress could be discounted as a temporary phenomenon. The response of all major Federal parties threatens the nation with dire consequences. Days after the Ruhr elections, President von Weizsaecker issued a call for "collaboration" with the Greens, while CDU leader Prof. Biedenkopf called for "a dialogue" with them. "If you can't beat them, join them," is the motto, at highest level. Green-imposed "issues" such as the pathetic "death of the German forest" have become major topics in their own right. A few years ago, Social-democratic leader Boerner had strongly condemned the Greens as "eco-fascists." This time is past. The SPD has decisively swung in the indicated Green direction, not the least under the impact of the disarmament and pacifist movement. Willy Brandt and his colleagues are fully committed to a violently anti-American policy of neutralization which seeks reunification under Russian tutelage. Foreign Minister Hans-Dietrich Genscher and his Liberals are Moscow's best negotiators in Germany, and in the West.

The situation strikingly resembles the 1932-1933 period, where from Chancellor von Papen to Chancellor von Schleicher, every shade of centrist and conservative opinion in Germany thought it had "a deal" with Hitler, whereby the Nazis would be safely integrated into government, and thus brought under control.

The destabilization of the Federal Republic conducted in particular through major media is acting as a second 'pincer' on a frail government. "Der Spiegel" has fanned the flames of the "Flick affair," discrediting the parties, parliamentarism and undermining the institutional framework. The hasty resignation of Bundestag President Rainer Barzel illustrates the lack of a capacity to resist and withstand pressure. Chancellor Kohl is now

himself on the firing line. The present government could fall within weeks, months with some luck.

At that point, the growing electoral strength of the Greens, the rising arrogance of the radicalized SPD, and the corresponding collapse in morale and fighting spirit of the CDU-CSU would pave the way to a Red-Green coalition, to which Germany's NATO membership and commitments would be of little, if any significance. Europe without Germany is strictly indefensible.

The Soviets have tested since the Spring, through land and naval manoeuvres, their ability to "cordon off" Europe and to launch a "Elitzkrieg" invasion of Germany. The sudden reappearance of Marshal Nikolai Ogarkov in East-Berlin has brutally contradicted those who saw in his 'dismissal' a sure sign that "the hardliners in Moscow have lost the game." Ogarkov now leads personally the operational command of Soviet troops on the one front which is considered to be of the utmost significance for the Soviet leadership: War Plan West. The continued escalation of their shameful "anti-revanchist" campaign against the FRG, the brazen military intimidation, the features of recent exercises which indicate unprecedented levels of operational readiness, should be as many clues of Moscow's intent to take by force what psychological and political warfare would not have achieved.

If Washington were sending strong, unambiguous signals to Moscow that any move whatsoever into West German territory would be *Casus belli*, to be met by the full force of America's strategic force, the type of adventure presently contemplated in the Kremlin - be it a surgical strike of short duration in Northern Germany or any other military action in Europe - could be successfully deterred. The equivocal profile adopted both in public and through 'back-channels' by the Reagan Administration has but encouraged the Soviets to proceed with their planned strategic confrontation.

Moscow considers Pres. Reagan's "Strategic Defense Initiative" as the Gordian knot in current world history. While their strategists were contemplating an ever-wider opening of the window of vulnerability, the advent of laser and beam weapons promises to nullify their strategic advantage in numbers, throw-weight and flexibility of nuclear warheads, just as the neutron weapon can decisively annihilate their superiority in armor. The Soviets started working on such weapons by no later than 1962, by their own admission, and have made great strides in the direction of acquiring an operational capability; granted, this would not give them a leak-proof protection, but, with the advantage of first strike, the terrorization of the West, their own civil defense programs and a solid anti-ballistic missile and air-defense, they hope to survive a nuclear war. The fact that it is a lunatic who holds the loaded pistol does not prevent the pistol from being loaded, nor the lunatic dangerous.

Worse for Moscow, the "NASA-style" impact of a crash program for beam weapon development would so lift the global productivity of the Western economies, with the large-scale application of lasers and plasmas to industrial processes, that the USSR would

be hopelessly thrown back into a situation of inferiority. The predicted "collapse of the West" would not occur, while at present, the financial troubles and banking collapses in the West, including the debt problem, are factored in the Soviet strategic plan.

This has not been perceived by the professionally-blinded Western experts. The State Department, among others, has obsessively clung to a policy of arms control at all cost, leaving no pebble unturned in the Soviet Politburo's Potemkin garden to discern "hopeful signs" that a new, or "more detente-minded," or "more realistic" strain would appear in the leadership. Fairy tales have complacently been spread concerning this or that Soviet leader's personal proclivities. The use of "back-channels" to "seriously negotiate" with a Soviet leadership which uses negotiations as a ploy of strategic deception has been passionately advocated. "Global deals" involving trade, technology and spheres of influence have been proposed, which all boil down to offering the Soviets a second slice of Europe, to follow up on that acquired in 1945 - a "New Yalta." Henry Kissinger has been the chief American proponent of that line, followed closely by Messrs. Harriman, Mondale, and what generally calls itself the "Eastern Establishment." McGeorge Bundy recently called in public for Germany to be abandoned to the Soviets without a fight. Major campaigns have been mounted in common, from the nuclear freeze to the purported nuclear winter, by representatives of that "Establishment" and senior RGE personnel visiting the United States.

None of these has been more evident than the assault against the Strategic Defense Initiatives. Contrary to tales spread by Fugwash-related experts and policy-makers, the operational deployment of directed-energy weapons is not a "long term" affair. America's top beam and laser scientists around Dr. Edward Teller reckon that "even without a crash program," at present levels of funding, a first-generation defense of command and control centers and nuclear sites will be ready for deployment within five years; an "overall defense" within five to ten years and a "leak-proof system" within 10 to 15. The delays can be considerably shortened under conditions of a crash program led in the way Franklin D. Roosevelt led America's war-time mobilization from 1938 on.

Why has President Reagan not forcefully pursued the public course of action initiated on March 23, 1983? While the Californian Guard of loyalists around him has been decimated away from the White House, a growing number of Eastern Establishment "liberals" have made their way back into the Administration. George Shultz, NSC head McFarlane, and, more than any other, Henry Kissinger, have gradually coached the President into "mollifying" his posture and "returning to an arms control policy," no matter what Soviet intents, preparations and actions indicated. A "Palace Guard" led by James Baker III has to a large extent taken control of the White House, evicting contrary influences such as that of Caspar Weinberger and that of William Casey, and the Joint Chiefs. The "reduction of American power projection" advocated by Kissinger has inclusively led to the withdrawal from Lebanon, the virtual abandonment of allies in the Middle East; to passivity in view of Kadhafi's African

adventures; to accepting that the Philippines be subjected to the same horror as was inflicted upon the Shah's Iran; and, worst of all, Germany has been told that the American commitment is half-baked, uncertain, dependent on the vagaries of Senatorial amendments and Congressional disbursements. The same Kissinger suggested to pull half of the American troops from Europe.

The spirit of Western appeasement has not remained unnoticed in Germany. Those there who seek encouraging views in Washington, London, Paris, etc., have been struck by such recent statements as Mr. Andreotti's comment on "Pangermanism." The attitude of Henry Kissinger's business partner Peter Carrington has played a decisive role in convincing many pro-Western German policy-makers that nothing but a repeat of the performance of Neville Chamberlain and Edouard Daladier would be forthcoming from beyond the Rhine. The "battle for the soul" of Ronald Reagan and his Administration is of immediate import in Bonn. As soon, for instance, as Mr. Strauss felt that some increased resolve was manifested in Washington, as epitomized by Mr. Weinberger's Stresa offer to the NATO Nuclear Planning Group and President Reagan's second televised debate with W. Mondale, which prominently featured the SDI at the President's initiative, he became Germany's first leading political figure to embrace heartily the SDI perspective, and abandon his own, somewhat ambiguous posture of increased neutralism and friendliness towards the East, and re-espouse a "pro-American" policy.

The Schiller Institute proposes that Moscow be told in no uncertain words that under no circumstances will the United States and NATO accept the slightest infringement on German sovereignty and integrity; that NATO is committed to the Strategic Defense Initiative, and the various offers made within its framework by the President; and that it should forthwith abandon its dreams of world hegemony based on the prevailing idea in Moscow that the final collapse of the West is nigh, and to be accelerated. Moscow's strength lies not with its military superiority, but rather with the Western world's moral weakness, its inability - and that of its elites - to face raw facts, and especially the raw fact of Moscow's own designs. As long as Mother Russia encounters principally the self-deluded and suicidal spirit seeking a 'new detente' on our side, it will feel that the course undertaken with the shooting of the KAL 007 airliner is the one of least resistance, and least danger.

Moscow's imperial game represents fundamentally the historical tradition of Holy Mother Russia considered as "The Third Rome," the capital of the "third and final Rome," whose messianic mission it is to take over the world. This violently anti-Western conception, which became dogma to Russia's culture since 1510, embodies the Mongol-Byzantine heritage of modern Russia. The racist, master-race slavophile ideology dictates that the "Blood and Soil" of Mother Russia be, as edicted by an Orthodox Church whose fundamentals are resurfacing in the State's and the civil society's consciousness, the Sacred root which the world should heed. The State Bureaucracy, as in the Byzantine Empire, rules the military and the religious branches of government, on behalf of the expected offensive against the "decadent, corrupt West" denounced by Dostoevsky, Tolstoy et al.

THE SCHILLER INSTITUTE

The Schiller Institute was created this year as the crucial center for organizing the fight against the decoupling of Europe and the United States. It aims at organizing both in the United States and in Europe a "general staff" for a preventive resistance movement against finlandization and the Soviet military threat. Institute founders are Mr. Lyndon H. LaRouche, the American political figure, and his wife Helga Zepp-LaRouche, of Germany. Mr. LaRouche's political action committee in the United States, the National Democratic Policy Committee, received several million votes during the primaries; its several thousand candidates campaigned on a program of mobilizing America to save Europe, and especially Germany, from imminent Soviet danger. Mr. LaRouche bought a total of fourteen nation-wide half-hour prime-time television shows since Jan. 21, the last two being his "What is Mother Russia all about" of Sept. 30 and "Walter Mondale and the danger of fascism in West Germany," aired on CBS-TV on Oct. 23. Mr. LaRouche will purchase three half-hours of prime-time television on election eve, to further his campaign to defeat Walter Mondale and the Harriman-Kissinger alliance behind it; to impose the acceleration of the SEI into a crash program modelled after the 'Manhattan Program' or the Apollo Project; to mobilize America to support Germany and Europe and stop the drifting apart leading to decoupling.

The Institute's first international conference was held in Arlington, Virginia on July 4. One thousand participants, including one hundred Europeans, convened to elaborate strategies. Military, reserve officer and patriotic organizations, ethnic and captive nations organizations, labor unions and industrial layers were the principal contingents. So were they at the second conference held in September in Wiesbaden, West Germany, which was attended by more than one thousand coming from 20 countries, including the USA, Canada, Britain, France, Portugal, Norway, Sweden, Denmark, Belgium, the Netherlands, etc.

Soviet reactions to the Institute are clear-cut: Mr. LaRouche has variously been branded "the CIA-funded neo-Nazi Fuehrer LaRouche," "the imperialist cannibal," the "troglodyte" and various other niceties by Pravda, Izvestiya, Literaturnaya Gazeta, Neues Deutschland, etc. From the Washington Post to the Economist (of London), similar epithets have been pouring in.

On Oct. 17, the Schiller Institute decided to challenge the Green Party of Germany in its own unchallenged 'fief,' the streets, and distributed one million leaflets in 100 German towns, calling upon the population to rise against the Red-Green menace as it should have against the Brown in 1933. This created the otherwise lacking margin of courage for politicians and editorial writers in the country to start, at long last, naming a spade a spade, and the Greens as Nazi-Communist movement.

While the Institute has acquired a justified reputation of strong opposition to Moscow's plans and men in the West, it has

also, at a fundamental level, insisted that the present crisis is one of moral and intellectual leadership. If elites in various countries have betrayed their duty to lead and enlighten, and left populations easy prey to manipulators, a return to the Classical tradition of Western, Judaeo-Christian civilization, best exemplified by the Italian Renaissance, Germany's Weimar Classics and the American revolution is all the more necessary. The tradition of Schiller, Shakespeare, Milton, Dante Alighieri or Beethoven is what the West is fighting for. The sacredness of the individual life, the spirit of conquest and self-perfection and their modern embodiment in the idea of progress through scientific, technological and agro-industrial developments, are what we should be imbuing our populations with. The moral, intellectual and artistic decadence in the 20th century have accelerated the advent of the desolate collapse of all values within which there remains no reason for the Western population to fight for. For this reason, the Institute has elected to name itself after Germany's classical "Poet of Freedom."

As much as Soviet superiority in terms of military hardware poses a formidable threat to the West, the fact that the Western elites have essentially abdicated, on the record of the past decades, and have tolerated, if not encouraged in many cases, the evolution that has led to today's crisis, must be considered the crucial problem begging urgent solution. Britain, whose elite has certainly been, in comparison with the elites of continental Europe and America, the best functioning one, knows the price to be paid when the leadership refuses even to face raw facts and grapple with reality, and is overtaken by wishful thinking of the type: "We have seen and weathered many crises before... let us therefore stick to business-as-usual," or the more decadent Great Game of playing Empire against Empire in the hope of manipulating both. These "elites" manifest inability to face today's acute strategic danger must urgently be overcome.

This has not been the least factor prompting the establishment of the Schiller Institute, which has taken upon itself, as a private organization, to organize and catalyze an international "resistance movement" opposed to decoupling and "finlandization." It was the absence of the required action on the part of official and established institutions, their lack of an analysis, not to speak of a strategy, which justified, and still justifies, the action of the Institute.

The Institute will hold its third international conference in Washington on Nov. 24/25, and plans to bring in 2,000 to 3,000 people from 100 nations, who will inclusively present 'policy papers' aimed at influencing the elaboration of policy by the new Reagan Administration. Among them will be many representatives of governments, business and labor organizations, as well as strategic and military experts. A large part of the conference will be devoted to economic problems, and especially the necessity of launching large-scale infrastructural projects in the developing sector (waterways, roads, railroads, energy, etc.) as an indispensable component part of a genuine world economic recovery. Debt reorganization and the provision of new, cheap, long-term credit is considered integral to the package. The tempests threatening the U.S. currency and others, the banking system and the overall financial fabric of the Western world add

further urgency.

Concerning Britain, finally, it is the hope of the Schiller Institute to contribute in fostering what we may deem a 'Churchillian reflex' in the country, tapping its vast, underlying resources of patriotism and fighting spirit. Britain's role in the overall process of re-mobilization of the West, whatever past strategies, must be brought to the fore. Her influence, once freer from interferences due to the 'New Yalta' outlook, a new Munich rather, and her resources, can play a major part in saving a situation otherwise headed to the brink of a confrontation that the West may well lose.

To sum up the above, the Schiller Institute insists on the following, major points:

- the unmistakable urgency of the situation of West Germany, and the state of emergency in which the Atlantic Alliance finds itself as a result
- the necessity of initiating a crash program to develop and deploy directed-energy weapons
- the need to decisively rebuke Moscow's hopes and intents to bring Western Europe within its sphere of influence in the immediate future
- an end to the policy of appeasement and 'deals' with the USSR
- a science-driven economic regeneration of the West's industrial-technological base, notably through the outlined crash-program approach to defense; and a simultaneous reorganization of international debt so that in-depth economic growth can be reestablished, particularly in the developing sector
- a reviving of the Atlantic Alliance based on these principles.

CDP ✓

No H. H.
Cer

Telephone FCO regarding your
letters (CDP to MOD 29/8 & CDP to
FCO 27/7)

FCO now state that they are
not producing a paper in liaison
with MOD but MOD are giving
the points raised in their
briefs for Anglo/German &
Anglo/French Summits.

Do you wish me to follow this
up for confirmation & information?

Margo.

2/11/84.

SUBJECT
cc Master.file VC2 AAS
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10 DOWNING STREET

From the Private Secretary

29 October 1984

The Prime Minister had one of her regular chats with Sir Percy Cradock and me this evening.

The Prime Minister identified East/West relations and the Middle East as the two main areas in international affairs in need of attention in the next few months. She agreed with Percy Cradock that President Reagan's main foreign policy goal, if re-elected, would probably be to leave his successor a reduced level of tension and risk in US/Soviet relations. She was intrigued by the signs of increased boldness in Eastern Europe, and pleased that the Foreign Secretary would be visiting a number of East European countries in the spring. She wondered, however, whether Gorbachev would go through with his visit to the UK: there seemed to be uncertainty over his position in the hierarchy.

In the Middle East, the Prime Minister agreed with Percy Cradock on the need to urge the Americans to an early initiative after the Presidential elections, but was cautious about a further statement by the Ten. She did not exclude this. But it must not just be words, it would have to have a sound intellectual basis and help the Americans rather than just show them in a bad light.

The Prime Minister saw real prospect of advance in Southern Africa, particularly in terms of the withdrawal of Cuban troops from Angola and a settlement in Namibia. Indeed she thought this might offer, with Central America and East/West relations, one of the success stories of the second Reagan administration.

The Prime Minister agreed on the need for a clear UK position on the Strategic Defence Initiative, but remained anxious not to lecture the Americans on a subject on which their technical expertise far exceeded ours. She agreed that the US administration might use the SDI as a lever to get the Soviet Union back to the negotiating table on other arms control subjects. She regretted the rather messianic way in which the SDI had been introduced. I had been a fundamental error to suggest that it was possible somehow to do away with nuclear weapons. But it was essential for the Americans to match Soviet technology in BMD.

TS

The Prime Minister remains worried about chemical weapons and thought it might be necessary for the United States to revive its capacity in this field.

The Prime Minister is keen to make the most of her brief visit to Peking, and wants to examine what contracts or agreements might be associated with it.

The Prime Minister remains wary of signs of resurgent nationalism in Germany, which she detected in a television interview which Chancellor Kohl gave in Austria (which she saw on holiday) and found confirmed in Sir Julian Bullard's recent First Impression Despatch. She had mentioned her unease to President Mitterrand, and found that he shared it, at least in regard to resurgent interest in German re-unification.

In a brief review of other problem areas, the Prime Minister mentioned in particular the risk of an Indian attack on Pakistani nuclear installations, Israel's sale of arms to Argentina (which she very much hoped that Sir Geoffrey Howe would raise during his current visit) and international terrorism.

I should be grateful if you would treat this letter as very strictly for the personal information of Sir Geoffrey Howe and Sir Antony Acland only.

Charles Powell

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

E. R.
PRIME MINISTER

MEETING WITH SIR PERCY CRADOCK, 29 OCTOBER

Points which you might like to raise with him are:-

(i) His move to become Chairman of the JIC.

This is planned for January. He intends to maintain his office here as well.

(ii) Ballistic Missile Defence. There is to be a Ministerial meeting on Thursday to discuss our attitude to the Strategic Defence Initiative. You might like to try out your views on Percy.

(iii) Mr. Gorbachev's visit. It might be helpful to discuss how to get the most out of this.

(iv) Your visit to Peking. You will want to have some ideas to take with you on the future development of our relations with China.

(v) Middle East. We need to consider carefully how best to influence the Americans to come forward with a sensible initiative on the Middle East after the Elections. The prospects don't look very good.

C.D.P.

26 October, 1984



Foreign and Commonwealth Office

London SW1A 2AH

14 September 1984

T Flesher Esq
10 Downing Street
LONDON
SW1

Mr Flesher *of*

Dear Tim

GOVERNMENT OBSERVATIONS ON THE FOREIGN AFFAIRS COMMITTEE'S
FOURTH REPORT ON THE FCO AND ODA SUPPLY ESTIMATES 1984-85

We propose to publish on Wednesday 17 October a White Paper giving the Government's observations on the FAC's 4th report on FCO and ODA estimates. The Report attracted some press interest so there may be similar interest in the response to it.

I should be grateful if you, and those to whom I am copying this letter, would kindly confirm that there is no objection to publication.

Phil Johnson
P H Johnson
Parliamentary Clerk

cc: D C R Heyhoe Esq
Office of the Lord Privy Seal and
Leader of the House
70 Whitehall
LONDON
SW1

C Roberts Esq
Chief Whips Office
12 Downing Street
LONDON
SW1

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10 DOWNING STREET

From the Private Secretary

29 August, 1984

EUROPE AND DEFENCE

The Prime Minister has read the Defence Secretary's minute of 10 August and the Chancellor's of 21 August commenting on the Foreign Secretary's note on Europe and Defence of 25 July.

The Prime Minister has commented that she doubts the need for so many "general point" papers since they get nowhere. If there is something new and significant to be said, let it be expressed in concrete and specific terms. The FCO are, I hope, considering with your Department whether a worthwhile paper meeting this criterion can be put together, as requested in my letter of 27 July to Colin Budd.

I am sending copies of this letter to the Private Secretaries to other members of OD and to Richard Hatfield (Cabinet Office).

(C.D. Powell)

R. Mottram, Esq.,
Ministry of Defence.

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10 DOWNING STREET

From the Private Secretary

28 August 1984

Defence Strategy

The Defence Secretary sent the Prime Minister on 26 July two papers by the Chiefs of Staff on strategy within and outside the NATO area.

The Prime Minister read the two papers during her holiday. She has not commented on them.

I am sending copies of this letter to Colin Budd (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Charles Powell

Richard Mottram, Esq.,
Ministry of Defence.

SECRET UK EYES A

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CPK
BF to CP
OIR

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

EUROPE AND DEFENCE

I have seen the Foreign Secretary's minute of 25 July and your comments recorded in your Private Secretary's letter of 27 July, together with those of the Defence Secretary in his minute of 10 August.

2. I am not entirely clear what "difficult resource decisions and political choices" the Foreign Secretary has in mind in the second paragraph of his minute. The fact is that, given the very great difficulty of reconciling the substantial bids for additional resources which the Ministry of Defence has submitted with the public expenditure planning totals for future years agreed by Cabinet on 5 July, we do indeed face difficult decisions in the near future on the resources to be allocated to defence. Against that background, I very much agree with the Foreign Secretary that the need is to present actively, to the Americans and others, not only the scale of the resources which we are putting into the Western defence effort, but also the ways in which we will be further improving the effectiveness of that contribution without a real growth commitment after 1985-86.

3. Improved European co-operation in arms production can be one means of increasing the output provided by the existing level of resources allocated to defence. In his minute, the Defence Secretary has set out the ways in which we are seeking to expand the range of such co-operation. I welcome this activity, provided we are clear that our primary objective in equipment procurement is value for money. The aim must be the provision of cost-effective and competitive equipment which meets real operational needs. In this context, I must say that I continue to have some reservations about the motives and approach of some of the IEPG and Eurogroup members. I understand, for example, that Geoffrey Pattie reported after the last IEPG meeting that most of the other members seemed to favour strongly protectionist policies and a predominant role for governments rather than industry in fostering and



organising collaborative activities. If such protectionist attitudes prevail, they will heighten rather than reduce the more general US/European strains in the Alliance, perhaps putting at risk our efforts to increase UK sales of defence equipment to the US. Through inefficiency and waste they will also inevitably increase rather than reduce the pressure on resources.

4. I am copying this minute to other colleagues in OD and to Sir Robert Armstrong.

Margaret O'Hara

N.L.

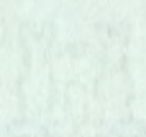
21 August 1984

*(Approved by the Chancellor
and signed in his absence)*

Fowler
policy
Strategy pt 2



CONFIDENTIAL



etc (2)



Prime Minister
You will want to see
the Defence Secretary's &
Chancellor's minutes. The
former is rather complacent.

MO 32/4

PRIME MINISTER

I doubt we need
for 10. many
general papers.
M.I
They get
nowhere. CDP
20/8.

EUROPE AND DEFENCE

The Foreign and Commonwealth Secretary copied to me his minute of 25th July and I have seen your comments in your Private Secretary's letter of 27th July. I agree, of course, with the general objectives in the Foreign Secretary's note: I might comment on some of the specific action in hand in the areas of concern he raises.

2. As to the problem of US concerns over burden sharing, I intend, as Chairman of the Eurogroup, to use the December Ministerial meeting as a vehicle to underline the real and substantial roles Europeans play in Alliance defence. Eurogroup permanent representatives have recently met in Brussels to discuss what more can be done and specific actions are in hand to promote in the US media a better understanding of the European contribution. Exercise LIONHEART should also help in showing the scale of one European country's contribution though it is inevitably proving difficult to attract key US figures to attend the exercise in election year. There is, of course, no easy answer to these US concerns; we just have to plug away both on presentation and on seeking sensible answers to emotive policy issues, such as the argument over infrastructure.

3. On relations within Europe I agree that we must guard against the development of a Bonn/Paris axis. But I do not see this looming - from the perspective of defence Ministers and Ministries at least. We here have close links in terms of collaboration and defence planning with the FRG and good relations with France on both the procurement and defence staff sides. I have deliberately sought myself to build



up a personal relationship with both Dr Woerner and M Hernu. We meet bilaterally at Summits and in the case of Dr Woerner regularly at NATO meetings; because of Italian sensitivities we are no longer meeting trilaterally but there are other opportunities for meetings related to equipment collaboration.

4. Dr Woerner certainly has very good relations with M Hernu and they meet regularly, but this seems to me to be all to the good provided that the Anglo/German relationship is also in good repair. To give one indicator this year Dr Woerner and I have paid a joint visit to British Forces Germany and we intend jointly to visit Exercise LIONHEART in September. I think myself that the Germans are under no illusions about the importance of our contribution to the defence of their country (as well thereby to our own).

5. In equipment terms the scope of our collaborative activities with Germany on defence equipment exceed Franco/German efforts: we are involved with the Germans in Tornado, Field Howitzer 70, the Self Propelled Howitzer SP70, and the European missile programmes AIM 9L and ASRAAM. We also sell more equipment direct to the Germans than do the French. We are involved with both countries in the third generation anti-tank guided weapon (TRIGAT), the Multiple Launch Rocket System and in seeking a 5 nation European Fighter Aircraft. Here too then we must guard against an over dramatic picture.

6. On other possibilities for European collaborative equipment programmes, working through the Eurogroup and the IEPG we have taken the lead in establishing a programme of work against specific deadlines leading to a full review of collaborative possibilities by Ministers (including M Hernu) at a meeting in November. The IEPG under vigorous Dutch chairmanship, and with our assistance, is pursuing other important initiatives - for example, producing a co-ordinated response to the American approach on emerging technology.



7. There is too the forthcoming WEU meeting which will provide yet another means of underlining the political importance attached to increased European collaboration. In none of these fora are the British, so far as I know, in danger of being marginalised.
8. I will report further as specific opportunities unfold.
9. I am copying this minute to the Foreign and Commonwealth Secretary, the other members of OD and to Sir Robert Armstrong.

Wright

Ministry of Defence
10th August 1984

Foreign Policy Strategy Pt 2.

13 AUG 1984

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JWRADU

be PC

10 DOWNING STREET

From the Private Secretary

3 August 1984

THE DIPLOMATIC SERVICE

Under cover of his letter of 23 July, Len Appleyard sent me Sir Derek Day's "Final Thoughts" about the Diplomatic Service. As suggested in his letter, I have shown them to the Prime Minister.

The Prime Minister has read "Final Thoughts". She has decided to refrain from general comment on them.

It is evident, however, that she disagrees with a number of views expressed. In particular, she does not approve of the notion that we should adopt a less activist and interventionist foreign policy or should withdraw from involvement in various issues or parts of the world. She knows of no grounds for believing that the Government regard public servants with disdain. While noting the complaint that cash planning is a blunt instrument, she finds no useful ideas in Derek Day's note on what would be a more effective way of managing the Government's finances.

On the other hand, the Prime Minister has some sympathy with the view expressed in paragraph 13 that once guidelines for expenditure have been set those responsible for individual Departments should be left to get on with their job.

I am sending a copy of this letter to Michael Jay in Sir Antony Acland's Office.

(CHARLES POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER

THE DIPLOMATIC SERVICE

Geoffrey Howe has sent you Derek Day's thoughts about the Foreign Office, after two years as Chief Clerk. He recommends that you read it, and reckons that the views expressed are widely held in the Diplomatic Service.

Derek Day's message (Flag A) is that the Diplomatic Service's work load has grown considerably while its numbers and resources have been reduced. Something will soon give. Either the Diplomatic Service will have to abandon tasks or areas of the world; or it will need more people/money. Cash planning is rebuked as a blunt instrument which does not distinguish between the desirable and the unavoidable, and which needs to be replaced by a more selective and sophisticated approach (no details given however). Finally, there is a piece on the Government's apparent disdain for the public service in general and the Diplomatic Service in particular, and the effect this has on the Diplomatic Service's morale and ability to do its job.

That is not the only way of looking at it.

Tasks have indeed increased but the FCO has not adapted itself to deal with them to best advantage. Both in London and abroad there is too much attention to hierarchy, with decision-taking pushed inexorably upwards. The result is a congestion of work in the upper ranks, duplication of effort and over-emphasis on presentation and elaborate briefing. Too much of the FCO's work is generated by the internal bureaucratic needs of the organisation rather than the real needs of the country.

One effect is to make the Diplomatic Service stolid and ponderous instead of eager and original. It is also

obsessed with its image and with criticism of it. This makes it defensive about itself, which often spills over into being unnecessarily defensive and apologetic about Britain.

There is also a Foreign Office way of looking at the world which successive Governments and Foreign Secretaries do remarkably little to change. It tends to assume the best in others, to discount the likelihood of the worst happening and to wrinkle its nose fastidiously at too vigorous a pursuit of British interests. At worst it can degenerate into a tendency to pre-emptive surrender.

None of this is to dispute or belittle what the organisation can do when put on its mettle, nor the very real courage which is often shown in difficult and dangerous situations abroad.

Something certainly needs to be done. Much rests with the Foreign Office putting its own house in order. There are few, of my generation at least, who want to see the problem tackled by the country pulling in its horns or by recruiting more people into the Diplomatic Service. Geoffrey Howe is right to be sceptical of both those. There is plenty of scope to get more out of existing staff above all by more devolution of responsibility. Eliminating minute central control by the Treasury of every expenditure decision would help. A better motivation is essential.

But at the bottom of it all is the question of resources.

You might like to see, quite off the record, the attached resignation minute (Flag B) by a young man (a scientist in fact) who is just leaving the FCO after ten years to go off into industry. It sums up some of the frustrations, of which I think the most significant is the

feeling that declining resources going into overseas expenditure mean that members of the Diplomatic Service face a hopeless task. There is an interesting parallel here between Geoffrey Howe's frustration as Foreign Secretary about resource constraints reflected in his minutes to you and the personal consequences drawn by an individual way down the hierarchy. There is also a lesson in the enormous effect on morale in the police and the armed forces of the Government's decisions to devote more resources to their activities.

I don't think Geoffrey Howe expects any comment - though both he and Anthony Acland would be very interested in any which you were to make.

Some things are best left
unsaid
not

C.D.P.

C D POWELL

1 August 1984

SLHACJ



Foreign and Commonwealth Office

London SW1A 2AH

23 July, 1984

Dear Charles,

Sir Derek Day, who has just been appointed High Commissioner in Ottawa after six years in London, the last two as the FCO's Chief Clerk has written some very frank 'Final thoughts' about the Diplomatic Service. Sir Geoffrey Howe has discussed the minute with Sir Antony Acland, who agrees with it, and Sir Geoffrey judges that the views expressed by Sir Derek Day are pretty widely shared in the Diplomatic Service. He thought that when the Prime Minister has time - and there is certainly no hurry - she might like to read it.

Sir Geoffrey has three comments on the minute. He does not instinctively agree with the suggestion (paragraph 5) that we should adopt a less activist and interventionist foreign policy or should seek to withdraw from various subjects or parts of the world. Certainly he finds it difficult to endorse either of the specific suggestions made by Sir Derek Day. But he is taking a hard look at existing activities along the lines suggested by Sir Derek Day. He also believes, however, that we must recognise that an active foreign policy does require appropriate resources.

Second, Sir Geoffrey agrees that the need is to check and, if possible, reverse the growth of multilateral meetings referred to in paragraph 2(b) of the minute. He is determined that we should do all we can to resist the tendency for still more meetings, though we shall have few friends. Even so, he intends to fight hard against the kind of institutionalised expansion which is so evident, for example, in the context of the EEC enlargement. Meantime, this is an unpalatable fact of life, which will continue to put a considerable demand on resources.

Third, Sir Geoffrey is struck by the extent to which growing parliamentary activity is adding to the burdens of government: for example, the number of man-days spent abroad by parliamentary select committees has more than doubled (from under 500 to over 1,000) in the last five years. And we had over 300 Parliamentary questions last week. But these, of course, are problems which affect a number of other departments too.

*Yours ever,
L V Appleyard*

C D Powell Esq
10 Downing Street

CONFIDENTIAL

(L V Appleyard)
Private Secretary

FROM: Derek Day

DATE: 9 July 1984

PUS

cc: Private Secretary
Chief Clerk

SOME FINAL THOUGHTS

1. Since returning to the FCO in 1978, I have spent approximately 2 years as a geographical AUS, 2 years as a regional DUS and the last 2 years plus as Chief Clerk. In each capacity I have visited a number of posts ranging from the largest (Washington) to some of the smallest and most remote (Ulan Bator and Luanda). This has given me a fairly comprehensive picture of the Service at home and abroad. What impressions have I formed?

The Office in London

2. The pressure upon Ministers and officials in London is now greater and more constant than at any time that I can recall. There are a number of reasons for this:

- a. New crises arise (eg Falklands, the Gulf War, Central America) without others (eg Arab-Israel, Namibia, EC Budget) dying away. The overall load therefore increases;
- b. the growth of political cooperation - quadrilateral, the Seven, the Ten, NATO, Commonwealth, Western Groups in international organisations - involves more meetings, more briefing, more reporting, more travel;
- ? c. the 'new' diplomacy - economic, financial, technological, scientific - is a growth industry;
- d. Parliament, the public and the media make greater demands upon us. Select Committees command increased attention; correspondence with the public, through MPs, is on the increase; the media focus constantly on the international scene, and increased effort is required to keep the record straight;
- e. the monitoring role of the Central Departments has developed consistently in recent years: more and more returns are expected and scrutinies undertaken.

3. This new or increased activity is superimposed upon the normal and more routine bilateral diplomacy - trade promotion, consular protection, information activity, political reporting and the like. All of it has to be directed and serviced from London and advice provided for Ministers.

4. The Office just manages to meet and hopefully satisfy these demands. But it is a close run thing. This is achieved by dint of hard work and long hours. A 12 hour day in the Office is not

/uncommon

uncommon among the more senior staff, particularly at times of stress: a 10 hour day has become the normal pattern for many. Staff can be motivated to accept this in times of crisis. It will become more difficult to do so if pressures remain indefinitely at the current level. Extra manpower in London would help, though there is a limit to the number of people who can usefully be deployed on a complex and rapidly evolving problem. In any event, additional manpower is ruled out by Government policy on Civil Service numbers.

5. What is the answer? We could withdraw staff from overseas to reinforce departments in London. This, however, would only transfer the problem elsewhere since there is little, if any, slack, overseas. The other possibility is for us to adopt a less activist and interventionist foreign policy. There will always be areas in which we shall have to be fully engaged - NATO, the European Community, the US connection, the Commonwealth. But in certain areas, and in respect to certain issues, we could perhaps pursue less forward policies and thus reduce the pressures upon Ministers and officials. Do we really need to play such an active role in so many of the issues that come before the UN? Could we not let others take the lead, unless our vital national interests were engaged? Do we still need to engage ourselves in all aspects of Middle East/Gulf affairs where our ability to influence events is necessarily limited? My point is that our reduced resources of manpower and money, coupled with the imposition of new and unavoidable demands, must oblige us to consider whether we can or should try to cover all developments in the international scene. If HMG conclude that they should, then adequate resources must be made available. Otherwise we should aim to do properly what really matters to us rather than operate less effectively over the whole field.

The Service Overseas

6. Manpower is less of a problem overseas. This is not to say that Heads of Mission have not pressed me in the past couple of years for increases in staff. The pressures are not, however, as persistent as in London, and I judge that we have now got the size of overseas posts about right. Where change is justified, this is normally picked up by the Inspectoral system. Furthermore, Heads of Mission themselves are taking a more positive interest in management and some have offered reductions in staff outside the Inspectoral cycle.

7. It is overseas that the financial constraints bite most sharply. Travel budgets, entertainment allowances, and Estate maintenance and furniture funds have been reduced over the years and are now below what is desirable and necessary. We do not have the resources to rationalise the Overseas Estate, and therefore, in the long run, incur greater expenditure than we need. The eventual loser is the tax-payer. Some allowances remain frozen, to the point of absurdity. The £250 Climatic Clothing allowance is scarcely realistic at current prices.

8. The provision of even a modest amount of additional funds (in terms of overall Government expenditure) would ease our difficulties. Further reductions can only compound them. It is therefore of critical importance that we are successful in obtaining at least our priority additional bids in the current PES round. If we do not, something will have to give. Otherwise we will face deteriorating standards and conditions at many posts overseas. As with the FCO in London, we will have to decide whether to do a proper job in fewer places or an inferior job in all those places where we are already represented. I would argue most strongly for the former option if the choice has to be made.

Cash Planning

9. We now have several years experience of cash planning. Overall the concept makes sense. Some limit has to be set to the sums available for public expenditure. Cash planning is, however, something of a blunt instrument, and now that it has achieved its main objective of bringing Government expenditure under control, there is a need for a more selective and sophisticated approach. For cash planning as at present applied makes no distinction between what is unavoidable and what is desirable. It is not geared to meet unforeseen and unavoidable demands which may arise and for which compensating savings cannot readily be found. 'Increased productivity' or 'reallocation of resources' are fine in theory, but rarely, in practice, provide an acceptable solution. I do not advocate the abandonment of cash planning. It provides a good discipline. But the time has now come to apply a less doctrinaire and inflexible approach to financial planning by the Treasury. The current annual horse-trading between the Treasury and individual Departments cannot be the most effective way of managing the Government's finances in the national interest.

what is?

Management of the Public Service

10. This has been given high priority in recent years, and rightly so. As a major employer HMG need to concern themselves with relations between management and staff. I am concerned that this relationship has deteriorated in recent years. I detect two weaknesses.

11. Firstly, HMG, while preaching improved management, have not themselves practised it. The Cabinet is, in effect, the Board of Directors of UK Ltd. If they seek to achieve increased productivity, greater efficiency, and overall economies, they need to carry their employees with them. If they want to retain the enthusiasm and loyalty of their staff, they must provide proper motivation. If they call for greater effort without a corresponding increase in remuneration, they have to demonstrate some recognition and respect for their work-force. This essential element of confidence and respect between management and staff

/has

has been undermined in recent years. There is a feeling within the Public Service (including some elements of the Diplomatic Service) that the Government regard the Public Servant with some disdain. The media feed upon and exaggerate these trends. The attempts that have been made to correct these impressions have not carried conviction. As a result an atmosphere of confrontation has developed. In part this can be attributed to a militant and politically motivated minority within the Civil Service Trade Union movement. It would, however, be unwise to assume that it does not reflect a genuine disillusionment amongst many loyal and dedicated public servants, a number of whom will be filling senior posts in the Civil Service in the years ahead. The country, and future governments, will suffer if the current trend is not reversed. Some very careful thought is therefore needed if lasting damage is to be avoided.

12. The Diplomatic Service has a particular interest in this matter. If the impression gains currency that the Service is not trusted or respected by the Government and the nation, this is bound to affect adversely our ability to represent the nation's interests overseas. Other Governments will not take seriously a Service which is believed not to enjoy the confidence of its own people.

13. The second managerial weakness is the extent of central direction and control over individual Departments. Having agreed fixed manpower and financial ceilings, Departments (and Departmental Ministers) should be given discretion to operate within those ceilings as they judge best. And yet we now have a system in which some decisions taken by Ministers which have financial or manpower implications have to be monitored and cleared at Assistant Secretary level in the Treasury even if existing ceilings are not to be exceeded. We even have scrutinies of the Rayner Scrutiny system. This is management gone mad; and cannot be what the Government really intends. Overall control over financial strategy clearly has to remain at the centre, but once the guidelines have been set and figures agreed, those responsible in individual Departments should be trusted to get on with their job. If they fail, they are answerable to the PAC direct. This is a discipline - and a sanction - which should oblige every Department to be scrupulous in the management of its affairs. At present, we have reached a situation in which staff are having to be diverted from their proper task of the efficient and economic management of the Service in order to handle the constant flow of directives and questionnaires issuing from the Central Departments. This is not cost-effective.

Conclusion

14. I would not wish to conclude on a pessimistic note. The Service has much to be proud of and thankful for. We have a loyal, dedicated and conscientious staff. I believe we give value for money. Our

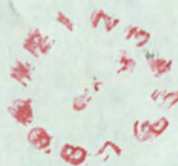
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reputation stands high overseas, in spite of the criticism we attract at home. We still manage to recruit high quality staff. We can therefore look forward to the future with confidence. My one misgiving is that we will be asked to do too much with the reduced resources available to us. This will be the crucial issue for Ministers and the FCO Administration in the years immediately ahead.

D. M. Day.

Derek Day

23 JUL 1984



RESIGNATION

1. As you may have heard I have submitted my resignation to POD and will be leaving the Office later this month. I felt however that I owed the Service which has treated me well over the last ten years at least a brief word of explanation.

2. - As a B.P planner once said to me 'we do not live in a monocausal world'. No single factor induced me to look for opportunities elsewhere. Rather it was a number of factors which coalesced and interacted.

3. First, I believe that public expenditure cuts have reduced job satisfaction at desk-level. From the excellent vantage point which Planning Staff provides it has become increasingly evident to me that so often departments can see all too clearly what needs to be done to promote British interests overseas but are unable to take the necessary action for lack of resources. The frustrations which this situation produces are likely to increase with time as the gap between our overseas interests (which are now likely to remain more or less constant) and the declining resources devoted to overseas activity widens. (Indeed, there is a strong case for arguing that as the historical advantages for exerting our influence that we have enjoyed wane, greater resources are needed merely to stand still). There is a distinct limit to the extent to which the gap can be narrowed by expecting officers in the FCO to work ever longer hours; it may already have been passed. Unless other action is taken to reduce the gap between interests and resources, the instances in which the FCO will be publicly blamed for events beyond Calais are likely to become more frequent. One consequence will be a continued decline in the morale of a Service which has not always received the governmental and public support it deserves.

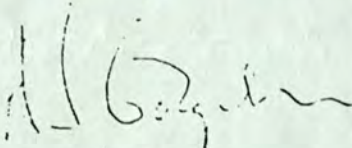
4. Secondly, the structure of the FCO is such that even the fliers (of whom I am not one) must spend at least 10 years slogging through Grade 5 before being given a real taste of responsibility. Lesser mortals take even longer. Aside from the personal frustrations this can create for the individual officer, it cannot be a cost-effective use of human resources. I know that there are no easy answers to the FCO's structural problems. But if I understand POD correctly, promotion ages from 5 to 4 and from 4 to the Senior Grades are likely to deteriorate rather than improve.

5. Thirdly, a series of pay settlements below the rate of inflation has exacerbated the extent to which civil servants in their thirties are suffering financially in comparison to private sector counterparts. The Government have decided to use restrictions on public sector pay as a means of controlling inflation in the economy as a whole and of transferring resources to the private sector. I do not question their right to do so. But equally, the Government must expect their employees to vote with their feet when market conditions become unfavourable for public sector employment. The opportunity cost involved in working for the Government is substantial and growing.

6. Fourthly, personal factors have played a part in my decision. I find that I am now reluctant to put my children into boarding school while I am thousands of miles away. I am also less willing than before to move every 3-4 years for the next quarter century at someone else's behest. The immediate and justifiable response to these two points is to say that I knew the terms when I joined. But the values of a family man in his thirties are inevitably different from those of a bachelor in his twenties. In this respect, I suggest that PPD when recruiting need to push young candidates to think much harder than at present about the implications of the career they are taking on.

7. Nobody joins the Diplomatic Service to make a fortune, or to have a rigid '9 to 5' existence. For most of us, job satisfaction is the main driving force. But as that satisfaction declines for the reasons outlined above, personal considerations and more material factors like pay and long working hours become relatively more important.

8. It would be pretentious of me to suggest that my decision will have much influence on those of others. I have expressed few, if any, points for dissatisfaction which have not been made frequently before. But it may be significant that the first three people to whom I mentioned my intention to resign all said that they had been thinking about doing the same thing.


A J Colquhoun

PRIME MINISTER

NATO STRATEGY

You asked to see recent papers produced by the Chiefs of Staff. There are two.

UK STRATEGY WITHIN NATO

A A fairly conventional analysis. I suggest that you read paragraphs 4 to 37. These cover the basic assumptions, the threat, Soviet strengths and weaknesses, NATO weaknesses and measures to deal with them.

I should skip paragraphs 38 to 71 which deal with each of the regions - Atlantic, Northern, Central and Southern - in detail and look at paragraphs 73 to 87 which assess the relative importance of the areas and give priority to the Central Region.

I should skip paragraphs 88 to 101 and read the conclusions in paragraphs 102 to 111.

B There is also an annex on Flexible Response but it contains nothing new.

UK STRATEGY OUTSIDE THE NATO AREA

C There is then a rather racier paper on UK Strategy outside the NATO area.

- ✓ Paragraphs 6 to 44 are a geographical survey;
- ✓ Paragraphs 45 to 50 try to set priorities;
- ✓ Paragraphs 52 to 60 deal with training, etc;
- ✓ Paragraphs 61 to 62 contain the conclusions.

C.D.I.

1 August 1984



10 DOWNING STREET

Prime Minister

No need to read
the paper now: suggest
you keep it for
your holiday.

But it would be
helpful to have an
answer to the question
in my note.

C D P

31/7.



cc: CO LPO
DTI HMT
CDO LCO
LPSO
MJD

SLHACB

10 DOWNING STREET

bcc: S PC

From the Private Secretary

27 July 1984

EUROPE AND DEFENCE

The Prime Minister has considered the Foreign Secretary's minute of 22 July on this subject. She agrees with the analysis of the challenges but is not convinced that the steps proposed to meet them are adequate.

In particular, the Prime Minister finds it hard to see how she can do more than she does already to emphasise the scale of our commitments to the defence of Europe. She agrees that she should give more time to defence and security issues at bilateral summits with President Mitterrand and Chancellor Kohl but would like some suggestions for what new she might say in discussion of these matters. She would like to see more specific ideas for improving co-operation in European arms production. As regards encouraging French interest in improving the effectiveness of the European contribution to Alliance forces planning, the Prime Minister would not wish to give the impression of running after the French. She would give priority to bringing home to the Germans how little the French do for them compared with the UK and to steps which would encourage them to develop defence co-operation with the UK as much as with France. The Prime Minister has commented that we should see what we can do through NATO to encourage this especially on matters from which the French are excluded because of their non-participation in the military structure of the Alliance.

BT

The Prime Minister will therefore be grateful if the issues in the Foreign Secretary's minute could be considered more fully, taking into account the comments above and any views expressed by other Members of OD, and more specific and concrete proposals submitted to her.

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I am sending copies of this letter to Private Secretaries to the Members of OD and to Richard Hatfield.

C D POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL



MO 9

PRIME MINISTERDEFENCE STRATEGY

You asked if you could see the two papers which have been prepared by the Chiefs of Staff on strategy within and outside the NATO area. I have pleasure in enclosing them. The conclusions are set out from paragraph 102 onwards of the NATO paper and paragraph 61 onwards of the out of area study.

*in folder att
to file.*

2. They are the subject of continuing work and review in this Department.
3. We shall now be working with the Foreign and Commonwealth Office on the further paper you suggested.
4. I am copying this minute and the attachments to the Foreign and Commonwealth Secretary and to Sir Robert Armstrong.

Wright

Ministry of Defence
26th July 1984

PRIME MINISTER

EUROPE AND DEFENCE

Geoffrey Howe's minute (attached) is unexceptionable but does not amount to much.

The problems are all too well-known: how to maintain the US commitment to the defence of Europe? How to avoid being excluded from a cosy Franco-German relationship?

But the proposals for action (paragraph 5) hardly measure up to them:

- 5(i): you already constantly reassert the scale of Britain's contribution to the defence of Europe. It is hardly a proposal for new action.
- 5(ii): talking more about security and defence issues at bilateral summits with Kohl and Mitterrand is sensible. But there is no suggestion as to what new might be said which is not being said already: how to make more impact: nor how to get round the problem of Kohl's inability to discuss these issues productively.
- 5(iii): the goal of greater European arms co-operation has been recognised for years. But progress towards it has been patchy. We need more specific ideas on

it. 'Engaging French interest' in improving the European contribution to Alliance force planning sounds a bit craven. They have chosen not to integrate their forces into NATO. We should not run after them. It is more important to tug the Germans back to our side. Thought needs to be given to possible initiatives to achieve this.

- 5(iv): is only a recommendation to go on repeating what we say already.

There is no discussion of some ideas which you have put forward: how to highlight France's non-participation in the military side of the Alliance? how to bring home to the Germans how little the French do for them compared with us? how to make them aware that they cannot continue to take us for granted if they gang up with the French? possibility of a meeting with General Rogers?

Altogether a bit high-minded and soggy. Agree to say that you want to see some more concrete, specific and imaginative proposals?

C.D.P.

Ms - what can we do through N.A.T.O. especially on matters from which the French are excluded etc

26 July 1984



PM/84/133

PRIME MINISTEREurope and Defence

1. Our paper on 'Europe: the Future', which you sent to your colleagues among European Heads of State and Government, affirmed the defence of collective interests to be an important target for the Community. The paper specifically identified as key objectives the strengthening of the European pillar of the Alliance and the improvement of European defence co-operation. At the same time, we recognised the need to preserve the US strategic commitment and to increase American understanding of the European contribution.

2. If we are to follow up this aspect of British thinking about the future of Europe effectively in the coming months, there may be some difficult resource decisions and political choices to make. The purpose of this minute is to seek your agreement and that of OD colleagues to some specific suggestions.

3. In this context, I have in mind three particular challenges that British policy will have to meet:

(a) the recent Congressional debate on the Nunn Amendment has underlined both the importance and the difficulty of sustaining US confidence in the European contribution to the common Alliance defence. Oliver Wright's view is that we shall

/face



face further pressure on this in due course, if not in the remaining months of the present Congress. The fact that Senator Nunn is a long-standing Congressional supporter of the NATO commitment requires Europe to take such pressure all the more seriously.

(b) we need to watch closely the developing Franco-German contacts in the defence field.

There is a clear commitment at the highest political level in both countries, even if practical results have so far been relatively modest. Helmut Schmidt's Bundestag speech last month (proposing much increased Franco-German conventional force co-operation and extended French nuclear deterrence for Germany with a reduced role for both the US and Britain) has been widely discounted as impractical. But there is some evidence that Kohl may have his own ambitions for Franco-German co-operation in defence, as part of his vision of a more united Europe. Although Mitterrand's intentions are difficult to gauge, there may also be eye-catching political initiatives from France over the next few months.

(c) a corollary to any impression of a Franco-German axis would be the risk of Britain's position becoming marginalised. I referred to this in my minute to you of 12 July about Exercise Lionheart. There has been some evidence of such a tendency in the general climate of opinion in the defence and security debate in Europe. This impression, if unchecked, will affect American perceptions and damage our wider influence in Alliance affairs.



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4. Thinking European must of course be balanced by the Atlantic dimension. We should not assume that the scale of the US military presence in Europe will necessarily remain immutable for all time. But the need to sustain the American strategic guarantee for Europe and the resource pressures involved in any large-scale increase in European conventional defence, require that we should think very hard before doing anything to undermine support for that presence in the short run. I believe that Britain is well-placed to ensure that the growing impetus for European defence co-operation, whether in the Euro-Group, IEPG, WEU or in more restricted fora, is expressed in ways which ease, rather than intensify the problem of European perceptions and the more general US/European strains within the Alliance.

5. Against this background, I believe that our approach should concentrate on the following elements:

(i) we should reassert with new [?] [?] emphasis both publicly and privately the scale of the British commitment to the defence of NATO Europe, including our direct contribution to both conventional and theatre nuclear forces in Germany and the assignment of our strategic nuclear deterrent (in your words) 'for the purpose of international defence of the Western Alliance in all circumstances'. The visible involvement in this effort of senior colleagues led by yourself will be needed to carry conviction. It will be important to make as much as possible of Exercise Lionheart this autumn.

(ii) we must put Britain back on centre stage, together with France and Germany, in any new thinking or political initiative about the future of European

/defence

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defence and security. The prospects for developing our defence relations with both France and Germany will depend largely on our playing a full part in the further development of the Community generally. But there are independent arguments for significantly increasing the prominence given to defence and security at your regular Summit Meetings with Kohl and Mitterrand, so that they acquire a content comparable to that of Franco-German exchanges. I believe there are a number of issues which could be developed in such exchanges, for example the threat to European security; strategy in Central Europe; management of defence resources; increased co-operation between armed forces and in reinforcement planning; and out-of-area activities with the French. Nuclear issues are also a possible heading, but careful preparatory work would be needed to define what would be appropriate.

More generally:

(iii) I hope that we can build vigorously on Michael Heseltine's initiatives to reinforce bilaterally, in the IEPG and in the Euro-Group, moves in the direction of greater European arms co-operation. This would be consistent with the general thrust of our policy to increase industrial collaboration in the Community. We should not miss any opportunity to draw attention to our participation in such joint projects in the defence field. We should also look for ways of enhancing the effectiveness of the European contribution to Alliance force planning and of engaging French interest in this work. We should use the reactivation of WEU as a means of confirming our political support for practical co-operation.

/(iv)

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(iv) in all of this, and particularly in the public statements which will emerge from bilateral meetings and meetings of European Defence and Foreign Ministers (WEU, IEPG, Eurogroup) during the autumn, we should have very much in mind the need to demonstrate in Washington that the European allies take the defence of Europe with the seriousness which it deserves; that they already make a major and insufficiently well recognised contribution to it; and that they are actively looking for ways of improving the effectiveness of the European pillar.

6. I am copying this minute to other colleagues in OD and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

25 July 1984

SUBJECT

cc Masey

CONFIDENTIAL

JKRACK

c. Sir P. Cradock
FERIS

NOTE FOR THE RECORD

FOREIGN POLICY

The Prime Minister reflected aloud on 20 July to Percy Cradock and to me on a number of current problems of our foreign policy. The following records the main points which she made.

The Prime Minister believes that our major diplomatic effort, despite the settlement reached at Fontainebleau, will have to continue to be made in Europe. She is in particular concerned that enlargement of the Community will alter both the North/South and the conservative/socialist balance within the Community, will vastly increase the problem of agricultural surpluses, and will therefore worsen the Community's financial problems. She is also concerned by the growing weight of the Franco/German axis and our exclusion from it. She dislikes the way in which other Member States continue to harp on vague, general statements about European union, common symbols etc, rather than addressing the serious problems. She feels that we need to work out a strategy for dealing with these problems and one which will, in particular, ensure that we are part of the effective inner directorate of an enlarged Community.,

On East/West relations, the Prime Minister does not see scope for much further progress at present. She remains keen to get Gorbachev here. She thinks it would be useful to send one or two younger members of the Government to visit the Soviet Union, in the hope that they would be allowed to travel outside Moscow, while accepting that the chances of the Soviet authorities agreeing to this on any other than very restrictive terms are limited. While she hopes that at some point it will be possible for her to visit Poland, she agrees that it is still too early for this.

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On arms control issues, the Prime Minister is unrepentant that we need to have a far better grasp of the technical issues involved in limiting ASATS before we formulate a policy. She is ready, rather reluctantly, to look again at proposals for strengthening the non-proliferation required in time for the 1985 review conference.

In the Pacific, the Prime Minister is keen to develop and build on her relations with Mr. Nakasone and wants thought to be given to steps which will enable her to do this.

In the Middle East, the Prime Minister is much concerned to influence any initiative by the American Administration after the Presidential Elections and wants us to keep in the closest touch with the Americans about this. She would prefer us to do so bilaterally rather than try to work through the European Community.

The Prime Minister remains concerned at the possibility of a US invasion of Nicaragua after the Presidential Elections and the dilemma with which this would confront the UK. Her instinct would be to support the Americans but she feels that we need to reflect further on the intellectual justification for such a position.

On the Falklands, the Prime Minister agrees that our initiative to discuss normalisation of relations was worthwhile and should improve our position internationally (without any expectation that it will affect debate in the United Nations in the autumn). But she does not now see how matters can be carried forward for some considerable time in the light of the position taken by the Argentinians.

The Prime Minister considers that we have not paid sufficient attention to Turkey and to ensuring that it remains firmly bound to the West. She would in principle

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like to visit Turkey, though recognises the difficulties this could cause, vis-a-vis Cyprus.

Finally, the Prime Minister said that she would like to take up Mr. Mugabe's invitation to visit Zimbabwe as soon as this could be fitted into her programme.

C.D.P.

23 July 1984

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FILE

(RAMABJ)

cc: P.S

10 DOWNING STREET

From the Private Secretary

23 July, 1984

FCO EXPENDITURE

The Prime Minister has seen the minutes exchanged between the Foreign Secretary and the Chief Secretary on this subject, ending with the Chief Secretary's minute of 20 July.

As regards exchange rate fluctuation and overseas inflation, the Prime Minister agrees with the Chief Secretary that buying currency forward could help alleviate the problem. Beyond this, while the Prime Minister does not wish to see any breaches of principle of cash planning, she thinks that the Treasury should recognise the special circumstances of the Foreign Office. She suggests, therefore, that additional bids as a result of exchange rate changes should be treated as reflecting revised economic assumptions rather than policy changes. This treatment should not prejudice finding some offsetting savings if possible.

On asset recycling and end-year flexibility, the Prime Minister notes that no specific and detailed proposals have yet been put forward. But she thinks the idea is in principle a good one which will lead to better management of the diplomatic estate overseas and therefore hopes that proposals in this sense can be circulated quickly.

As regards the Moscow Embassy, the Prime Minister hopes that this can be discussed further between the Foreign Secretary and the Chief Secretary to find a solution.

The Prime Minister does not now wish to hold a meeting to discuss these matters for the time being.

I am sending a copy of this letter to Len Appleyard (Foreign and Commonwealth Office).

(C.D. Powell)

J. Gieve, Esq.,
Chief Secretary's Office

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SECRET
SUBJECT

NOTE FOR THE RECORD

When the Foreign and Commonwealth Secretary met the Prime Minister this morning they discussed a number of points about FCO expenditure.

The Foreign and Commonwealth Secretary described the difficulties caused for FCO expenditure by fluctuations in exchange rates. He had proposed to the Chief Secretary that where the FCO gained from such fluctuations, money should be returned to the Treasury, but where they lost they should automatically be compensated. This was important because expenditure overseas accounted for some 40% of FCO expenditure and fluctuations simply could not be accommodated within the FCO budget. The Prime Minister said that she fully understood the point. The procedure described by Sir Geoffrey was clearly sensible. Sir Geoffrey went on to describe his ideas for better management of the diplomatic estate overseas, particularly freedom to recycle assets without being constrained by the annual budget process. The Prime Minister commented that this was eminently reasonable and a system which required the FCO to pay over any gains made from the sale of land or buildings to the Treasury was "ridiculous".

Sir Geoffrey also told the Prime Minister that through an arrangement with Thomas Cook, the FCO had managed to save some £600,000 annually on its travel budget. He proposed to use this to finance a third holiday journey for children overseas and perhaps also an additional leave journey in certain posts. The Prime Minister said that she entirely agreed: unless one were able to use such savings constructively there would be no incentive to make them.

C.D.R.

20 June 1984

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ccpc
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NBIM

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe QC MP
 Secretary of State
 Foreign & Commonwealth Affairs
 Foreign & Commonwealth Office
 Downing Street
 LONDON
 SW1A 2AL

20 July 1984

*Star Geoffrey***EXPENDITURE ON OVERSEAS ACTIVITIES**

Thank you for your minute of 9 July. A good deal of what you say still strikes me as somewhat controversial. For example:-

- (a) On aid, it seems to me reasonable that, as with income tax, those with lower incomes should contribute a smaller percentage.
- (b) On non-aid activities, it is right that expenditure such as that on overseas students should be counted as an increase in FCO programmes because it was undertaken for foreign policy reasons.
- (c) Up to and including 1983-84 no cuts in FCO activities have been made because of sterling movements and overseas inflation.
- (d) On manpower, if unavoidable increases for demand-determined services (eg. DHSS) are excluded, the gross reduction planned for the Home Civil Service up to 1988 is 9.5% compared with the FCO's 5.2%; and I think your argument for excluding the ROFs is weakened by the fact that you are proposing to find nearly a third of your savings by hiving off staff in the broadcasting group.

I could go on, but I doubt if it is worth prolonging the debate now. Let us leave further discussion until our PES bilateral. The fact is, however, that the financial provision for all departments has to be fitted into the totals we have agreed on, difficult though this may be.

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Copies of this go to the Prime Minister, Lord President, Secretary of State for Defence and Sir Robert Armstrong.

*Yours ever
Peter Rees*

PETER REES

For Pol Strategy Pt 2

CONFIDENTIAL

FROM: CHIEF SECRETARY
DATE: 20 July 1984

PRIME MINISTER

FCO EXPENDITURE

I thought it might be useful to set down my views on the points raised in Geoffrey's minute of 11 July. Most of these will need to be settled in the course of the Survey discussions in September.

Exchange Rate Fluctuation and Overseas Inflation

I understand Geoffrey's problem. As far as the current year is concerned, I am willing to consider with him as soon as he is ready what action can be taken in the light of the figures he quoted, so that he has a firm basis on which to plan for the rest of the year. I understand his officials and mine have agreed to examine the position in a week or so when the latest figures from overseas posts are available.

In future years, I hope that buying currency forward, while not solving the problem altogether, will be a considerable help. My officials are in touch with the FCO about this. I am also ready to consider in my PES discussions with Geoffrey the impact on his programmes in future years of exchange rate movements and overseas inflation to date.

However, I cannot agree in advance to automatic adjustments for price increases. This would be a negation of the cash planning that Geoffrey himself introduced. (The special arrangement for MAFF to which Geoffrey refers involves demand-determined volume changes which are mainly legal obligations and is not a parallel). The amounts involved for the FCO

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are not insignificant, and would become much greater still if applied to defence, for example. We must take account of what we can afford within our total expenditure plans. So I see no alternative to considering the extra costs arising from exchange rate movements and overseas inflation in the annual Expenditure Survey discussions alongside other FCO bids and the scope for savings.

Asset Recycling and End-Year Flexibility

I do not think we can reach a conclusion on this now, as there are no specific proposals on the table. I understood that the FCO were content to continue with the case-by-case approach we have been using, under which several projects are going ahead with Treasury agreement. Any general scheme for asset-recycling is almost certain to add to public expenditure. I am prepared to consider any proposals Geoffrey Howe wishes to put forward, but when they have been formulated I think officials should have an opportunity to examine them first.

London/Moscow Embassies

... I enclose a copy of my letter of 29 June to Geoffrey Howe in reply to his minute of 14 June. I am not disputing the merits of the project provided it can be afforded. Once again what is at issue is whether it would require ^a in addition to Geoffrey's programme. Clearly this has to be considered along with Geoffrey's other bids and the scope for making savings in the Public Expenditure Survey.

I am copying this minute to Geoffrey Howe.



PETER REES

For PO Strategy Pt 2



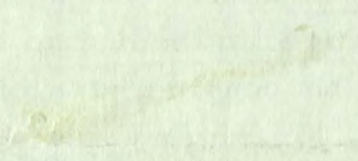
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Project Background and Key Objectives

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Project Scope and Deliverables

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MR POWELL

20 July 1984

FCO EXPENDITURE: EXCHANGE RATE FLUCTUATIONS

It is a pity that the Prime Minister has to be troubled with this disagreement between Geoffrey Howe and Peter Rees.

Geoffrey Howe has put forward some good arguments:

- the sums of money involved are modest
- erratic exchange rate movements should not disrupt the operation of our embassies abroad
- when the exchange rate was strong the Foreign Office surrendered some of the benefits as underspend.

Peter Rees is defending the principle of planning expenditure in cash terms. If the value of money changes, Departments should adjust the amount of goods and services they buy, not ask for more cash so they can buy the amount they originally planned. And adjustments of this kind should not be ruled out in embassies abroad - if the pound weakens against a currency there may be fewer tourists, for example, and hence less need for Consular support. Geoffrey Howe is asking for the assurance that the volume of FCO

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expenditure need not change at all as a result of exchange rate movements.

Possible Compromise

A compromise which gives Geoffrey Howe most of what he wants but limits the risk that it will be used as a precedent to weaken cash planning in other areas is as follows:

- "The Prime Minister does not wish to see any breaches of the principle of cash planning. But she thinks that the Treasury should recognise the special circumstances of the Foreign Office. She suggests therefore that additional bids as a result of exchange rate changes should be treated as reflecting revised economic assumptions rather than policy changes. This treatment should not prejudice finding some offsetting savings if possible."

The problems of asset recycling and the Moscow site are surely best resolved bilaterally by the Ministers concerned.

David Willetts

DAVID WILLETTS

PRIME MINISTER

FCO EXPENDITURE

You agreed to a meeting with the Foreign Secretary and Chief Secretary to discuss the problem of exchange rate fluctuation and overseas inflation, and also the financial management of the diplomatic estate overseas. The meeting had to be postponed and there are difficulties in arranging another. Anyway, in the light of further papers, I wonder whether the simplest thing would not be for you to minute on some aspects and leave others to be settled in the autumn. ✓

(a) Exchange rate fluctuation and overseas inflation

The Foreign Secretary's views are at Flag A, the Chief Secretary's reponse at Flag B, the Policy Unit's views at Flag C.

It seems to me that the Chief Secretary is virtually conceding what the Foreign Secretary wants for this year.

A possible compromise on the problem for the future is to introduce greater buying of currency forward; and to treat additional expenditure bids as a result of exchange rate changes as reflecting revised economic assumptions rather than policy changes.

(b) Diplomatic estate: asset recycling and end-year flexibility

The Chief Secretary points out reasonably enough that there are no specific proposals for this on the table yet. He is concerned that a general scheme for asset recycling is almost certain to add to public expenditure. The problem cannot be addressed properly

until there are some specific proposals to look at. But you did earlier tell Geoffrey Howe that the basic principle of what he proposed was sensible. The Public Accounts Committee take the same view. You might therefore encourage the Foreign Secretary to make specific proposals as soon as possible.

(c) Moscow Embassy

This is a separate problem, and best discussed further between the Foreign Secretary and the Chief Secretary in the PESC context.

Should not

I attach a draft which might avoid the need for a meeting at this stage. But if you still prefer to have a meeting we may be able to squeeze it in at the beginning of August and the draft could serve as a quarry for that.

No

C.D.P.

20 July 1984

to Chief Secretary

DRAFT LETTER FROM CHARLES POWELL TO ~~PRIVATE SECRETARY,~~
FOREIGN AND COMMONWEALTH OFFICE

RANASJ

FCO EXPENDITURE

The Prime Minister has seen the ~~ever multiplying~~ minutes *exchanged*
between the Foreign Secretary and the Chief Secretary on
this subject, *ending with the Chief Secretary's minute*
of 20 July.

As regards exchange rate fluctuation and overseas inflation,
the Prime Minister agrees with the Chief Secretary that
buying currency forward could help alleviate the problem.
Beyond this, while the Prime Minister does not wish to see
any breaches of principle of cash planning, she thinks that
the Treasury should recognise the special circumstances of
the Foreign Office. She suggests, therefore, that
additional bids as a result of exchange rate changes should
be treated as reflecting revised economic assumptions rather
than policy changes. This treatment should not prejudice
finding some offsetting savings if possible.

On asset recycling and end-year flexibility, the Prime
Minister notes that no specific and detailed proposals have
yet been put forward. But she thinks the idea is in
principle a good one which will lead to better management of
the diplomatic estate overseas and therefore hopes that
proposals in this sense can be circulated quickly.

As regards the Moscow Embassy, the Prime Minister hopes that
this can be discussed further between the Foreign Secretary
and the Chief Secretary to find a solution.

*I am finding a copy of this
letter in Len Appleyard in at FCO. cda.*

20 July 1984

Thanks - [Signature]

E. R.

MR. POWELL

Cancel it.
This meeting is no longer required.
7 1200 on 2 Aug
Sub 23/7

Overseas Expenditure Meeting

You asked me to set this up after 1 August.

The Foreign Secretary returns from Hong Kong/Peking on Thursday 2 August; the Prime Minister is out of London all Friday 3, and then the Foreign Secretary goes on holiday. But the Chief Secretary to the Treasury is already on holiday by Thursday 2 August, though not overseas.

Do we ask the Chief Secretary to make himself available for Thursday 2 August, remembering that the Foreign Secretary will be exhausted?

Can this meeting wait until later that month or alternatively take place with substitutes?

CP.

17 July 1984

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PRIME MINISTER

NOT USED
BUT PLEASE KEEP

MEETING WITH THE FOREIGN AND COMMONWEALTH SECRETARY AND CHIEF SECRETARY,

17 JULY

ON FILE

You agreed to hold the meeting to resolve three problems.

I. Exchange Rate Fluctuation and Overseas Inflation

A very high proportion of FCO expenditure is overseas. When exchange rates move against them, they have a major problem. This year they expect a £16 million shortfall, about three per cent of their vote.

For this year, Geoffrey Howe wants an assurance that what he cannot find from savings will be met from the central reserve. He has proposed a form of words (A). The Chief Secretary agrees to deal with this 'in a practical way' but will not guarantee that the FCO will at the end of the day get the whole sum.

For the future, Geoffrey Howe wants to be able to make a base-line adjustment to take account of exchange rate fluctuation. This could be either upwards or downwards. The Chief Secretary considers that if it is upwards, it should be treated just like any other bid for additional expenditure.

Agreement could probably be reached on a symmetrical system ie if the FCO gain from exchange rate fluctuation, they give the money back. You told Sir Geoffrey Howe this seemed sensible.

II. Diplomatic Estate: End-Year Asset Recycling

Geoffrey Howe reckons the Diplomatic Estate could be better and more economically managed if he had freedom to make full use of receipts from sales of property wherever and whenever they occur, rather than have to handle each project in a narrow annual and geographic compartment. In practice this would mean paying receipts into a special account in fat years which could then be drawn upon in lean years.

/The PAC

The PAC have endorsed the "idea of enabling receipts from dispersals to be used to finance further estate rationalisation". The Chief Secretary is prepared to agree to allow predicted receipts to be used in the year in which they arise: but insists upon treating unpredicted receipts on a case by case basis.

When you discussed this earlier with Sir Geoffrey Howe, you agreed with his view. It does indeed seem the only sensible way to run what is really a business. It is the way the Crown Estates Commissioners do it.

III. Embassy Sites in Moscow and London

A prime case where such flexibility would be useful arises over the new Moscow Embassy. The FCO offer to chip in receipts from sales over an extended period but cannot guarantee in advance in which year those receipts would arise. They might need to be "carried" by the Treasury in some years, but would make it up in others. They also need an assurance of additional money of something like £3 million a year extending beyond the current PESC framework. The Chief Secretary is unwilling to give a commitment.

One possible solution to problems II and III above would be to make the Moscow Embassy case a trial run for the asset recycling exercise.

CDP

PRIME MINISTER

Tony Parsons telephoned this evening to say that he would be in London next week and would very much like to see you for a few moments if you have time. We have slipped him in for a drink on Friday. You have half an hour to spare at 6 o'clock.

BF /
20/7

Handwritten signature

Handwritten flourish

13 July 1984

SECRET

MR POWELL

Yes I have
a copy for the
file - to ponder
can you have to
have met.

Prime Minister

You may like to
ponder over the
13 July 1984

week-end.

PC ②
1
CDP, 13/7.

MEETING WITH THE PRIME MINISTER 20 JULY

1. The Prime Minister may like to use the meeting to run over the field of our foreign policy and indicate points of special interest or concern. To provide a kind of base line I attach the First Thoughts paper I sent her in January.

2. Against that background, I think we have done reasonably well.

East West Relations

3. There has been no movement, nor would we expect any at least until Reagan's re-election and possibly well after that. But the Russians have made it easier for the West by their generalised and uncompromising hard line, applied to West European statesmen as well as to Americans. The offer to meet the Americans in September on space issues is the one curious exception and a considerable assistance electorally for the President. The Russians have not played their hand very skilfully, which might suggest their problems are more than tactical.

4. Our own policy has been right. While remaining firm on all issues of substance, we have shown public anxiety to maintain dialogue, (eg the Prime Minister's visit to Budapest and Moscow, the Foreign Secretary's visit to Moscow

SECRET

overwhelming advantage in terms of conventional arms. But we have to maintain the discussions.

c. Chemical weapons. Worrying. If we are to bring the Russians to serious negotiations we shall probably have to encourage the US to take some steps towards restoring its chemical warfare capacity.

d. Comprehensive Test Ban. I still think this is excluded because of the need for some testing if we are to maintain confidence in the effectiveness of the Western nuclear deterrent.

e. Nuclear proliferation. We should be thinking of the Review Conference next year and the possibility of doing something to encourage parties to the Non-Proliferation Treaty to maintain their support and non-parties to adhere. An unsuccessful Conference could lead to the non-renewal of the Treaty in 1995.

NATO

7. NATO has remained firm on theatre nuclear weapons, though it was touch and go with the Dutch. We shall need to establish with our NATO partners a line on East/West relations which can be held over a long period, recognising that East/ West relations could remain frozen for that time

SECRET

and that there will be pressure on the West from some sections of public opinion to run after the Russians. There is also a need to review NATO strategy and consider if there is any way of raising the nuclear threshold, given financial constraints and the opportunities offered by new military technology. The Prime Minister is planning a seminar on this in October.

Europe

8. After the success of Fontainebleau we can turn our attention to building up Europe, both as a more genuine Common Market and also as a grouping with a clearer defence identity within the framework of NATO. But having said this, I must add that progress is likely to be slow and that for practical purposes we shall still be dealing for the foreseeable future with the same international power structure.

Middle East

9. On the basic Arab-Israel issue, the outlook remains gloomy. President Reagan has promised a fresh US initiative after the elections. We must wait for that. In Lebanon fortunately we have extricated ourselves and things have not fallen apart; in fact they have somewhat improved. In the Gulf, again the worst has not happened. The Iranian land offensive is still a threat, not a reality, and it is likely that the Iraqis will be able to hold it. At sea, attacks on shipping have not been intolerable and the oil market

*Is there
nothing we can
do to influence
it's content?*

SECRET - 4 -

remains relaxed. Some of the burden of responsibility for defence has been transferred to the shoulders of the locals, in particular the Saudis. We still very sensibly refuse to choose between Arabs and Persians. We have stayed very close to the Americans and successfully encouraged caution on their part. So far so good. But there are still possible misunderstandings between ourselves and the Americans. Our closeness implies a readiness to go with them all the way. But we need to preserve our freedom of decision on UK military involvement if the situation were to deteriorate. We should continue to make this clear to them.

Central America

10. The situation has slightly improved in El Salvador and I am glad the Prime Minister will find it possible to see President Duarte. There is no real change in Nicaragua however. We have been over the dangers of the situation and of possible US intervention in other papers and there is little to add. Fortunately our decision to maintain the garrison in Belize enables us to put our views on the area with greater force to the Americans.

South Africa

11. In her talks with Mr Botha the Prime Minister was able not only to give our views on his domestic policies, but also to review recent developments in South Africa's relations with her neighbours. This is one of the few areas of the international scene where there is visible

SECRET

improvement and we should do what little we can to promote the trend eg aid to Mozambique to convince Machel that the Nkomati accord does bring benefits. I cannot see the answer at present in Angola and Namibia: the key lies in relations between MPLA and UNITA; but even here there are encouraging signs.

Terrorism

12. I am struck by the amount of Ministerial time that has had to be devoted to this subject in the last six months. In the two main instances, Libya and Nigeria, our policy has been dictated by our reaction to state-sponsored terrorism directed against nationals living in the UK. Our reactions were right and inevitable, but as a result wider considerations eg trade and safety of British nationals abroad have had to be given second place and our policy has become even more reactive, more hand to mouth, than it would otherwise be. I find this disturbing, particularly given the prospect that terrorism is a growth industry and not confined to the lunatic fringe eg Libya. Perhaps we have too large an emigre community here; perhaps we should be more restrictive in permitting entry and more ready to extradite. This would be worth examining. In the meantime all we can do is maintain the closest watch and endeavour via the JIC to keep a move ahead.

Negotiations: The Falklands and Hong Kong

13. On the Falklands, we can only permit very circumscribed

SECRET - 6 -

negotiations and the Argentines may still refuse to bite. We should stick to our terms. In the case of Hong Kong, I think we should just be able to reach a tolerable agreement. If we do, I am sure that history will judge we were right to persevere in this course and once the initial shock is over Hong Kong reactions may prove better and more resilient than seems the case at present. At any rate I hope that at the end of the year we shall have reached a slightly less embattled position in our foreign policy and shall be able to point to one or two areas where solutions are achieved or pending and where we are no longer in a state of confrontation. Europe, Hong Kong, possibly limited talks with Argentina, would be a good tally.

South East Asia

14. In view of the Prime Minister's travel plans we should be beginning to look at Sri Lanka, Malaysia, Indonesia and Singapore. Sri Lanka stands apart, but the others fall into an interesting category - Third World states at the upper end of the market, with promising development prospects and less than Latin American debt burdens. Indonesia in particular, if it could overcome its population problem, could in time become a real power. They lie in the shadow of China. They have large overseas Chinese populations and have benefited greatly from the natural industry of the Chinese once they are released from the restrictions of a socialist economy. They are members of ASEAN. Although China provides ASEAN with a kind of security guarantee

SECRET

against Vietnam, Malaysia and Indonesia for historical and racial reasons are inclined to see China as as great a danger as the Soviet Union or Vietnam. Singapore is of course a special case but the three ASEAN countries are interesting economically as well as politically. Above all we have no major quarrels with them.

lc
-
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PERCY CRADOCK

SECRET-8

RESTRICTED



10 DOWNING STREET

Foreign Pol: Strategy
A2.
File 116
adviser Casook

From the Private Secretary

13 July 1984

EXCHANGE RATE FLUCTUATION AND OVERSEAS INFLATION

BF // The Prime Minister has considered the exchange of minutes between the Foreign and Commonwealth Secretary and the Chief Secretary on this subject. She wishes to discuss it further with both of them. We shall be contacting you about a time for a meeting. The Prime Minister thinks it would be useful if the same meeting were to consider the continuing differences of view between the Foreign and Commonwealth Office and the Treasury over asset re-cycling and end-year flexibility in the management of the overseas estate and the linked problem of Embassy sites in London and Moscow.

I am copying this letter to John Gieve (Chief Secretary's Office, H.M. Treasury).

CHARLES POWELL

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

RESTRICTED

PRIME MINISTER

EXCHANGE RATE FLUCTUATION AND OVERSEAS INFLATION

mf

Geoffrey Howe has minuted you about the impact of FCO

- A. expenditure of exchange rate fluctuations and overseas inflation.

There are two problems:

(a) How to cope with the effect of such fluctuations in the course of a year. The Foreign Office expect a £16 million shortfall this year - about 3 per cent of their vote.

- B. The Chief Secretary agrees to deal with this 'in a practical way' but will give no guarantee that the Foreign Office will get the whole sum. Geoffrey Howe wants an assurance that what he cannot find from savings will be available from the central Reserve.

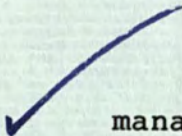
(b) How to cope with carrying forward shortfalls (or gains) between financial years.

Geoffrey Howe wants to make a base line adjustment. This could be either upwards or downwards. The Chief Secretary considers that, if it is upwards, it should be treated just like any other bid for additional expenditure.

- C. You discussed this problem informally with Geoffrey Howe on 20 June and sympathised with his point of view.

Agree either:

- (a) to hold a meeting with Geoffrey Howe and the Chief Secretary to resolve this matter. If so the meeting could also deal with Geoffrey Howe's wish to use receipts from property disposals to improve



management of the diplomatic estate.

or

(b) to minute your views i.e. that you think
Geoffrey Howe has a case, subject to the system
operating symmetrically, that is if the FCO gain
from fluctuations, they hand the money back.

(a)

CDP

12 July, 1984

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*A. deep
handy
AM*

Ref. A084/1996

MR POWELL

Foreign Policy: NATO Strategy

I am grateful to your office for sending me copies of the correspondence about the Prime Minister's proposed seminar on NATO strategy. Sir Robert Armstrong very much hopes that it would be possible for himself and Mr Cartledge to attend the whole seminar from the Cabinet Office.

R P HATFIELD

12 July 1984

CONFIDENTIAL

010
 cc Policy Unit
 cc J.C.



PM/84/119

PRIME MINISTER

Exchange Rate Fluctuation and Overseas Inflation

//

1. Peter Rees and I have exchanged minutes on 21 May and 4 July (copies attached) about the impact on FCO provisions of the decline in sterling and of inflation rates abroad which are running on average 2.15% higher than our own. This affects some 40% of Diplomatic Wing provisions and makes it hard to plan ahead or delegate responsibility to overseas posts under the FMI.

2. There are two separate problems - the squeeze which arises within each financial year, and the need to adjust baselines between successive years in the Survey.

3. The in-year problem can be illustrated by the 1984/85 position. We have not yet quite agreed the precise method of measuring this 'overseas price effect' in the 140 countries concerned, so the following figures are on the conservative side.

£m

Changes since PES baseline established in October 1983, if average exchange rate and inflation differential remain as at present

	Sterling (Trade Weighted Index calculation on October 1983 index)	Overseas Inflation (IMF indices weighted)	Total
Vote 1 (Overseas representation)	8.6	3.4	12.0
Vote 2 (International subscriptions, etc)	2.2	-	2.2
Vote 4 (British Council)	-0.2	2.3	2.1
TOTAL			16.3



The indices are fluctuating and adjustments have to be made for actual expenditure, some of which consists of payments at rates agreed previously. But we are talking of a sum exceeding 3% of the three Votes concerned; Vote 3 (BBC External Services) is happily not much affected by this problem.

4. The British Council need to know by September whether they will obtain the expected £2.1 million shortfall since otherwise they must make cuts. The same situation will arise in September next year and thereafter and their Parliamentary supporters are seeking clarification of our position. The same uncertainty affects my other programmes. I welcome Peter Rees's intention to deal with this question in a practical way, but I must have some certainty as to the final outcome both this year and in future years. In 1983/84 we were fortunate enough to be able to offset the shortfall by slippage in a BBC capital programme (though not without protest from the BBC) and by appropriating in aid certain unexpected receipts. We also had to use up for this purpose most of my new unallocated provision, which led to criticism from the House of Commons Foreign Affairs Committee who had assumed that the provision would be used for new foreign policy initiatives. I see little prospect of being able to take advantage of such factors in offsetting the £16 million shortfall expected in 1984/85. We are investigating forward purchase of currency (Robin Ibbs has also suggested this), but that will not be possible to organise soon, nor will it help with the inflation problem. Though I will continue to offer whatever savings I can, it is vital to have the assurance that my provision will be topped up from the central Reserve if sufficient offsetting savings cannot be found.

/5.



5. Turning to the problem of carrying forward shortfalls between successive financial years, I agree with Peter Rees that this must be dealt with in the context of the PES process. In the current survey I inserted as a marker an 'overseas price adjustment since October 1983' of £7 million, to be updated near the end of the survey (as indicated above, the figure now looks like being nearer £16 million). But I cannot agree with the Treasury that this should be considered as an additional bid just like all others. I believe it should be an adjustment to the baseline, sometimes upwards and (if sterling appreciates) sometimes downwards. My additional bids proper would be considered against other claims on available finance after deduction of this adjustment. It would thus be similar to the agreement that the MAFF baseline is adjusted to reflect changes in either direction in take-up in demand-determined agricultural support schemes. No department has so high a proportion of its expenditure overseas as FCO (I believe the MOD figure is 12%) and to treat my proposed adjustment as an additional bid is like asking me to start a hurdle race with an extra hurdle. It does not seem right that what is essentially an adjustment for forces beyond my control should be at the expense of my other bids.

6. The sort of arrangement I envisage would have a neutral effect on public expenditure in the long run. In the three years ending 1980/81 a strong pound and relatively low overseas inflation caused an overall underspend of £18 million on FCO votes which we gave back to the consolidated fund. The US State Department has a 'Buying Power Maintenance Agreement' with the Office of Management and Budget under which gains by exchange made in 'good' years are put into a fund to be drawn on in 'bad' years. The Canadian Department of External Affairs has an agreement with the Canadian Treasury to adjust automatically for exchange movements and is set a special overseas inflation rate for uplifting its cash provision.

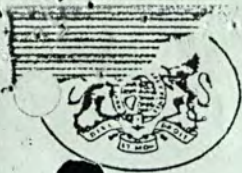


7. Unless we can find a solution to this problem it will be with us for many years hence and we shall be involved in controversial and time-consuming haggles at frequent intervals. You may think it useful to call a meeting with myself and Peter Rees, to whom I am copying this letter.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office
11 July 1984



FCS/84/147

1 Pl. copy to
Mr. Atkinson, ODA

2 back to me.

KGM
22/5

cc PS
PS/hady Young
PS/PNS.

Chief Clerk.

~~Mr. MacLennan~~

Hds of: PSD

PPD.

OED.

OSTD

Plg Staff.

CHIEF SECRETARY TO THE TREASURY

Exchange Rate Fluctuation and Overseas Inflation

1. In my minute of 23 January I recorded agreement that officials should work out a system to establish precisely what the effects of variations in the exchange rate and in overseas inflation were on the resources made available in Votes II.1, II.2 and II.4 and to deal with these effects. I also referred to this point recently in my minute of 19 April to the Prime Minister on the risen costs of the British Council. We were at one that the system to be devised should take account of that problem too.

2. I am encouraged to hear that officials have made some progress in agreeing a system of assessment which will enable us to enjoy a sufficient degree of certainty as to the losses actually suffered. I understand, however, that further progress on the procedures to be adopted thereafter is held up by failure to agree on the practical outcome to be expected from the new system.

3. It was my intention, and I had understood it to be yours, that an arrangement to deal with the unique problem of exchange rate fluctuation and differential inflation rates should do more than merely identify the magnitude of the loss and formalise the procedure by which a bid was

/submitted



submitted in the annual PES round or for consideration against the Central Reserve. We need, in addition, to agree on suitable words to convey the presumption that a shortfall conclusively demonstrated will be made good by the provision of funds additional to those which would otherwise have been available to the programmes concerned as a result of the negotiations in the PES round. Likewise, any surplus provision due to favourable exchange rate/overseas inflation movements would be deducted from the baseline. This is what I meant by saying that the important thing was to secure an agreed starting point for the annual PES ritual. The agreement to agree was to be an agreement to agree on substance. It would defeat the whole object of the exercise to conclude that these adjustments should be considered as ordinary additional PES bids like all the others. It is precisely that conclusion which I should not be able to accept.

4. I therefore invite you to consider whether the discussions at official level should now be resumed, taking as their basis a joint objective which might be formulated as follows:

'After taking account of unplanned underspends and such savings as FCO Ministers agree can be made without compromising our foreign policy requirements, shortfalls in the provisions made for expenditure on Votes II.1, II.2 and II.4 resulting from variations in the exchange rate and from differences in inflation at home and overseas should be made up from Central Funds unless a collective Ministerial decision is taken to do otherwise.'

(GEOFFREY HOWE)

Foreign and Commonwealth Office

21 May 1984



Finance Dept

PS / Lady Young
PS / Mrs
Chief Clerk
Mr Mackintosh

cc: R. Ainscow
ODA

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign Affairs
Foreign & Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Hts of PSD
PPD
OED
OSID

4 July 1984 Planning Staff

John Gifford

L/17

EXCHANGE RATE FLUCTUATION AND OVERSEAS INFLATION

Thank you for your letter of 21 May. I too am glad that our agreement to agree is close to achieving a method of measuring the effects of exchange rate movements and overseas inflation on FCO (and British Council) expenditure.

A presumption, however, is as you know a tricky concept in law and even more so, as far as I am concerned, in public expenditure. The whole purpose of cash planning is that there should not be a presumption that there will be compensation for price increases.

I accept that the FCO may sometimes face greater problems than other departments in accommodating price increases because a higher proportion of your expenditure is in foreign currency; and I hope we can leave it that we will deal with the question of FCO resources in a practical way between us. But this has to be against the background of the overall public expenditure position and within the PES process: that is what PES is for. You will no doubt plead your cause with your usual skill; but I must demur at the suggestion that in the matter of offsetting savings you should be sole judge as well as advocate.

Peter Rees

PETER REES

MAR 1984

12 1 2 3 4 5 6 7 8 9 10 11

11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31



FCS/84/191

CHIEF SECRETARY, HM TREASURY

Expenditure on Overseas Activities

1. I should like to set the record straight on some points in your letter of 27 June which commented on the paper attached to my minute to the Prime Minister of 28 May.
2. On aid, I do not think it right to suggest that the effect on the aid budget of expenditure decisions was deliberate. Naturally the aid programme cannot be exempt from the pressures on public expenditure generally; but there has been no decision to give it lower priority. And if comparison is to be made with richer countries, as your letter suggests, the right way to do this is to look at aid as a proportion of GNP. Ours has been declining substantially in recent years from 0.52% in 1979 to 0.35% in 1983 and for the last two years has fallen below the OECD average. Moreover, it is now substantially less than the figures for our major European partners and the prospect is that our percentage will continue to fall.
3. You refer to the slight increase in non-aid activities. But you have not acknowledged the important point in my paper that the costs of peace-keeping, military aid and overseas students' scholarships (which were previously financed by other Departments) have been added to those of the FCO. After allowing for these transfers there has been a 2% real decrease in non-aid funds. Moreover, there is undoubtedly a further volume decline during this period because of adverse movements in sterling and overseas inflation. In 1984/85 we calculate that if the inflation differential and the average exchange rate remain the same until the end of the year, the adverse effect on the four Diplomatic Wing votes since the PES baselines were settled in November 1983 will be £15 million. The addition to my overseas representation



programme which you mention met only half the shortfall in the preceding 12 months for sterling alone and did not deal with higher overseas inflation.

4. On manpower you say that the Diplomatic Service reduction since 1979 has not kept pace with the Home Civil Service. But this needs to be considered in the light of the previous 11 years when Diplomatic Service manpower went down by 10.7% while the Home Civil Service grew by 6.1%. You refer to the merger of the separate Foreign and Commonwealth Offices in 1968. Not all mergers lead to manpower savings. I believe our performance since 1968 has been more than adequate. You say that our target reduction of 5.2% from now until 1988 is slightly below that set for the rest of the Civil Service. The latter figure depends considerably on the change of status of 18,000 staff in the Royal Ordnance factories. Once these are allowed for, the average reduction for the rest of the Civil Service falls to 3% and the FCO target is in fact higher than that of the majority of Civil Service Departments.

5. I am puzzled that you should say that the Comptroller and Auditor General commented adversely on the rate of reduction of Diplomatic staff and our manpower control system in his latest report. I can see no wording in the report to justify the first assertion. As far as the second is concerned, the report describes the FCO as operating a well ordered system and says "The proportion of posts inspected, the proportion of savings recommended on the posts examined and the proportion of recommendations implemented have been higher for Diplomatic Service inspections than for Home Civil Service staff inspections".

6. You say that the PAC has criticised the rate of rationalisation of our Overseas Estate. Such criticism could quickly be met if you could agree to the PAC's endorsement in their latest report of "the idea of enabling receipts from disposals to be used to finance further estate rationalisation", ie asset recycling with end-year flexibility.



7. You refer to the number of additional bids for the Diplomatic Wing in this year's Public Expenditure Survey, some of which you rightly say are very small. This is because I have been scrupulous in abiding by the guidelines you circulated about placing bids in order of priority and supporting them with precise output measures and details of the action needed if the bids were not met. Not many Departments seem to have adhered to these guidelines. With a relatively small budget my internal control requires fine tuning and each item has been carefully thought out. I am not pressing for all new commitments to be financed from outside my existing provision. I have absorbed as many as I can.

8. Finally, I do not agree with your comment about my approach to options for reductions. I am satisfied that if standards acceptable to Government and Parliament are to be maintained by the FCO, there cannot be a further round of chipping away at the tools available to me. We have reached the point where, if further financial cuts are to be met, consideration will have to be given to abandoning functions or geographical coverage.

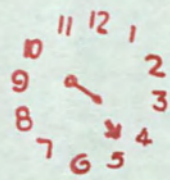
8. I am sending copies of this letter to the Prime Minister, the Lord President, Secretary of State for Defence and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office

9 July, 1984

- 9 JUL 1987



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ccpc
~~SECRET~~
Await connect
from Lord President
re Defence Secretary
B/C on 6 July
CAD.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1P 2AL

27 June 1984

Dear Secretary of State

EXPENDITURE ON OVERSEAS ACTIVITIES

with DB

I was interested to read the paper you sent to the Prime Minister on 28 May.

I accept, of course, that your department has been obliged to make economies since 1979 - particularly on the Aid Programme. However the same is true of other departments and it does not seem to me that the FCO have fared particularly badly.

The reduction in aid reflects a deliberate decision on our priorities. We cannot expect to devote the same resources to overseas activities as countries that are richer than we are and we have deliberately built up our defence effort very substantially over the last few years.

As you note, the overall provision for non-aid activities has slightly increased in real terms since 1979. While movements in exchange rates and overseas inflation had an adverse effect in 1983, they were favourable in the previous 4 years (and were indeed, up to 1981/82, reflected in underspending against your cash limits). The adverse movement in 1983/84 did not lead to a reduction in activities because of windfall savings elsewhere and we have agreed a specific addition to your programme to reflect the impact in the current year.

Turning to manpower, the reduction since 1979 in the Diplomatic Service has not kept pace with that in the Home Civil Service (10 per cent compared with 14 per cent). And for the future the target reduction of 5.2 per cent by 1988 for the Diplomatic Service remains slightly below that set for the rest of the Civil Service. The reduction since 1979 followed those achieved after the merger of the separate Foreign and Commonwealth Offices in 1968, but I am not convinced that we have

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yet exhausted the possibility of sensible pruning and I was interested to see the Comptroller and Auditor General commented adversely on the rate of reduction of diplomatic staff and your manpower control system in his latest report. That followed, of course, the PAC's criticism of the rate of rationalisation of your overseas estate.

Against that background, I was disappointed to learn that in this year's public expenditure survey, you have submitted a substantial additional bid for the Aid Programme, no less than 28 additional bids for the Diplomatic wing, some of which are very small, and options for reduction which can scarcely be your favoured method of achieving a marginal reduction in your total budget (including, for example, the ending of all commercial work in North America).

We face severe pressures for increased public spending in a number of fields and it will be very difficult to hold to the plans to which we are all committed. It will require all Departments to consider very carefully what are their priorities and what savings can be made in their overall budgets. I am sure that you will join in that process and will not press for all new commitments to be financed from outside your existing provision.

I am sending copies of this letter to the Prime Minister, the Lord President, the Secretary of State for Defence, and to Sir Robert Armstrong.

Yours sincerely

J. Gieve

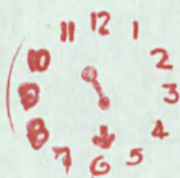
Mr. PETER REES

[Approved by the Chief Secretary]

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Foreign PR
PT2 strategy

28 JUN 1984





10 DOWNING STREET

Mr Powell

Yes please
C.D.P.

Perhaps Caroline and I

could have a further
word about dates?

DWB
26/6

CONFIDENTIAL AND PERSONAL

File

88

31 May 1984

EXPENDITURE ON OVERSEAS ACTIVITIES AND FCO RESOURCES

The Prime Minister has seen the Foreign and Commonwealth Secretary's two minutes of 28 May on expenditure on overseas activities and also his minute of 24 May on FCO resources.

BT/ Mrs. Thatcher would like to discuss these minutes with the Foreign and Commonwealth Secretary at their next bilateral meeting.

AJC

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

NR

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PM/84/87

PRIME MINISTER

Expenditure on Overseas Activities

1. When I came to the FCO last year I commissioned an exercise to examine the expenditure overseas for which this Department is responsible. You and the other recipients of my minute may find it useful to see the results of this review in the attached paper. The paper seeks to provide an analysis of recent trends and could serve as background against which decisions can be taken regarding future expenditure in this field.

2. I am sending copies of this minute and the paper to The Lord President, The Chancellor of the Exchequer, The Secretary of State for Defence, the Chief Secretary to the Treasury and to Sir Robert Armstrong.

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

GEOFFREY HOWE

Foreign and Commonwealth Office

28 May 1984

EXPENDITURE ON OVERSEAS ACTIVITIES

1. The resources which the Government has made available for official activity overseas, other than for defence, have declined since it came to power in 1979. This paper describes the effects which decisions taken by this government, in line with its economic strategy, to cut FCO expenditure have had when combined with the unplanned reductions imposed by the effects of overseas inflation and the varying international value of sterling. The resulting volume of activity and pattern of expenditure has changed in ways which were not necessarily intended or foreseen. The paper also shows how the demand for many of the Government's overseas services - from Ministers, Parliament exporters and the general public - has continued to increase over the period. It provides background relevant to future decisions about the allocation of government expenditure.

2. This paper considers the four Votes for which the Foreign and Commonwealth Office is accountable, and the ODA's expenditure other than on pensions and superannuation. In 1984/5, some £1.7 billion will be devoted to these activities. About three-fifths of this is in the aid programme, where the bilateral

component is, of course, under severe pressure; less than one-fifth is accounted for by overseas representation. The total of £1.7 billion can be compared with UK visible exports in 1983 of some £60 billion; invisible credits to the UK in the same year of over £30 billion; and the rapid growth in our overseas investment portfolio since the abolition of exchange controls. These overseas interests are vital to the prosperity of the UK and they depend on the maintenance of a favourable international climate generally and good bilateral relations between HMG and foreign governments in particular. The government therefore needs to ensure that sufficient resources are devoted to the protection and promotion of British overseas interests.

Trends in Spending Overseas: 1979-1984

3. Table 1 below shows the decline in the level of UK government expenditure on overseas activities in this period, and also how the internal balance of FCO/ODA expenditure has changed:

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Table 1

Level of Expenditure
(£m net, constant 1984/5 prices)

	1978/9		1984/5		% change
	£ million	% of total	£ million	% of total	
Aid	1283.4	68%	1104	64.3%	- 14%
Overseas (1)					
Representation	343.4	18.2%	328.7	19.1%	- 4.3%
BBC External Services	66.9	3.5%	78.5	4.6%	+ 17.3%
British Council (2)	82.2	4.4%	75.3	4.4%	- 8.4%
Overseas other: comprising	112.1	5.9%	131.1 (6)	7.6%	+ 16.9%
Subscriptions (3) to International Organisations	41.4	2.2%	37.7	2.2%	- 8.9%
Peacekeeping	21.6	1.1%	27.9	1.6%	+ 29.2%
Military Aid	5.4	0.3%	13.0	0.8%	+141%
Special Defence Aid (Zambia)	15	0.8%	-	-	
Grants in Aid	3.9	0.2%	4.2	0.2%	+ 7.7%
Information (4) Services	5.7	0.3%	14.3	0.8%	+151%
COI (5)	16.2	0.8%	14.9	0.9%	- 8%
Scholarships	-		8.9	0.5%	-
General services (including Distressed British subjects)	2.9	0.2%	5.3	0.3%	+ 82.8%
TOTAL	1887		1717.6 (6)		- 9%

Notes

(1) Adjusted for changes in content of programme, including transfer of Passport Office from 1984/5.

(2) Excluding the British Council's own General Receipts, but including ODA contributions.

(3) Those for which FCO (Diplomatic Wing) is responsible - chiefly UN, Council of Europe, WEU, OECD.

(4) Mostly the cost (current and capital) of relay stations operated on behalf of the BBC.

(5) 1984/5 figures exclude elements in respect of PRS, superannuation, and VAT of approximately £5m.

(6) Including the sum referred to in note (5).

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Diplomatic Wing Spending and Mandower

4. The table shows total spending under the FCO (Diplomatic Wing)'s Votes overall to have remained virtually static in real terms. But to compare figures over the period, the GDP deflator and PESC uplift factor for 1984/5 have been used. On average overseas inflation has, however, been higher than that of the UK over the period and particularly in the later years. This means that the table understates the reduction in the volume of services which a constant level of resources have been able to provide. Volume has further suffered as the result of the decline in the value of sterling.

5. Within the static level of overall expenditure there have been some important changes in the pattern of Diplomatic Wing expenditure. First, the decreases. Expenditure on overseas representation - ie political work, trade promotion, information and consular work - has declined by 4.3%. The British Council's budget has suffered a reduction of 8.4% in real terms. Because largely carried out abroad these aspects of the Diplomatic Wing's work are those most vulnerable to the vagaries of overseas inflation and the figure of 4.3% reduction conceals a larger decrease than this in the actual volume of services performed. Calculations of this sort are difficult but a rough estimate indicates that in 1983-4 these technical factors resulted in a

loss in volume equivalent to £10 million. {In 1984-5 the agreed figures for overseas representation went some way to accommodate these factors.} Finally we have made economies by reducing, as the result in part of rigorous scrutiny and cooperation from other governments, the expenditure of those international organisations for which the FCO (Diplomatic Wing) is responsible, and in consequence it has been possible to reduce HMG's contributions by 8.9%.

6. By contrast, there have been increases in expenditure in the following areas:-

(a) Peacekeeping activities. The extent of peacekeeping activity has varied over the period. Costs to the FCO have however risen by 29%, the chief cause being the decision of the government that services supplied by one department to another should be on a full costs basis. To illustrate the point, the cost to the FCO budget of the UK's contribution to the UN force in Cyprus increased so much that a PESC adjustment of £14.3 million was made in 1981/2.

(b) Military aid expenditure. There has been a significant increase both in expenditure and in the volume of military training funded by HMG. Loan Service Personnel deployed overseas have risen from

25 in 1978/79 to over 100, while the number of overseas officers trained in the UK has remained roughly the same.

(c) The FCO's scholarship programme. This started in 1983 and is designed primarily to benefit students from Malaysia, Cyprus, Hong Kong and other Dependent Territories. It is designed to provide government funds to assist certain overseas students now being charged on a full costs basis. In some measure, this represents a transfer of financial responsibility from the DES to the FCO.

(d) Expenditure on BBC External Services and the relay stations which are operated on their behalf by the FCO. This increase is largely the result of capital expenditure relating to the ten year audibility programme which the government agreed in 1981 - and which (as so far executed) is still far from sufficient to secure reasonable coverage.

Overall, the BBC has received a 29% real increase in funding (including expenditure on the relay stations) since the government came to power. A significant part of this has been due to rising real costs throughout the domestic broadcasting industry; it is unlikely that the review of the External Services, which we are working to get underway, will do more than hold the position.

7. Much diplomatic work is manpower intensive. In line with government policy, Diplomatic Service manpower has nevertheless declined over the period. This reduction came against the background of earlier manpower reductions. Between 1968, when the Foreign and Commonwealth Offices were combined, and 1979, the number of posts in what is now the Diplomatic Wing were reduced by 10.7%. Between 1979 and 1984, there has been a further reduction of 10.2% with another 5.2% reduction in prospect to 1988. The current worldwide establishment is now 6722. Within this total, the number of officers serving at home of Principal (DS5) grade and above is only 292, 12% less than 5 years ago.

Spending on Aid and ODA Manpower

8. Economies have been made in ODA manpower which has gone down by 23% since 1979. But expenditure has also been reduced. The aid budget has fallen by 14% in real terms since 1978/9; and the pattern of expenditure has also changed significantly. The UK's financial commitments under European Community and other multilateral programmes have increased by 30% in real terms to take 42% of the total aid budget, while aid to the Dependencies has also increased by 33% to 3.8% of the total aid budget (Gibraltar and the Falklands accounting for 70% of the current spending in the Dependencies). In consequence, bilateral country

programmes have suffered a real reduction of over one-third, and on present expenditure estimates they are expected to fall further in the future. On this basis as a proportion of total aid expenditure they will have fallen from 79% in 1978/9 to 48% in 1986/7. Multilateral aid can be adjusted only very marginally in the short term (and only with very considerable difficulty in the longer term). Any further financial restraint is therefore likely to continue to bear heavily on the bilateral aid programme. The UK now devotes a lower proportion of GNP to aid than the OECD average.

International Comparisons

9. UK expenditure overseas can be compared with that of countries such as the US, France and FRG. Although they are all richer than the UK, (the US and FRG substantially so) we expect to co-operate politically with them, and compete in the same league. While only the US has increased its expenditure on defence faster than the UK (Charts 1-3 attached), all 3 countries have increased their spending since 1978/9 on both aid and overseas representation. When civilian expenditure less aid is taken into account the 1983/4 position was as follows: UK - £588 million, France - £708 million (excluding cultural work) and FRG - £783 million (excluding commercial work). This means that French expenditure on these activities was higher as a

proportion of GDP than ours, and the German spending on the same basis is only slightly lower, even though much of their trade promotion is in the hands of the private sector. The larger size of their total aid budgets enables the French and Germans to devote a markedly higher proportion of their total aid programmes to bilateral programmes than the UK is now able to do.

Overseas tasks

10. Meanwhile, the task of protecting and promoting the national interest abroad has increased. While few countries have become independent since 1979, since 1967 their numbers have increased from 128 to 167. An increase in the spread of HMG's bilateral diplomacy has been inevitable. At the same time multilateral diplomacy has also increased significantly, affecting many departments but in particular the Diplomatic Service. Since 1972, the number of permanent multilateral delegations has increased from 8 to 10 and the total number of diplomatic staff in these Missions has had to be increased by nearly one-third. This has coincided with a 20% decline in Diplomatic Service manpower (including locally employed staff but excluding the manpower implications of the transfer of responsibility for the Overseas Estate).

11. Other demands on British missions overseas have increased during the period. Parliamentary Committees

have doubled the number of days spent abroad since 1978 to 156. Consular work has greatly increased as a direct consequence of the rise in visits abroad by British nationals which almost doubled between 1977 and 1982 to 20.6 million. Similarly, the number of foreign holidays taken by UK residents increased by 48% in the period 1979 to 1983.

12. The use made by exporters of the British Government's overseas commercial services has risen steadily, while the resources devoted to commercial work have been reduced. The following table shows the trend up until 1983.

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Table 2

The Level of Commercial Activity in Posts Abroad
Compared to Manpower Levels

	1979	1980	1981	1982	1983	% change since 1979 (or 1980)
Market Information	NA	42,849	53,623	58,983	63,481	+48.2
Enquiries						
Firms taking part in Outward Missions	NA	4,909	5,609	5,875	7,038	+43.4
British Business Visitors	65,998	65,199	65,585	72,939	77,065	+16.8
Commercial Officers in Post	648	609	592	591	585	- 9.7

The demand for commercial services can be expected to increase further as the world economy moves out of recession. The DTI forecast an increase of 5% in the demand for BOTB services in 1984.

13. Since 1979 there has been a 20.9% reduction in information staff overseas and the resources of the COI devoted to overseas activities have declined by 8% in real terms. The need to win support for HMG's policies by

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persuasion has increased and the demand for effective information work remains high.

Effects of the decline in resources available

14. The activities under review are not readily susceptible to cost benefit analysis. The product is not often measurable and it is therefore difficult to assess whether value for money is being obtained from a given activity. It is still, however, possible to point to ways in which both the quality and quantity of services and our relations with other governments have been affected by changes in overseas expenditure.

- (a) The volume of political, commercial and economic information which posts have collected, analysed and reported has declined. The requirements for bilateral and multilateral diplomacy have increased, but the UK's diplomatic coverage has diminished. While the number of countries covered by our diplomatic missions has risen from 136 to 164 since 1968, the total number of missions abroad has, through the closure of subordinate Posts, declined in the same period from 252 to 215 (including 2 Central American posts about to be reopened on a smaller scale than before). Since 1979, 20 Missions with UK based staff

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have been closed, and 3 have subsequently been re-opened.

- (b) The number of consular officials (and consular posts) has declined as the demand for their services from visitors and tourists has increased. This means that the quality of consular services has been reduced. Officials are frequently not able to devote the time to individual cases that the problems merit. The time available for such important activities as prison visiting has also been reduced.
- (c) Since commercial officers have declined in number and are still required to respond to a wide range of demands from exporters, initiative work, which should be the foundation of their local knowledge, has been reduced. This is likely to carry long-term implications for the quality of service provided to exporters.
- (d) The reduction in information staff and financial resources devoted to information work has meant that HMG is less well equipped than formerly in the propaganda battle. For example, during the Falklands crisis, the FCO had only one full-time information officer in

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the whole of Latin America. The COI has also had to cease a number of activities in support of exports.

- (e) There have been strains with Britain's aid recipients, including India and Bangladesh. HMG's ability to assist British exporters in markets where aid is an important factor has also been reduced, at a time when many recipient governments have become more dependent on aid to maintain their level of imports. In contrast, our direct commercial competitors have increased their aid programmes, by between 4% (FRG) and 35% (France).
- (f) Savings necessarily made have on occasion had direct adverse consequences, as in the case of Malaysia's reaction to, inter alia, increased student fees, which brought reprisals against British commercial interests.

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CHART 1: EXPENDITURE ON OVERSEAS REPRESENTATION
(Real Terms: 1978/79 = 100)

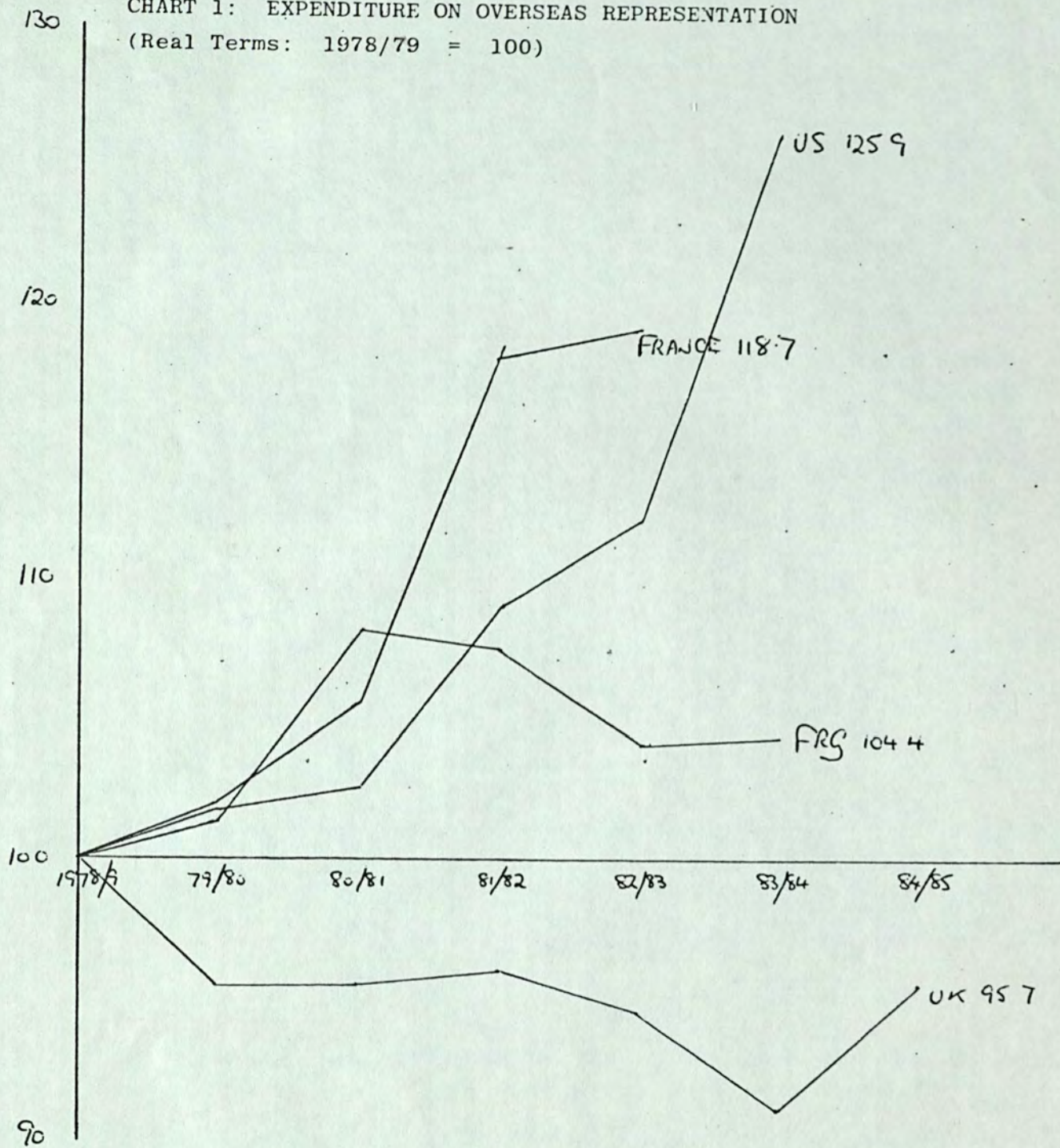


CHART 2: EXPENDITURE ON AID

(Real Terms: 1978/79 = 100)

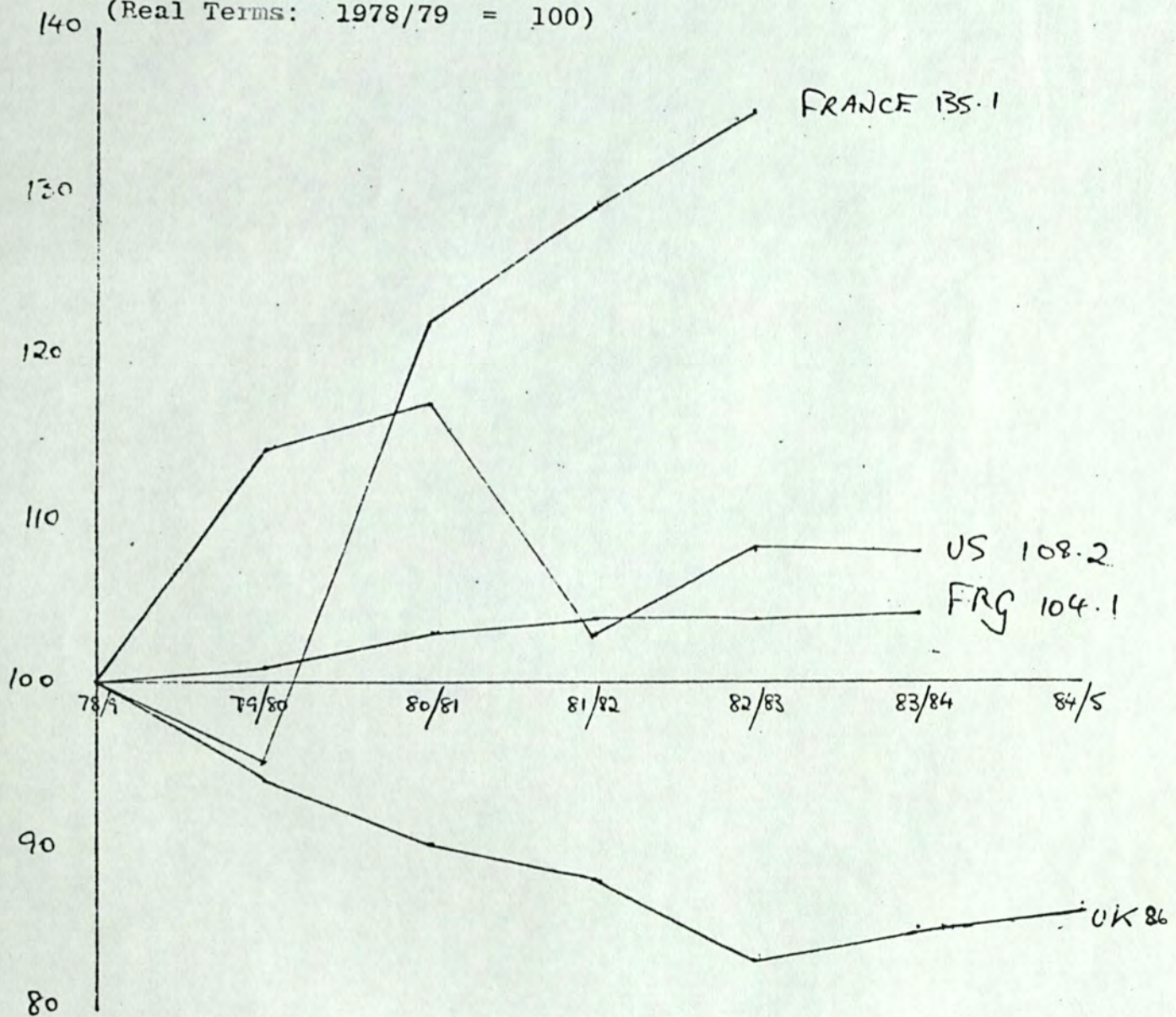


CHART 3: EXPENDITURE ON DEFENCE
(Real Terms: 1978/79 = 100)

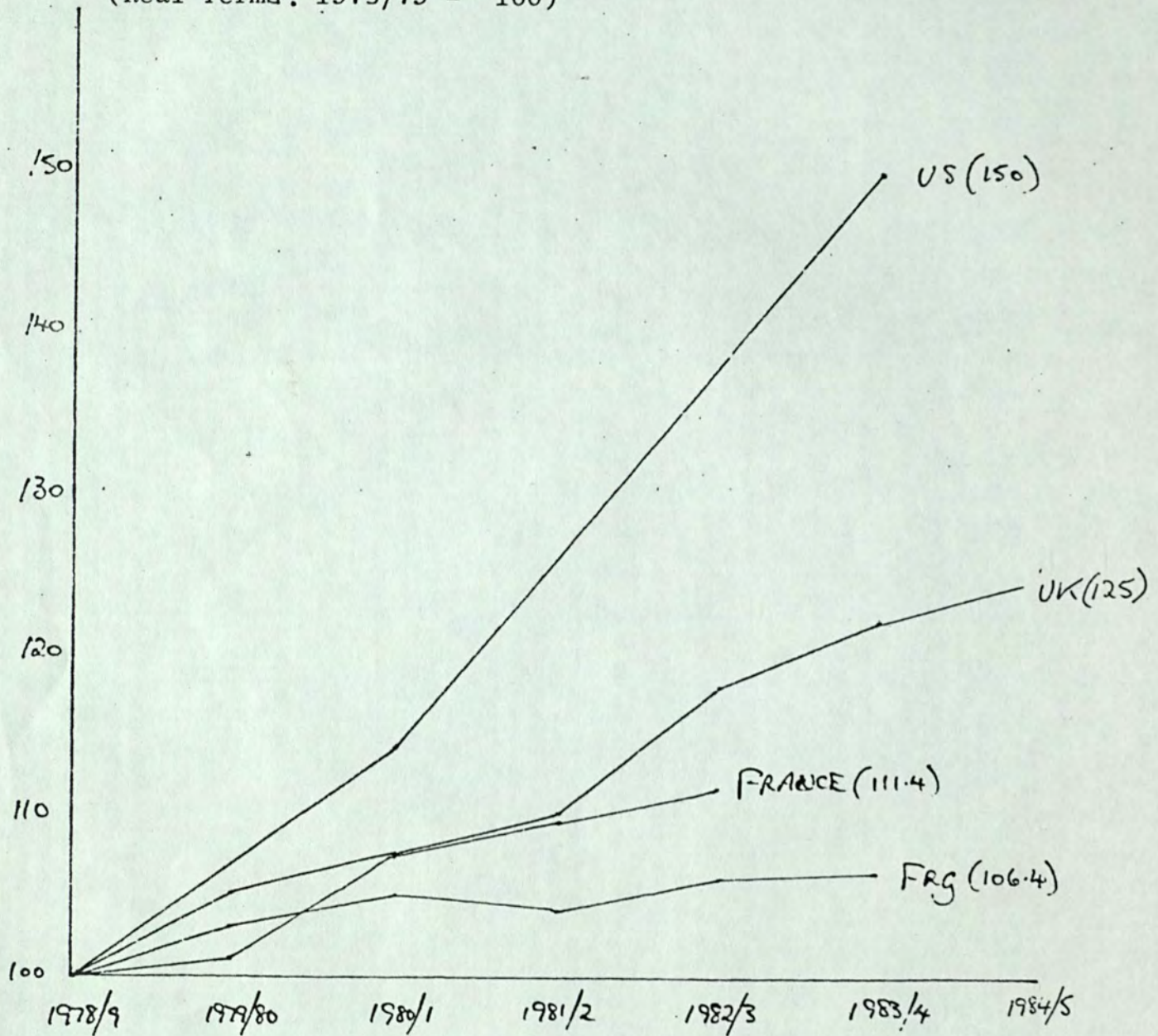
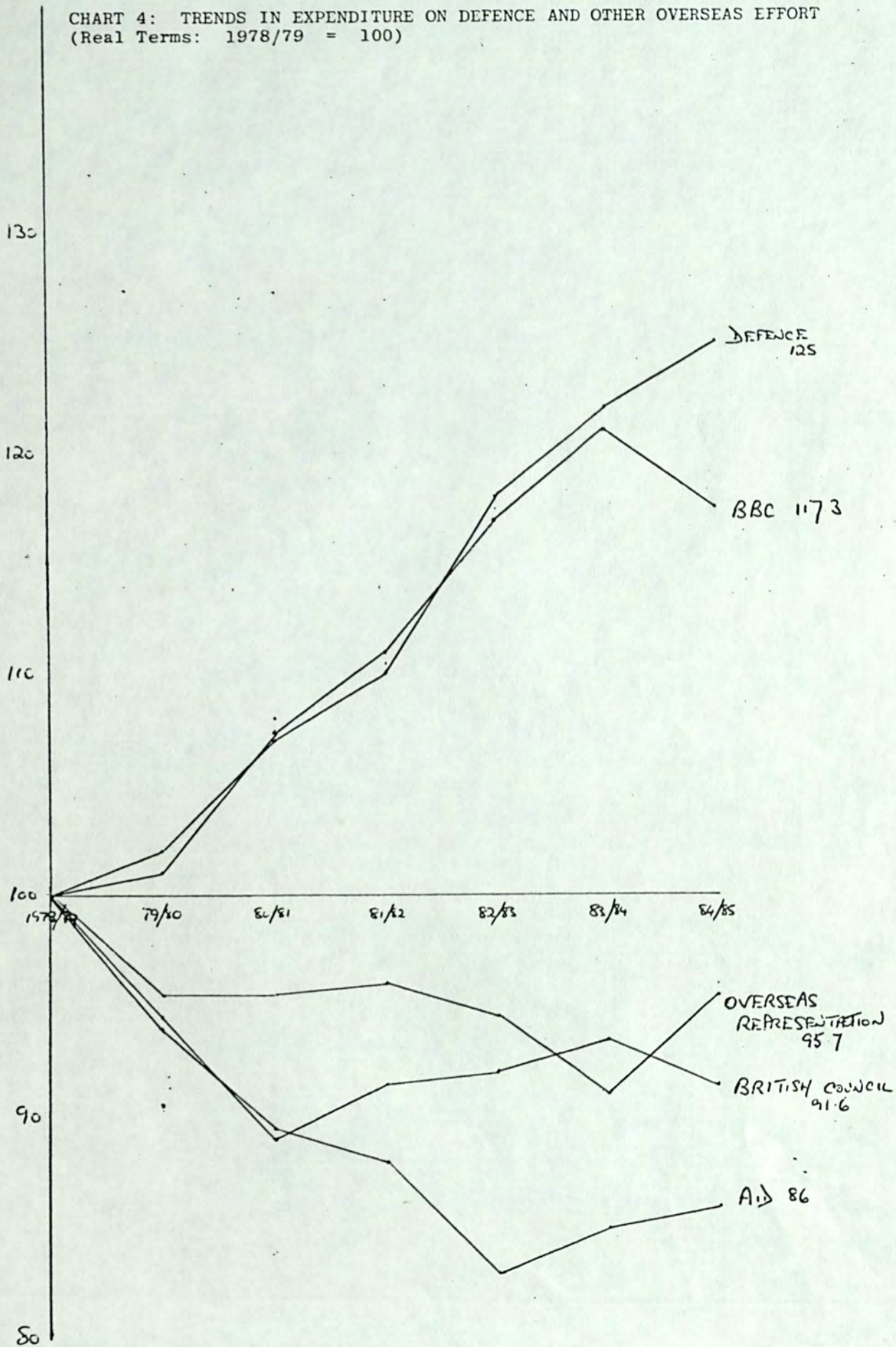


CHART 4: TRENDS IN EXPENDITURE ON DEFENCE AND OTHER OVERSEAS EFFORT
 (Real Terms: 1978/79 = 100)



EPC

Prime Minister.

You may like to discuss this at your next meeting with the Foreign Secretary?

PM/84/86

A.F.C. $\frac{29}{5}$ PRIME MINISTER

Yes no

Expenditure on Overseas Activities

1. You will have seen my minute of today's date copied to certain colleagues enclosing a paper on the overseas expenditure for which this Department is responsible. I should like to add some fuller comments which at this stage I am copying only to Sir R Armstrong.
2. The paper shows how the financial resources available to the Foreign and Commonwealth Office have declined, both because of planned cuts in public expenditure and because of the effect of overseas inflation, which of course is higher than in the UK, on a budget most of which is cash limited. In the last couple of years the decline in the international value of sterling, particularly in dollar terms, has also had a further adverse effect on the real resources available to the FCO and thus the volume of activity made possible.
3. The paper also shows that there have been management successes. Manpower in the diplomatic wing has gone down by 10% and that in the ODA by 23% since we came to power. A number of Rayner scrutinies have identified ways in which the FCO's operations could be improved and these have been acted on. Full advantage has been taken of the government's Financial Management Initiative to exercise tighter control over this Department's costs. Janet Young and I have, of course, tried to bring our previous departmental experience to bear on all this.
4. The impact of this upon overseas activity has been uneven. The effects have been felt most in the aid programme and in services performed by British Missions abroad. In both cases, the volume of activity has declined. At the same time, the cost of other foreign policy activities has increased - notably peace-

attached

/keeping



keeping, the costs of which (to the FCO) have risen by 29% since 1979 - and new programmes have been started such as the FCO scholarships for overseas students. Adverse effects on the British Council have been partly compensated for. It has suffered a cut in voted funds but has been able in part to compensate for this by increasing income from paid English language teaching. Finally, it is worth noting that the BBC External Services have fared relatively well since 1979 with a total increase in financing for their activities, including relay stations operated on their behalf, of 29%; but they still have some way to go, if they are to be as strong as we should like.

5. Of course, such changes in the pattern of expenditure are not by any means necessarily bad. Every government department must be flexible in the way it responds to changes in demand. But I have become concerned at some of the longer term implications of the changing pattern.

6. This government continues to maintain a global foreign policy. I am sure this is right. We still have extensive responsibilities round the world. To reduce them significantly, and to become in effect a regional European power, would decisively alter - for the worse - our relationship with the United States. This in turn would have profound implications for our position in Europe itself, and for our ability to remain secure and to prosper in the world. It is worth noting, and is a mark of the success of this government's economic policies, that quite apart from our extensive export trade we now have a substantial investment portfolio overseas to protect. It follows that we need to sustain the effectiveness of our activity in both aid and diplomacy. We must also ensure that a correct balance of effort is kept between our expenditure on defence, which has grown - rightly in my view - since we have been in power and the resources devoted to civilian expenditure to protect and promote our interests overseas.

7. The paper notes that British development assistance, both multilateral and bilateral has dipped below the OECD average.

/Because



Because of our multilateral obligations, which continue to increase, the bilateral aid programme has been particularly hard hit and, if existing trends continue unchecked, will suffer further. This is worrying and could itself lead to political difficulties with some of the recipients, as well as affecting prospects for our exporters. I do not think that it is practical to suppose that as a way of pulling the balance back towards bilateral aid we can reduce our multilateral contribution further. It is against this background that, as Peter Rees foresaw last year, I have proposed increases in allocations for the aid programme for 1986/87 and 1987/88.

8. As for the diplomatic service, I am concerned that resources are now so stretched that the quality of the service which it can provide to government itself as well as to Parliament, businessmen and members of the general public requiring assistance may be in danger of deteriorating. The scope for minor initiatives which can lend quality to the performance of government is severely curtailed. I am satisfied that any further expenditure cuts would have to be met by reducing somewhere the scope of the services now provided. This would not be welcome in the House. Nor, I think, could we regard it as acceptable.

9. I should be happy to talk further to you about this. At this stage, I am copying this minute only to Sir Robert Armstrong. In due course a discussion in OD might be worthwhile.

GEOFFREY HOWE

File
Prime MinisterPM/84/85PRIME MINISTER

To see now.

The Foreign Secretary would like a word with you about it at the next convenient opportunity.

FERB

24.5.

FCO Resources

1. We have several times discussed the resources available for the conduct of foreign policy. I shall shortly be sending you (and a few colleagues) a paper on the subject. Meantime I should like to let you know my main personal impressions after nearly a year in my 'new' job.

2. I am as determined as I was in the Treasury to ensure rigorous control of expenditure. But in a world in which we have rightly been increasing our defence expenditure, we are too often reminded that prevention is better - and cheaper - than cure. Almost month by month during the last year events have shown how quickly problems can arise abroad; we need the capacity and the flexibility to cope.

3. I have been particularly struck by the impact on my programmes of exchange rate fluctuations and of high overseas inflation. Leaving aside the aid programme, some 40 per cent of FCO expenditure is overseas compared to 12 per cent for MOD; the size of the latter's budget and programmes gives them flexibility which is not available to me. I am trying to negotiate a formula with the Treasury for adjusting the baseline upwards if the pound falls - and of course downwards if it rises. As our economic policies succeed, we must allow for higher inflation rates in most countries, particularly for items like rents and local staff wages. Unless we can be sure that sterling and overseas price shortfalls will be met from central funds, we shall find ourselves facing an endless series of (inevitably publicised) arguments about

/British



British Council spending. Exactly the same problems arise, of course, for the Diplomatic Service.

4. I have also become very much aware of a similar conflict between my manpower resources and the demands that are made on them. The number of Britons travelling abroad has gone up by nearly 300 per cent in the last 15 years or so and by 30 per cent since 1979; and the number who expect consular, commercial and political advice from our overseas posts goes up inexorably too. Yet after allowing for such changes as the Passport Office transfer, the number of people available in the Diplomatic Wing declined by 20 per cent since 1968 and is to decline by a further 5.2 per cent by 1988. As a result, we have virtually no margin of our own to cope with successive crises like the Libyan one: you will remember our surprise the other day at the fact that only one desk officer was responsible in London for Libya, Egypt and Sudan, compared with three (albeit with one or two smaller countries added) ten years ago.

5. One particular frustration arises from the way in which we are expected to run the Diplomatic Estate overseas. It is only a year since we took this over from the PSA. Yet already there have been suggestions for a scrutiny of the way we manage the Estate. These come on top of no less than three or four initiatives - the FMI, enquiries by the C & AG and the PAC, and an FCO inspection with Treasury participation - which all have to be handled by one team of half a dozen key people, who are in danger of being scrutinised into the ground. They need to be allowed to get on with the real job of modernising the management of the whole thing. The Estate has been undermaintained and too much of it is rented rather than owned. We have several major commitments under way, such as constructing Embassy accommodation in the new Saudi capital at Riyadh and

/in



in Moscow. I am concerned that these could be better, and more economically, managed if we had freedom to make full use of receipts from sales of property wherever and whenever they occur rather than having to handle each project in narrow annual and geographic compartments. Unlike any private Estate - and indeed unlike the Crown Estates Commissioners - we cannot use such receipts unless we predict precisely how many will arise in a particular year. We are also inhibited by unduly inflexible space standards for the accommodation we must acquire.

6. The sort of constraints I have mentioned can be removed at little or no expense. The Government as a whole, not just the FCO, will be the beneficiary. Under present arrangements, too much time and effort is being expended in arguing over long periods about issues which could be better managed. In particular, I should like to get rapid agreement now on:

- (a) the sterling/overseas inflation problem I have mentioned;
- (b) an arrangement which allows for asset recycling and end-year flexibility in the management of the overseas estate.

I believe that these would contribute to efficiency by making coherent planning possible. They would certainly be a great encouragement to those engaged in the task of trying to ensure value for money.

7. Perhaps we could have a word about all this when you have had a chance to digest the other minute (with supporting paper about overseas expenditure) which I am also sending you today.

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

GEOFFREY HOWE

Foreign & Commonwealth Office

24 May 1984

1984
MAY 1984

9
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23/5/84.

12A ENNISMORE GARDENS
LONDON SW7 1AA

01-589 8494

Prue Thurstle

I have
acknowledged
OK.

My Dear Margaret,

25/5.

It was so dear and typical of you to write about my paper on Taiwan. Of course I understand the reasons for the Hongkong negotiation and indeed had been trying to explain them in roughly those terms in Taipei. I was simply reporting the Chinese reaction for what it was worth. In this case surely hindsight.

Two impressions persist from my visit: I doubt whether Mainland China under the Communists will ever provide the Eldorado market which many British Business men seem to think it will (some of the shrewdest and most experienced people I know in this

12A ENNISMORE GARDENS
LONDON SW7 1AA
01-589 6494

Sector share these doubts). Second, Taiwan is now an impressive Economic and military power which is going to survive, and could well outlast the Communist regime. Our trade with them could be greatly increased to our advantage and I wonder whether a closer contact with them might not be useful to us as the crisis deepens in Hongkong.

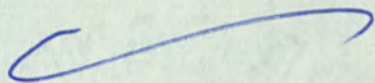
I had two other thoughts which I nearly sent you but decided against because it is of questionable value to offer suggestions from the sidelines and without the facts! But your kindness in writing decided me to send them for what they are worth and here they are attached. One may be new, the second is not and you may remember it from (over)

our days in opposition. I shall not expect
a reply.

I think of you so much and pray
for your strength. There may be storms
about but, in my book, the long range
forecast is set fair!

With love -

Yours
Stephen



From: Sir Stephen Hastings, M.C.
12a Ennismore Gardens,
London SW7 1AA
Telephone 01 589 6441

22nd May, 1984

1. Europe

Something needs to be done to breathe life back into the European concept which threatens to become a debilitating embarrassment, and as such to lower morale in the free world. The economic reforms you seek have got to be attained and my guess is that they will be, but in a fairly sour atmosphere. But if at the same time we could come up with some imaginative design aimed at strengthening real European power the economic transition might be the more readily acceptable, at least to some of our partners.

The weaknesses of NATO as the bedrock of Western defence have always been the absence of the French and second the myopic limitation of the Alliance to West Europe and the Atlantic, leaving the rest of the world a prey to Soviet expansion, Muslim fanaticism and other forms of subversion and terror. The Western response is confused, hesitant and unconvincing.

My only excuse for this suggestion is that I spent four years dealing with the French on behalf of H.M.G. in particularly confidential circumstances, and although I know how exasperating they can be I have always felt that when we do bring off an understanding we are the most formidable and natural combination in Europe.

The French love sweeping ideas and the aspect of "grandeur". They do not love the Germans whatever they pretend.

Why not leak, or otherwise convey to them - perhaps unattributably in the first instance - that while of course there can be no giving way on the present economic issues, once this matter of good housekeeping is satisfactorily settled much might follow from a Franco/British initiative on defence.
For instance:-

contd./..

A joint task force or "force de frappe" with combined operations capability on permanent standby and able to operate worldwide. A detachment could perhaps be on station in the Mediterranean and another in the Indian Ocean. Base facilities to be shared.

There would be a commitment to move whenever the joint or separate interests of the two nations were threatened.

The concept could, and should in due course, be extended to include the Germans or any other members of the E.E.C. prepared to commit their Forces.

This is just the sort of initiative which might appeal to the French and break the logjam. Moreover it just could lay the foundation for real European power instead of the present unedifying and inevitable bargaining. Perhaps the E.D.C. might provide a suitable vehicle.

2. Subversion

I remain worried that you have no adequate means to counter Soviet subversion and international terrorism. In the negative and purely defensive sense, yes, there is counter intelligence, but few wars - and this is a permanent if largely hidden war - have been won by defence alone. There is my old Regiment the S.A.S. and of course this is a paramilitary unit of enormous value, but only in certain prescribed circumstances with defined and limited objectives. It could never provide a general staff for the sort of Service I mean. The nearest analogy would be the War Time Subversive Operations Executive (SOE). A modern equivalent - what we called the counter-subversion executive (C.S.E.) - would have to be a more discreet creature, although many of the features would not be dissimilar and the structure we suggested in our paper might still be valid. Such a Department or Service could perhaps best be handled through a small Joint Committee of the Foreign Office and the M.O.D. under your direct control.

The Foreign Office would almost certainly and traditionally oppose its creation, but the likes of Qaddafi might well be easier to deal with if it existed.

PRIME MINISTER

MS

FOREIGN POLICY

There is a danger of a number of foreign policy matters going wrong over the next few weeks and months - and therefore of the Government's foreign policy looking rather unimpressive.

None of what follows will be new to you. It is the coincidence of a number of matters which is rather worrying:-

(a) Hong Kong

It looks as though we may be in for a much more difficult period, with a possible parting of the ways between EXCO and HMG and an intensified debate in the United Kingdom. Our policy of maintaining confidentiality on these negotiations has served very well over the last year and I think we should be very wary of going in for elaborate briefing of the British press from now on.

(b) INF

The recent Italian and Danish positions are thoroughly unsatisfactory - and you are aware of the Dutch difficulty.

(c) Libya

If Qadaffi moves against the British community, we may have great difficulty in doing anything about it - and there is already hostile press criticism of alleged FCO lethargy.

(d) East/West Relations

If the expulsion which we discussed earlier today goes ahead, and the Russians react adversely, much of the good work which you did in Hungary and Moscow may be threatened.

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- 2 -

(e) European Community

There could be a settlement at the June European Council. But if there is not, this part of our policy may come under criticism.

(f) Argentina/Falklands

There is a paper in your box this weekend. But it looks less and less likely that we shall have talks with the Argentines.

(g) Cyprus

This situation has deteriorated again.

We have to treat each of the above issues on their merits. But I thought it just worth drawing to your attention the fact that a number of matters could go wrong at roughly the same time - with the Foreign and Commonwealth Secretary's life being made particularly difficult.

A. J. C.

11 May 1984

cc: Sir Percy Cradock



A.S.C. 207/3
f.a.

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 - 7460

CONFIDENTIAL

BLOOD COPIES:

MR WILLIAMSON
MR GOODALL
MR COLES, DC 10.

X 02351

M Llewellyn-Smith Esq
WED
Foreign and Commonwealth Office
Downing Street West
LONDON
SW1

29 March 1984

Dear Michael,

BRIEFING FOR BILATERAL SUMMITS

As you know, I have been consulting No 10 Downing Street about ways in which we might improve the briefing prepared for the Prime Minister for major bilateral summits such as the forthcoming Anglo-German one. As a result, I would now like to suggest, with No 10's agreement, that we should:

- i. cut down on the number of subject briefs which are currently produced and circulated round Whitehall for bilateral summits;
- ii. make some changes in the "game plan" produced by the FCO just before the Prime Minister's briefing meeting.

Details of what we have in mind are set out below. If you and the other Whitehall Departments involved are content, I suggest that we adopt the new system for the forthcoming Anglo-German summit, and I append a possible list of briefs for that summit. If the system works well, we could then use it for subsequent summits. If anybody would like to get round a table to discuss the proposed changes, I would be happy to call a meeting.

Subject briefs

2. At the last Anglo-German summit in November 1983, no fewer than forty-four briefs were prepared in the main briefing series. The numbers of briefs for last year's Anglo-French and Anglo-Italian summits were not much smaller. I believe that this huge amount of briefing is really too much for us to expect busy Ministers to be able to assimilate, especially as the Departmental Ministers participating in the summit are usually also provided with separate additional briefing by their own Department. It also seems excessive when one takes into account that such summits rarely last longer than the equivalent of one working day. I have therefore

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looked at ways in which we might reduce the briefing prepared in the main briefing series and given the standard Whitehall circulation. In particular, it seems to me that we could cut down on the number of briefs on the more peripheral subjects and those likely to come up in the bilaterals between Departmental Ministers and their opposite numbers rather than between Heads of Government. Although such subjects may be alluded to during the plenary, the Prime Minister hardly needs a complete brief on each for this purpose, and Departments can provide other Ministers with any detailed briefing necessary for their own bilaterals. I therefore suggest that all subjects not expected to be dealt with in the discussions between the Prime Minister and the Head of Government concerned should be covered by means of short paragraphs - as it were a slightly expanded version of the present "summaries of briefs" - in the "general brief", under the heading "Other subjects which may be raised", rather than by separate briefs. The same treatment should also be possible for subjects which the Prime Minister already knows well - it hardly seems necessary, for instance, to give her much in the way of briefing on the Falklands - or which will only come up briefly.

3. As regards subjects on which it is essential that the Prime Minister should be fully briefed, I suggest that we should also make an attempt to be somewhat briefer, in particular by having a single brief wherever feasible for each main general area. For instance, at last November's Anglo-German summit, the brief on "international economic issues" in fact consisted of three separate briefs on world economic prospects; international debt; and transatlantic relations. It seems to me that at least the first two of these could have been covered in a single brief, with one or two talking points and a background paragraph on each.

4. The attached possible list of briefs for the Anglo-German summit on 2 May gives a concrete example of what I have in mind. Perhaps Departments could let me know by 3 April if they see any difficulties with what is proposed in that list; if not, the list could go forward for approval in the normal way under cover of Sir A Acland's scene-setting letter.

The game plan

5. The idea of a "game plan", to be circulated by the FCO to all those attending the Prime Minister's briefing meeting and subsequently revised in the light of that meeting, emanated from the Cabinet Office. I know that a considerable effort has been made by the FCO to produce a satisfactory game plan for the last few summits, and the product has indeed been generally useful as a mind-clearing exercise. We are conscious, however, that it has not been used by Ministers to the extent which we had originally envisaged. No 10 have specifically asked me to make clear that this is not due to any short-comings in the way the FCO have prepared the game plan. It is rather that the whole concept needs some re-thinking. We were impressed with the "check list" which the FCO have produced for the Foreign and Commonwealth Secretary's own use immediately before recent summits. If you agree, we suggest that at the May Anglo-German summit a similar check

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list should be prepared for the Prime Minister and circulated before the briefing meeting, instead of the game plan. Perhaps we could discuss exactly what form the check list should take in due course. In the absence of the game plan, it will of course be necessary to ensure that the general brief sets out in clear and practical terms the precise British objectives for the meeting concerned and any tactical considerations which arise.

Yours ever,

Sophia Lambert

SOPHIA LAMBERT

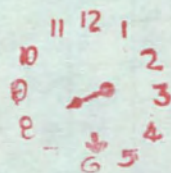
Copies to:

A Bottrill, Treasury
J Ingram, DTI
B Hawtin, DS 12, MOD
R Melville, MAFF
P Fairweather, ECD(I), FCO

REVISED LIST OF BRIEFS FOR ANGLO-GERMAN SUMMIT, 2 MAY

1. Index of Briefs.
2. General Brief (this would cover the subject-matter of the briefs below in the normal way, and then have a section called "Other subjects which may be raised", with paragraphs on each of the following: East/West relations; inner German relations and Berlin; Arab/Israel and Lebanon; Iran/Iraq; Falklands/Argentina; Cyprus; Southern Africa; Central America; and UNLOSC).
- 3(a) General Brief on the European Community (which would be mainly concerned with the post-Stuttgart negotiation, but would also contain paragraphs under "other subjects" on enlargement (including Gibraltar); trade issues; internal market; industrial policy; employee participation; EC/Turkey).
- 3(b) Community financing.
- 3(c) Community agricultural matters.
4. Political and Defence Cooperation in Europe.
5. International Economic issues and the London Economic Summit (to include international debt and North/South issues).
6. Arms Control and Disarmament (including CDE).
7. Bilateral relations (including review of Anglo-German relations and bilateral defence matters).
8. German internal scene (background brief, covering both economic and political aspects).

30 MAR 1984





10 DOWNING STREET

From the Private Secretary

MISS LAMBERT
Cabinet Office

Briefing for Bilateral Summits

Many thanks for your minute of 26 March.

I agree that another attempt to improve the briefing for bilateral summits would be worthwhile. But I take it that you will ensure that the Whitehall Departments principally concerned are content with any changes to the existing procedures. I am conscious that a considerable effort was made, principally by the FCO, to produce a satisfactory "game-plan". I therefore hope that if, as I agree it should be, the "game-plan" is now abandoned, this suggestion will be put to the FCO with due consideration.

I entirely agree that the briefs are too bulky. I like your suggestion of dealing with minor topics in the "general brief" under the heading "other topics which may be raised".

The "game-plan" has not worked satisfactorily. But we should not lose sight of the need for the briefing to set out in clear and practical terms the precise British objectives for the meeting concerned and any tactical considerations which arise. I believe that both these matters are best dealt with in the "general brief".

Then, I should like to try your suggestion of a checklist of subjects, accompanied by points to make. I would rather not have an additional section setting out schematically the subjects to be raised at each session. From the Prime Minister's point of view, the most helpful checklist would be one which listed the subjects and divided them between her *tete-a-tete* conversation with the Head of Government concerned and the session which normally follows, when Foreign Ministers join the principals.

Please discuss if you see any difficulty in the above. I leave it to you to bring these ideas to the attention of other Departments.

A. J. COLES

27 March, 1984



CONFIDENTIAL

X 02346

MR COLES - No 10

BRIEFING FOR BILATERAL SUMMITS

We had a brief word the other day about the unsatisfactory nature of the briefing which is now prepared for bilateral summits, and I said I would be in touch with you in due course. As I see it, there are two problems:

- a. the excessive number of briefs which are now produced and circulated round Whitehall in the standard briefing series;
- b. the failure of Mr David Hancock's "game plan" idea to achieve its objective.

As the Anglo-German Summit is fast approaching (2 May) I would be grateful for your thoughts on these problems, so that we can try to improve the briefing prepared for that Summit.

Standard Briefs

2. The FCO have sent me the attached advance ^(Annex A) copy of the list of briefs which they think should be prepared for the Anglo-German Summit. Subject to any comments which we in the Cabinet Office make, this will shortly be coming to you under cover of Sir Robert Armstrong's "scene-setting" minute for your approval. The list follows closely what has been done for previous Summits, and includes 29 separate briefs. Even if the rule of two pages per brief were adhered to (which it tends not to be - and indeed cannot be for eg complicated Community subjects), this is surely far too much to expect a busy Prime Minister to wade through. Moreover, I wonder if the Prime Minister really needs more than minimal briefing on many of the subjects included. There are several subjects which she probably knows well enough not to need any briefing (eg the Falklands); on others (eg East/West relations) all she probably needs to know is brief details of any recent or planned German activities or announcements in the area in question. ✓

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3. I therefore suggest that we try a new approach, and cover as many as possible of the more peripheral subjects not by means of separate briefs, but by including a paragraph on each in the "general brief" under the heading "other topics which may be raised". These paragraphs could be rather along the lines of the summaries of briefs which have hitherto been attached to the general brief (and which I suspect are all most of the busy Ministers concerned actually read). For other subjects, there would be a smaller number of slightly more substantial briefs - eg the brief on the German internal scene would cover both political and economic aspects instead of having a separate brief for each. To give an example of what I have in mind, I attach at Annex B a list of briefs for the forthcoming Anglo-German Summit revised to reflect my proposed new approach. ✓

4. Such brief coverage may not be enough for some of the Ministers accompanying the Prime Minister and having bilaterals with ^{their} German opposite numbers - for instance the Foreign and Commonwealth Secretary will probably need additional briefing on East/West relations, and the Secretary of State for Trade and Industry on trade. But, in practice, the Departments concerned usually prepare such additional briefing for their Ministers anyway, so the new format should actually save them work.

The Game-Plan

5. Mr Hancock's original game-plan idea was for a very brief (two sides of paper) schematic document setting out objectives and tactics - ie a true "steering brief" - to be prepared just before the summit in the light of last minute developments. In practice, the game-plan has developed otherwise: that prepared for the last bilateral summit ran to 5 sides of paper and consisted largely of a narrative account of what might be raised at each session. My impression is that it was of little or no use to those participating in the Prime Minister's pre-summit briefing meeting, or in the summit itself. Meanwhile, the FCO prepared, on the Foreign and Commonwealth Secretary's instructions, a separate "check-list" for Sir G Howe's own use (Annex C), setting out in schematic form the main points

*aims
Put bilateral
counterparts
in general brief.*

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to be made on each subject. It seems to me that the Prime Minister might find it more useful to have such a check-list than the current game-plan, perhaps with an additional section setting out schematically which subjects could be raised at which session. I should be grateful for your views.

SOPHIA LAMBERT

26 March 1984

Copied to:

D Williamson, Cabinet Office
D Goodall, Cabinet Office
R Hatfield, Cabinet Office
R Bone, FCO
M Llewellyn-Smith, WED, FCO
P Fairweather, ECD(I), FCO

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LIST OF BRIEFS FOR ANGLO-GERMAN SUMMIT: 2 MAY 1984

<u>Subject</u>	<u>Lead Dept</u>	<u>In Consultation with</u>
1. General Brief	FCO (WED)	As appropriate
2. European Questions:		
(a) General Brief on the European Community	FCO (ECD(I))	As appropriate
(b) EC Financing	FCO (ECD(I))	Treasury
(c) Agricultural Matters	FCO (ECD(I))	MAFF
(d) Employee participation	FCO (ECD(I))	D/Employment
(e) Enlargement	FCO ECD(E))	As appropriate
(f) EC/Turkey	FCO	MAFF, D/Employment
(g) International Trade Issues	DTI	MAFF, FCO (ECD(E), ERD, FED)
(h) Internal Market	FCO (ECD(I))	DTI
(i) Industrial Policy	DTI	FCO (ECD(I), MAED)
3. Political and Defence Cooperation in Europe	FCO (WED)	As appropriate
4. International Economic Issues:		
(a) The London Economic Summit and prospects for the World Economy	Treasury	FCO (ERD, ESID)
(b) International Debt	Treasury	FCO (ERD, ESID)
(c) North/South issues, global negotiations	FCO	Treasury
5. Arms Control and Disarmament, including CDE	FCO (Defence Dept)	MOD, FCO (ACDD, NED)

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6.	Bilateral Defence Matters, BAOR	MOD	FCO (Defence Dept, WED, MAED) Treasury
7.	East/West Relations	FCO (Soviet Dept)	Treasury, FCO (SAD, TRED, ESID)
8.	Inner-German Relations and Berlin	FCO (WED)	
9.	Other International Issues		
	(a) Arab/Israel and Lebanon	FCO (NENAD)	
	(b) Iran/Iraq	FCO (MED)	
	(c) Falklands/ Argentina	FCO (FID)	
	(d) Cyprus	FCO (SED)	
	(e) Gibraltar	FCO (SED)	
	(f) Southern Africa	FCO (SAFD)	FCO (CAFD)
	(g) Central America	FCO (MCAD)	FCO (SAMD)
	(h) UNLOSC	FCO (MAED)	
9.	Bilateral Relations		
	Review of Anglo-German Relations	FCO (WED)	As appropriate
10.	German Scene		
	* (a) Political	FCO (WED)	
	* (b) Economic	Treasury	FCO (ESID, WED)

* Denotes Background Brief only

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ANNEX B

REVISED LIST OF BRIEFS FOR ANGLO-GERMAN SUMMIT, 2 MAY

1. Index of Briefs.
2. General Brief (this would cover the subject-matter of the briefs below in the normal way, and then have a section called "other subjects which may be raised", with paragraphs on each of the following: East/West relations; inner German relations and Berlin; Arab/Israel and Lebanon; Iran/Iraq; Falklands/Argentina (one sentence only); Cyprus; Southern Africa; Central America; and UNLOSC).
- 3(a) General Brief on the European Community (which would be mainly concerned with the post-Stuttgart negotiation, but would also contain paragraphs, under "other subjects", on enlargement (including Gibraltar); trade issues; internal market; industrial policy; employee participation; EC/Turkey).
- 3(b) Community financing.
- 3(c) Agricultural matters.
4. Political and Defence Cooperation in Europe.
5. International Economic issues and the London Economic Summit.
6. Arms Control and Disarmament.
7. Bilateral relations (including Review of Anglo-German Relations and defence matters)
8. German internal scene (background only)

ANGLO-ITALIAN SUMMIT: 26/27 JANUARY

CHECK LIST

WRJ 026/1
25 JAN 1984
Other points relevant to handling the subject ✓ SH

<u>Brief Number</u>	<u>Subject</u>	<u>Main Points</u>	<u>Other points relevant to handling the subject</u>
4	CDE/INF	Compare assessments. A promising start. Keep in close touch on INF domestic reaction to deployment.	Likely to be discussed by Prime Ministers
3(a)	East/West Relations	Compare Stockholm impressions. Way is possibly open to an improvement.	
7(a)	Argentina	Acknowledge Italian/Argentine relations. Step by step normalisation of our relations. Hope Italians will support. Lady Young recently in Falklands.	Craxi almost certain to raise this with Prime Minister. (Italians seeking intermediary role.)
5(a)	Lebanon	Follow up talk in Stockholm on wider UN involvement.	
Extra (attached)	OECD Secretary-Generalship	Decision by May Ministerial meeting desirable. Concerned that no generally acceptable candidate has yet emerged. Would Italians consider supporting Sir Kenneth Couzens. We supported Pandolfi in 1981.	Foreign Ministers only.
9	Bilateral Issues:		
	Collaboration	Welcome MOU on EH101 helicopter. Want to promote more collaborative projects. R & D industrial partners. UK decision soon on Airbus. Note Italian interest in participation.	Civil MOU for EH101 signed previous day by Mr Lamont and Altissimo.

	Round Table	Does Italian side agree that Round Table should now be launched? Would like it to get under way with first meeting in Rome before summer holidays if possible.	
4(d)	Trilateral Defence Consultation	(Only if raised.) Understand political significance for Defence Ministers to decide.	Likely to be discussed in detail by Defence Ministers.
2(a)	European Community	No increase in own resources unless our conditions are met. Importance of decision at March European Council.	The Prime Ministers will wish to discuss the central Community issue.
2(b)	EC financing	Must build on progress made before Athens.	
2(c)	Agriculture	Firm on strict financial guideline. Italian interest served by reform of CAP too.	
2(d)	Enlargement	Negotiations should be completed by summer break with accession by 1 January 1986.	Mainly for Foreign Ministers.
2(e)	International Trade Issues	Rollback and other GATT issues. Canadian newsprint.	
2(f)	New policies	UK's positive ideas. Particularly industrial collaboration and R & D	May be covered by Prime Ministers.
2(g)	Steel	Italian commitment to cuts needed.	
2(j)	Whiskey	Object to Italian discriminatory taxation.	Foreign Ministers only.
3(c)	East/West Economic Relations and Technology Transfer	Need to maintain control and press for US flexibility.	

5(a) Middle East Secretary of State's visit to Middle East. Ten should respond positively to Egyptian proposal.

7(c) Horn of Africa Interested in Italian views.

6(b) Cyprus Important to stay in touch. Support UN Secretary General's efforts.

6(a) Malta Disturbing internal developments, but Russians finding Mintoff as difficult as West does.

6(c) Libya Interested in Italian views.

7(b) Central America/Caribbean Compare views on Kissinger Report. Sandinista intentions. Observers to El Salvador elections.

8(b) UNLOSC Press Italians not to sign.

7(d) Southern Africa South African withdrawal from Angola needed.

7(f) Nigeria Coup a surprise. New Government OK so far.

7(e) South East Asia Deplore continued Vietnamese occupation of Cambodia. Concerned about Philippines.

Secretary of State's visit
to Middle East. Ten months
related possibly to
Egyptian proposal.

Middle East (74)

Interest in Italian
views.

East of Africa (75)

Important to stay in touch.
Support Secretary
General's activities.

Cyprus (76)

Distributing internal
developments, but Russians
finding it difficult
difficult as it is.

Middle East (77)

Interested in Italian
views.

Liver (78)

General views on
European report.
Soviet Union's intention.
Soviet Union's intention.
Soviet Union's intention.

American Caribbean (79)

Press failure not to
discuss.

UNESCO (80)

South African with
from Africa region.

South Africa Africa (81)

Government of
Government of South Africa.

Nigeria (82)

Desire to maintain
relationship of
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relationship.

South East Asia (83)

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Box

10 DOWNING STREET

From the Private Secretary

8 February 1984

Thank you very much indeed for your letter of 3 February. I was very interested to hear about the new optimism in the Jordanian camp. I wonder how it has been affected by the last few days in the Lebanon.

I have noted what you say about the Prime Minister visiting Cairo. I am very keen on this myself and believe that she would like to do so. As usual, timing is all and I am not sure that we shall be able to do anything before the Autumn.

I shall pass your message on to the Prime Minister. Please write as often as you like. You have no idea how refreshing it is if there is at least one paper a day which is worth reading.

A. J. COLES

Sir Anthony Parsons, G.C.M.G., M.V.O., M.C.

107

Highgrove,
Ashburton,
S. Devon.

3rd Feb.

Dear John,

This should reach you after what I'm sure will be a successful visit to Hungary. I am of course following public reactions like a hawk.

The point of this letter is, I need hardly say, Palestine. I don't know whether the Prime Minister saw Prince Hassan and King Hussein this week. If so, don't bother to read on. If not, it is just worth my giving an impression of long telephone conversations I had with each of them.

What interested me was that both had cast off the intense gloom which characterized their attitudes late last year. Hussein (and Hassan) said that the parliamentary →

Experiment was working extremely well. It was already recreating the relationship between Jordan and Palestine which had been interrupted by the rise of the PLO in the 1970s. Hussein was very optimistic that Arafat, whom he expected in Amman after he, Hussein, returned from his medical treatment in the United States, would come on board and give Hussein's initiative his blessing. Hussein said that he would be seeing Reagan and co in about a week's time and that he would urge him strongly to respond positively to a Jordan/Palestine initiative.

As you know I have felt for some time that Hussein's move to reconvene the Jordanian parliament could be one of the most important events of 1984. Combined with the successful Jordanian initiative (Prince Hassan) to introduce majority decision making at the Islamic Conference, thus paving the way for Egypt's return to that particular fold, and a similar move which the Jordanians

are proposing at the Arab League to remove the impenetrable obstacle of the consensus rule, the Hashemites and the Egyptians just might, given all my scepticism and pessimism, be on the point of giving the Arab world a shove in the direction of commonsense and practical politics. The Syrians will probably manage to wreck things as they always do, particularly if they continue to bog the Americans down in Lebanon thus leaving Reagan without the energy and resolution to tackle Palestine vigorously, but it seems to me that Husain / Dubarak should receive all possible support from the likes of us. These are the serious men, not the mice with cheque books who, according to Husain, were totally useless at Casablanca.

If, as now seems likely, Egypt returns to the leadership of the Arab world in the not too distant future, I hope that we will not take second place to the French in Egyptian →

4.
Thinking. An early P.M. visit to Cairo plus
an absolutely first class successor to
Michael are worth thinking about.

Please tell the P.M. that I was deeply
touched by her letter. I thoroughly enjoyed
working for her, and with all of you, and
will never forget - as I potter about and
write my little books and articles!

I promise not to weary you with regular
statements of the obvious. But I thought
personal calls from the Ashemites deserved
a short report.

My warmest good wishes to the P.M.,
to Robin and yourself.

Yours ever

Tony

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MR COLES

Prime Minister

FIRST THOUGHTS

27/1

1. I set out below some very preliminary thoughts on one or two aspects of our foreign policy. This is not, of course, intended as a comprehensive survey nor does it pretend to be particularly well informed. It may, however, prompt comment from the Prime Minister when she sees me on 30 January.

2. First, some declarations of interest, or prejudice:

(a) I take a bleak view of the international scene. It is a world where, as Thucydides put it, "the strong do what they can and the weak suffer what they must". This is not to discount ideals, merely to note there will be little chance of realising them without military or political or economic strength.

(b) I see the Soviet Union as very much our principal external threat, not so much in the Third World, where Soviet advances are precarious, but in Western Europe. I do not see the chief threat as invasion (though we must provide for that as well), rather that the Soviet Union will extend and deepen its military shadow over Western Europe to the point where West European policies are automatically modified to take account of Soviet wishes. The game would then be lost without a soldier moved. "The most successful conqueror is the one who takes the city without firing a shot."

This is a steady threat for as far ahead as we can see and to counter it will require extraordinary firmness, resolution and persistence, particularly hard for a heterogeneous collection of democracies with short memories, economic difficulties and problems with a public opinion naturally horrified at the potential of nuclear weapons. Businesslike dialogue with the Russians will be essential but we must cherish none of the illusions of detente.

(c) China is another great Communist power but of a very different order. Hong Kong apart, China does not threaten our interests.

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our interests. In fact, given the state of Sino/Soviet relations, she confers great strategic benefits on the UK and Western Europe, distracting the Soviet Union and tying down considerable Soviet forces. Our East/West policies should take account of this.

- (d) I am profoundly pro-American. This is not a blank cheque for a chaotic Administration and a violent and over-commercialised society. It is merely a recognition that in the last analysis the United States speaks for freedom and provides the fundamental guarantee of our security. Over very wide areas, UK and US policies will naturally coincide. But there have to be areas where they do not. These are highly delicate: in some regions, eg the Middle East, we shall differ more than others; but in all cases our disagreement should be tempered by the thought that our, or Community, capacity to influence events is limited and the United States has the preponderant power and responsibility.
- (e) The Community will naturally be a major preoccupation, particularly this year, and we shall have to exert major efforts to achieve our objectives. But, to put it as provocatively as possible, the Community is for the future; the United States is the present. The Community is still able to exert only relatively little power on the rest of the world.
- (f) One of the West's greatest assets, particularly as seen from Communist countries, has been its apparently effort-less capacity to generate wealth and technological advance. One of the sad effects of the recession has been the temporary loss of the political confidence flowing from this capacity. A sustained, repeat sustained, US economic recovery is therefore critical, politically as well as economically. Our advice to our western partners and our own people should be Guizot's, "Enrichissez-vous".

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3. In East/West relations our long term objective is political change in the Soviet Union and Eastern Europe; but progress will be glacial. For practical purposes we shall be dealing with a static situation. This will present particular difficulties for the West in that we shall have to keep up costly defences and meet sustained Soviet pressure on a nervous Western public opinion. The answer to this will have to include close coordination with the Americans and with our other allies to ensure that we have an agreed Alliance policy which can be held over a long period. It will call for hard headed dialogue with the Russians and serious and visible Western interest in arms control proposals. This activity will be genuine in that we shall really be seeking a slightly safer world, but it will also have presentational value to public opinion. The Western Alliance, unlike the Warsaw Pact, cannot sit still. Without a certain degree of East/West activity our weaker colleagues are capable of doing something silly. But we must refuse to pay for this activity with concessions. We should also be considering our position if there is some thaw on arms control talks, in particular the possibility that START and INF may merge and how we should then handle pressure to include the UK deterrent. Throughout we shall need to give special attention to explaining our policies to the public and doing what we can to take the propaganda initiative from the Russians. There is at the moment a dangerous gap between realistic official thinking on East/West relations and arms control on the one hand and popular expectations and fears on the other.

4. In the context of East/West relations, the Prime Minister's visit to Hungary is imaginative and timely. We need to show that we differentiate between the Soviet Union and its East European satellites, though this has to be handled delicately, and we have a channel here we can use for getting our views through to the Russians.

5. In the Middle East time is running out. The absence of an Arab/Israeli settlement brings moderate Arab regimes into increasing risk and threatens a further Middle East war in this decade. The US elections will rule out any real movement this year, but even thereafter the United States is unlikely to be willing, or perhaps even able, to bring decisive pressure on the Israelis. In this situation there is a strong case for a judicious distancing of UK or Community policy from that of the US, while of course maintaining a close dialogue with the Americans and recognising how little we or the Community can do

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to decide events. It will be largely cosmetic but it will help to fill the gap and protect our interests in the Arab world.

6. Given the stalemate on fundamental issues, most of our Middle East policies are perforce short term, a matter of crisis management. In the Lebanon we cannot afford to withdraw the MNF without tangible progress or even to talk too openly about substitutes; but the contingents of our allies are dangerously vulnerable to domestic political pressure for withdrawal, particularly in the run-up to the Presidential elections. As the JIC paper I have sent separately brings out, we are operating against a deteriorating internal situation in Lebanon. In the Gulf we have to keep in close touch with US contingency planning and be ready to contribute if the war intensifies and the Saudis and Gulf States press for assistance. But we do not see entirely eye to eye with the Americans: they are more anti-Iranian than we can afford to be. There is an underlying contradiction here between our Arab and Iranian interests. As long as possible we should try for the best of both worlds; but as I see it, if a choice became inescapable we should have to choose the Arabs.

7. At first sight I find the situation in Central America and its implications for US relations with the European allies very worrying. I see little hope in the policy of the Doves. The Nicaraguan regime is Marxist, Cuban-supported and there to stay. In Salvador there is no way of bridging the gap between the two sides; any solution would have to be imposed. Honduras is unstable. There is every likelihood that left to itself the situation will deteriorate. On the other hand, US intervention, probably in El Salvador, would be unlikely to produce a lasting solution and would carry high risk of extending to Nicaragua. There is a real danger that Mr. Reagan if re-elected would intervene in El Salvador. This would present American allies with very difficult choices. In such a situation we should need to recognise the nearness and seriousness of the problem from the American point of view and our main interest I suggest should be to avoid upsetting them. In this connection, I cannot avoid having reservations about the prospect of an early withdrawal of the Belize garrison.

8. We shall be compelled to spend a lot of time and energy over the Legacies: Hong Kong, Gibraltar, the Falklands. They have their own

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rationale and need separate treatment. They also have different time frames. We have to settle, or partially settle, Hong Kong this year. In the case of Gibraltar, we have this year to get into a situation where with the lifting of restrictions we are able to embark on a lengthy discussion covering all issues. With the Falklands, there are various preliminary moves we can go through in improving relations with Argentina; but the hard core, sovereignty, will have to remain untouched. After some time we are therefore bound to face an increasingly unhelpful international environment on this issue.

9. Finally, I do not think we should attempt too active a foreign policy. Given the limits on our resources, it could soon become unconvincing. But we have been unnecessarily frozen on East/West relations; we need to continue to be active in the Middle East; and where we have assets we should cherish and use them. Anyone who has served abroad knows the value of the English language and culture as a means of influence. The instruments are the BBC External Services and the British Council, rightly directed. We should use these assets as the French would if they were lucky enough to possess them. And throughout our foreign policy we should try as far as possible to explain to MPs and the wider public what we are doing and why.

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PERCY CRADOCK
27 January 1984

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1. MR. COLES A.J.C. 13. / 1
2. PRIME MINISTER

The attached speech by Sir Frank Cooper at the Royal United Services Institute attracted some publicity in today's press. He was variously reported as having attacked the deployment of cruise missiles and called for the abolition of battlefield nuclear weapons; proposed that we should begin negotiations about the sovereignty of the Falkland Islands; and advocated the withdrawal of British troops from the Lebanon. The full text shows that he was misreported and in any event some of his other comments make it unlikely that his speech will be used by the Opposition. For example he says that in 1984 Mr. Kinnock will need to be educated into the realities of life and that the Soviet Union, the CND and some parts of the Labour Party are pursuing a common policy.

Sir Frank's major proposition is that successive British Governments have paid too little attention to arms control and his comments at the foot of page 5 indicate the directions in which he thinks we could move. He also asserts robustly however (page 4) that the British Government is right to sustain the independent strategic nuclear deterrent.

On the Falklands Sir Frank describes their defence as a necessary but not productive use of national or defence resources. Sir Frank calls for "political movement of a constructive and

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honourable kind" but does not mention the sovereignty
issue.

On the Lebanon Sir Frank says that in his view it was
wrong to send a British contingent (page 10) but that we
should not withdraw until "diplomatic negotiation has
established a situation where a further bloodbath is not
inevitable".

DF

13 January 1984

THE YEAR AHEAD - BRITISH DEFENCE ISSUES 1984

The publication of Brasseys is becoming the signal for the emergence of Nostradamuses' and other seers and soothsayers of equally doubtful repute. Moreover, if amongst those emerging there is anyone resting firmly on solid ground, then all attempts to prophesy are likely (if past experience is any guide) to be a matter of chance. Having said this by way of disclaimers, I shall plunge in - but not before taking a brief look back at 1983.

Once can certainly look back at 1983 as having many unpleasant surprises in terms of defence and foreign issues. Spies, terrorists and guerillas were active in many parts of the world. War and near wars spanned much of the globe. We have only to remind ourselves of the Lebanon, Israel and Syria, Iran and Iraq, the internecine warfare within the Palestine Liberation Organisation, Cambodia, Kampuchea, Angola, Chad, El Salvador, Nicaragua, Honduras, Costa Rica, Panama - to mention some of the violence that can readily be recalled. There were many surprises too - ethnic riots in Sri Lanka, Cyprus, events in Grenada and the shooting down of the South Korean airliner, not to mention the violation of Japanese air space by four Soviet aircraft only a few days later. It was not a good year for order and stability. It was a year when much that was unexpected happened. It reminds us once again that the unexpected and the unforeseen are likely to rank high in issues in 1984, and that in terms of defending the rule of law, the world seems to be moving backwards rather than forwards. It is also a reminder to us and to all who write and speak about defence issues that Europe is happily one of the safest places to live in the whole world and has been for many years past. This

suggests to me that from our narrow British point-of-view, we must ensure that it continues to be as safe in 1984, and that we are not to be put off by empty and irresponsible vapourings - from whatever source they come.

The two main political parties have spelled out to us all fairly recently the main British defence issues as they see them. The present Secretary of State for Defence, speaking at the RUSI's annual conference in June last year repeated the Government's devotion to Britain's four main defence contributions. Let me remind you briefly what he said. "First there is the defence of the United Kingdom base. This is a vital task which has been neglected in the past." Second he said that, so far as the central front in Europe was concerned, we would continue to provide our land and air forces. Third, at sea in the Eastern Atlantic and Channel, our strong maritime forces would continue to be modernised. Fourth, that we would continue to provide a UK strategic nuclear force. Michael Heseltine emphasised that our main focus would be on NATO, to which 90% of our effort was devoted, but that we must be prepared to be innovative and ready for the unforeseen outside the NATO area. He saw continuing improvement in our capabilities there in the interests of promoting peace and stability, but rightly, in my view, said we could no longer aspire to the role of international policeman.

He went out of his way to say that he did not see any fundamental shifts in our national strategic priorities over the next five years.

Finally he said that he, himself, had a particular interest in arms control and made it clear that in his view, progress could come only from a position of strength and not from one of weakness, and in the management of defence where he intended to pursue a policy of value for money. He emphasised the need for competition and dual sourcing.

Mr. Neil Kinnock has already been particularly active in 1984. He has repeated his Party's intention to withdraw from nuclear weaponry and to remove United States' Bases from the United Kingdom. He foresaw these commitments being sustained into the next Election, together with oneto send back cruise missiles to the United States and suspend the Trident missile programme.

He went on to make it plain that Labour remained pledged to maintaining and improving Britain's modern, conventional defences within NATO but that, to secure that end, "we cannot engage in the expenses and risks that go with trying to sustain ourselves as a nuclear power".

He suggested that, as a result of implementing these policies, we should get "an accelerated response from the Soviet Union on force reductions."

One British defence issue in 1984 must surely be the need to educate Mr. Kinnock into the realities of life, and one can only express the hope that he will apply himself to these extremely difficult and complicated issues which are not to be resolved by trite and off-the-cuff-remarks. These are, however, early days and particularly during the season of good will, one should be charitable, not critical.

Thus, there is a good part of the agenda laid out. Two issues which will be high on it are those concerned with nuclear matters and with arms control.

Nuclear Issues

Clearly, and in my view absolutely rightly, the British Government will sustain the British independent strategic nuclear deterrent. Conversely, there will be continuing opposition to this and to the progressive deployment of cruise missiles in the United Kingdom if there is no change in East/West relations in this particular area. It is, incidentally, important to recognise that the 31st December 1983 was one watershed, there are others. Moreover, it seems to me essential to take a balanced view. Arms talks failed but NATO remained cohesive whilst the initial deployment of Pershing and cruise missiles took place. This was a considerable achievement, but, in my view, it is right to take a balanced view of it and not regard deployment as a major triumph for the West.

On the other hand, it would be wrong to regard that deployment as more or less militarily necessary than was the Soviet Union's widespread production and deployment of SS20's and other modernised missiles. In many ways these questions are more of politics than of defence, and more of will than of need. The fact remains - regrettable though it may be, that in defence (as in many walks of life), weakness leads to disaster. The fact is, and still remains, that the Soviet Union, the CND and, apparently some parts of the Labour Party, are pursuing a common policy. This can be expressed quite simply as seeking to stop the deployment and installation of nuclear weapons in Western Europe. I find it difficult to see the net result of this - if it were ever successful, which I trust it will not be - other than a major triumph for the Soviet Union, and that its net effect would be dangerously de-stabilising.

Nevertheless, I am sure that we can all agree that there are far too many nuclear weapons in both the East and West. I am sure too that we can all agree that every effort needs to be made to pursue productive methods of arms control and arms limitation.

Arms Control

I start from a firmly held belief that successive British Governments have paid far too little attention to this area, coupled with the equally strongly held belief that it is an essential part of our national security policy. I also take the view that activity, let alone thinking, in this area is not the monopoly of either the United States or the Soviet Union. We in Europe are in the front line and we have a continuing and distinctive interest which we should identify and pursue positively.

Moreover, the position is going to get more difficult and more complex every year - and 1984 will be no exception - as technology continues to expand and all kinds of new weapons, whether nuclear or conventional, emerge.

There is a genuine need for a great deal more work to be done in this area, in this country and in conjunction with our European allies. The subject has never been particularly attractive to politicians. It is exceptionally difficult to understand. It needs a great deal of continuous hard work. It does not come particularly naturally but it is much too important to go by default, let alone be governed by the normal tribal war cries "for this" or "against that".

Furthermore, there are some very serious questions to be asked. If one asks the most simple question, namely : "Are there too many nuclear weapons, and particularly, too many in Europe?" Then I think there would be an almost universal answer that both sides have too many.

How do we go from there ?

One of the most important issues, to my mind, is (given the changing nature of weapons and the ever - diminishing time for real decision-taking), the question of command, control and procedures. This issue has been generally ignored and is actually crucial to us here in Britain and indeed to Europe and the rest of the world. If the armouries of the East and West are going to be filled with guided missiles of one kind or another (which I think is likely), the whole problem of timing, recognition and decision-making is going to become even more acute. There are few ground rules, and those that do exist are out of date. How do you tell if this is your friendly, conventional missile approaching, or a rather nasty, unfriendly nuclear missile which is due to arrive in a minute or so? This is a serious question, seriously put.

We seem to have become mesmerised by numbers, but ought we not to be thinking more in terms of operational characteristics and capabilities ? For example, would it be sensible, over a period of time (I think it would be at least ten years) to try and confine nuclear weapons in the missile field to ballistic systems ? Would it be equally sensible - and not least against a background of technological developments, to move to a situation where cruise missiles remained sub-sonic and during the 1990's became non nuclear ? Again, is there not merit in seeking the complete abolition of short-range battlefield nuclear weapons ? I do not think that this would do anything other than enhance our safety and reduce the risk of nuclear exchange.

These are all matters which are crucial British defence issues. I would like to see 1984 being a year in which we demonstrate publicly our real interest in these matters. I would like to see a year in which we really invested a substantial amount of intelligent effort into solving problems of this kind. I would like to see the setting up of some small group or agency which would provide both an intelligent and practical base for policy in this area. It is totally insufficient simply to divide into camps, those 'for' and 'against', as this will lead nowhere other than to increase over the years the risk to us all. The present situation is strategically unsound.

There are obviously other areas in which we can and should concentrate. The obvious one is chemical weapons where the Russians have a near-monopoly and yet this seems of little concern - particularly to those outside the Government.

Lastly, I suggest there is a need for much more broadly based international dialogue. Clearly we need to make a continuous and major effort with the United States. Both Government and Opposition need to understand the issues much more clearly and debate them much more seriously than hitherto. I regard much political comment as an insult to the British people and lacking in real care about our future. Above all I think the need for us to discuss these matters seriously with our European allies and with other countries in Europe is one of major importance.

As far as our European allies are concerned, I see no reason for the United States and the Soviet Union to be allowed to be in a position where they debate our future without our views being clearly known and clearly heard.

As far as other countries in Europe are concerned, and despite all that has gone before, the sooner we re-establish a continuing and effective dialogue with countries in the Eastern Block - at all levels and not merely the political level - the better.

For some years past, there have been far too many sticks and stones in evidence and not enough dialogue. One of the paradoxes of the modern world is that the easier and quicker communications become, the more difficult it is to achieve a genuine understanding and a meeting of minds.

This does seem to me to require not only much more widespread and convincing discussion and debate here and with our Allies - a point to which I shall return at the end - but also with others.

The Soviet Union is a largely closed society. So too are other members of the Eastern Bloc - but to a lesser degree. In comparison Western societies are much more open. What useful purpose is now served by an excessively restricted dialogue which is over-formalised? It seems to me positively dangerous. I hope 1984 will see a significant increase in dialogue and that this should, certainly with some of the Warsaw Pact countries, include defence links and exchanges.

Peace and security are too dangerous to be left exclusively to politicians and diplomats. Surely we should now encourage more broadly based debate between the defence communities of East and West. I also suggest we should be contemplating on an increasing scale re-instating exchanges of visits between our defence forces. We need to gain an insight and understanding of the East and vice-versa, not least in the military area. Defence exchanges and visits would make sense and are relevant - particularly when account is properly taken of the totally different nature of our differing societies.

Beyond the NATO area

The issues here tend to be political - in almost every meaning of that word - which sometimes have a greater or lesser defence content. In a number of cases issues are already visible.

The Falkland Islands raise essentially political questions but there is a strong defence connection. It is, in my view, encouraging that in very recent weeks messages have been emanating from both London and Buenos Aires which, despite the basic difficulties, have demonstrated a wish for movement. One very much hopes that this movement will take place. There is, I suggest, every reason not to delay. There is a new civilian government in the Argentine and a government here with a large majority. The cost in lives, as well as resources, of 1982 is still fresh in all memories, including those of the Falkland Islanders.

It is in the defence interest that there should be political movement of a constructive and honourable kind. The nettle has to be firmly grasped. The expense of defending the Falkland Islands is a necessary but not productive use of national or defence resources. For the future it will inevitably be a successful Treasury target to ensure that as soon as possible it is carried within a net defence budget.

Hong Kong too is a political issue. The Chinese have said that they wish to see the outline of the future regime agreed by the autumn of 1984. Again, one very much hopes that this agreement will be reached in the belief that it is more likely to produce a stable situation in the area. In the shorter term instability would have unhappy consequences for defence. In the longer term stability will inevitably have happier consequences for Britain's defence responsibilities in Hong Kong.

The other issue clearly on the 1984 agenda is the future of the Lebanon and the forces there. It seems to me that the small British contingent has done an outstanding job and handled itself with great professional skill. Yet there is no gainsaying the fact that it is at risk each day because of circumstances over which neither it nor any Government has much control. The sooner the position is resolved the better.

In my view it was wrong in the first place to have sent a British contingent not because of the very high risks involved but because the aim was unclear, policy was obscure and the ability to influence - let alone control - the political situation small. Having said that, it must be right not to withdraw until diplomatic negotiation has established a situation where a further bloodbath is not inevitable.

Britain still has residual defence responsibility for a number of territories around the world. True, BRUNEI is no longer directly one of them but BELIZE is still actively with us and I would hazard the thought that we shall be fortunate if the CARRIBEAN is totally without defence interest in 1984.

Britain and the West as a whole has a direct interest in the future of Iran and Iraq, of the Gulf, and indeed in Central America. Again, these are essentially political and economic issues but there are possible defence repercussions, some of which could involve defence in one way or another.

It is absolutely right that Britain cannot and should not aspire to the role of international policeman. It is also, I suggest, absolutely right that Britain in conjunction with our allies, including the European allies who have much at risk, should seek to establish a common policy and programme of action wherever possible. This

is better done outside NATO than within it. In addition, for a small investment Britain can play a considerable defence role in the field of military training and in taking part in joint exercises for which clearly identified British forces are needed.

It would be profitable in my view if 1984 could see a little more effort put into these issues in terms of clarifying policies, practical action and resource allocation.

Maritime Policy

I have used the words maritime policy deliberately because it is much more than the Royal Navy. The traumas of the ship building industry in this country are there for all to see. Most of our goods are imported and exported by sea. This is the mode of conveyance of some 98% of some 157 million tonnes of imports and 103 million tonnes of exports. There is an increasing awareness of the drastic fall off in the amount of merchant shipping sailing under the British flag with British seamen. There is also awareness of the vast increase in the flags of convenience shipping, particularly Liberia and Panama, whose crews owe allegiance to no-one. It is not sufficient to explain all this by crew costs because the UK's crew costs are less than those of West Germany and surprisingly, well under half those of Japan, though those of flags of convenience ships are about half of Britain's.

There are, however, some major naval questions. Do we plan on the basis that we have convoys and, if so, when and what will they carry? Do we plan on independent sailings? Are there enough merchant ships? Is it

possible to obtain those merchant ships quickly and be assured they have loyal crews? Are the real costs of naval vessels going to continue on rising? Do we expect the Royal Navy to be half its present size in another 20 years - which is what happened in the last 20 years?

There are major issues here, including major defence areas and one would like to see them examined and explained during 1984.

Resources and Management

There is no particular reason to assume that money should be a major problem during 1984. This is not to say that "noises off" will not be heard in the usual volume from both the Treasury and the Ministry of Defence. But as long as both departments keep a grip on expenditure then in the short term no immensely acute problems will arise.

Similarly, for people, apart from in a very limited number of areas, there should be no major problems about service manpower.

Reducing Civil Service manpower is still a centre piece of the present Government's overall strategy. Much has been achieved and indeed, since the Ministry of Defence was set up in its present form in 1964, then over a 28 year period, civilian manpower has cut down by 230,000 - well over half. There is more to cut, apart from the results of privatisation, but we are entering an era of diminishing returns. There is still, however, a good deal of scope in reducing military, procurement and other overheads in all these areas. Results should be with us during 1984. We look forward to them.

Procurement

The central issues about defence procurement remain largely untouched. The continuing rise in real costs from one generation of equipment to another. The continuing fall off in the quantities of equipment that the services buy. The shortage of logistic support. The continuing explosion of technical knowledge and, consequently, the over widening choice of weapons systems and defence equipment. The appallingly bad ratio between initial investment comparing research and development and expenditure with that on production and repair.

There is the question, as yet unresolved, as to what can and should be done. Should we buy more abroad? Should we cooperate with our allies to a greater extent and, if so, should emphasis be on cooperating with the other side of the Atlantic or with Europe? Should we cut back on the number of capabilities that we acquire? Should we reduce the amount spent on research and development?

These are immensely complicated issues which have a deep impact on both defence and industry. They, together with individual decisions about equipment, should and must agree to be a major defence issue in 1984.

Credibility and Confidence

Finally, I would like to return to the general question of defence policy. It seems to me that there is generally good support in this country for defence and a considerable awareness of the Soviet threat and the lack of stability in the world as a whole. Yet there is a great deal of questioning and uncertainty. People do not seem to be convinced either that all the policies are right

or that they are both comprehensible and sensible.

There are many reasons for doubts of this kind. The unsettled state of the world that some see as an over vigorous United States' reaction to events. The arguments about nuclear weapons. The failure of arms talks. A general lack of progress in arms limitation. The bizarre absence of Mr. Andropov. Contradictory public statements.

There does seem to be an urgent need for a re-statement of defence policies. NATO is urgently in need of a policy review and the arrival of a new Secretary General seems a good time to set one in motion. It should be set in hand now, quickly. The case for a much clearer statement of British defence policy and attitudes to various issues is also required and again, the fact that there is now a Secretary of State who, perhaps, could have a long run in the post, seems as good a time as any to set such a review in motion. This all the more so because resources pressures, though always with us, are not particularly pressing in the short term.

A good deal more effort needs to be put into explanation and communication and 1984 should see the various defence issues being brought out more into the open and a clear justification set out for particular policies.

A week ago today that wise and eminently readable man, Sam Brittan, wrote an article from an economic point of view in the Financial Times. It was called "The Future Has Not Yet Happened".

He started by mentioning that a Nobel Prize winner could not recall any economist making a fortune, or even a living, out of forecasting the future, though he could think of many who had done very well by selling their forecasts!

He went on to say that the most important thing to say about the future was that it has not yet happened and the next most important thing is that it can be implemented by human action. These are not only wise words but true ones. They seem to me to be both the alpha and omega of the way we should look at defence issues in 1984. Above all, I would be pleased for optimism, realism and dialogue. There is a tremendous need for a positive approach and for the British to play the part which we all know we are capable of playing in making 1984 a better year than 1983.

FC/cmj

09.01.1984

PART 1 ends:-

pm to M. Kaser 17/9

PART 2 begins:-

Speech by Sir Frank Cooper 9/1/84

~~Rev. M. Bourdeaux (Hester College)~~
~~to AJC~~
~~14/10~~

