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Policy Review.

UK Contribution to International
Development Association (IDA).

OVERSEAS AID

Part 1: June 1979

Part 5: July 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
11.7.85		29.12.86					
25/7/85		16.1.87.					
6/8/85		6.2.87.					
5/9/85		6.3.87					
11.9.85		18.3.87					
24/9/85		23.3.87					
7/10/85		26.3.87					
5.12.85		15.4.87					
8.12.85		5.5.87					
8.1.86		14.5.87					
17.1.86		8.6.87					
14.2.86		22.6.87					
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19.8.86							
3.11.86							
11.11.86							
5.12.86							

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● PART 5 ends:-

FCO to ~~DP~~ DTI 22.7.87

PART 6 begins:-

FCO to DTI 13.8.87.

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.

Cmnd 9566. Second Report from the Foreign Affairs Committee of the House of Commons: Session 1985-85. FAMINE IN AFRICA
Published by HMSO - ISBN 0 10 195660 6

Signed

J. Gray

Date

20/2/2016

PREM Records Team



Foreign and Commonwealth Office

London SW1A 2AH

22 July 1987

Dear Timothy

*CDP
22/7*

I attach the June Monthly Report on the Aid and Trade Provision for your Secretary of State's information.

In their letters of 15 May and 8 June Jill Rutter and Paul Steeples agreed that inclusion of ATP problem cases in the monthly report was a sensible innovation. This arrangement will therefore be implemented in future. No report was circulated in May, because of the election.

I am copying this letter and enclosures to David Norgrove (No 10) and Jill Rutter (HM Treasury).

Yours ever

(R N Culshaw)
Private Secretary

Timothy Walker Esq
PS/Secretary of State
for Trade and Industry

AID AND TRADE PROVISION

MONTHLY PROGRESS REPORT: JUNE 1987

Proposals under consideration at the beginning of June (see Annex I)

1. 28 projects were under consideration at the beginning of June. Of these, nine were under the China and Indonesian soft loan agreements (they have already been appraised but firm offers cannot be made until commercial negotiations are completed). Four projects were approved during the month and three offers were made, including one revised offer for enhanced UK content. One project is about to be submitted for approval. Ministerial correspondence on another (Wonji/Shoa in Ethiopia) has resumed following the Election. The remaining 13 are being actively pursued with a view to reaching a decision in the near future.

Proposals received during June (see Annex II)

2. During June we received ten formal ATP proposals from the DTI. An offer has been made on one and submissions will shortly be made on another four. No further action is currently required on a further project as it is expected to be World Bank funded.

Offers outstanding on 30 June (see Annex III)

3. On 30 June there were a total of 36 offers still outstanding on which recipient governments had not taken a decision on the award of a contract. The total potential export value of these projects amounted to £723 million: 31 projects with an export value of £570 million are being supported with mixed credit offers involving ATP grant support of £147 million, and the balance are the subject of soft loan offers worth £156 million.

4. During June we made four mixed credit offers and one soft loan offer of ATP:

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value</u> <u>£m</u>
India	Gas Turbines for South Bassein	Rustons	5.742 (revised offer)
India	Optical Fibre	STC	40.550 (revised offer to match Swedes)
Mauritius	New Power Station	Mirrlees Blackstone	6.000 (Soft Loan)
Mexico	Railway Coaches	BREL	49.700
Thailand	Refuse Disposal	Motherwell Bridge	6.900
		Total	<u>108.892</u>

Projects accepted in principle on 30 June (see Annex IV)

5. On 30 June there were 17 projects accepted in principle by recipient governments but which had not by then resulted in contracts and aid agreements being signed. The total potential export value of these projects is £234 million. Fourteen projects with an export value of £138 million are the subject of mixed credit offers involving ATP grant support of £40 million. In addition to two projects under way, we have confirmed offers of soft loans to Indonesia on projects worth £96 million under the soft loan agreement.

Projects signed in June (see Annex V)

6. In the past month two projects have been signed up. On 15 June the UXD5 project (British export value £5.4 million, ATP content £1.7 million) and the Power Transmission project (British export value £8m, ATP content £2.6m) were signed in Malawi.

Lines of Credit: Mixed Credits and Soft Loans

7. At present we have lines of mixed credits to Cameroon, Egypt and Mauritius and agreements on lines of soft loans to China (£300 million) and Indonesia (£140 million). Proposals under these arrangements are dealt with in the same way as other projects.

8. Two missions to China have appraised all five priority projects identified under the soft loan agreement. The contract was signed for the first of (COSCO Ships) on 12 April 1987. In the case of the Indonesian soft loan agreement, the nine projects identified between ourselves and the Indonesian authorities have been appraised. Two projects are now under way, and confirmed offers have been made on three other projects - progress on others depends upon commercial negotiations.

Possible ATP cases for which advance details were received during June

9. During June details of nine potential new ATP cases were passed by DTI to ODA for a provisional assessment. The British Export value of the business involved amounts of at least £286 million. ATP funds of not less than £86 million would be required.

ATP Financial Position at end of June

10. Some further payments made before 31 March remain to be processed, so that it is not yet possible to give an exact outturn expenditure figure for 1986/87. A summary of the 1986/87 position will be included with the July Report, when all the information will be available. But we estimate expenditure to have totalled £81.3 million.

11. Existing commitments (including offers outstanding) on mixed credit cases which could lead to expenditure in 1987/88 are relatively high for this early stage in the new financial year, by comparison with the allocation of £66 million. Experience to date with delays in concluding commercial negotiations on soft loan projects suggests that expenditure can be accommodated within the £10 million allocation without difficulty.

Aid Policy Department
July 1987.

ATP PROPOSALS UNDER CONSIDERATION ON 1 JUNE 1987.

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of SCAT Case</u>	<u>Date of Approval/Comments</u>
Burma	Jute Mill	Mackies	3.000	0.960	36	5 January 1987	See Note 1
Cameroon	Railway Diesel Units	BREL	3.629	1.012	33	17 February 1987	See Note 2
China	Luoyang Tractor Factory	Lucas CAV	12.900	Soft Loan	41	12 May 1987) 24 June 1987)	See Note 3A
China	Shanghai Telecomms Equipment.	STC	25.300	Soft Loan	32.1	9 Sept. 1986	See Note 3B
China	Steel Plant	Davy McKee	39.600	Soft Loan	-	-	See Note 3C
China	Yueyang Power Plant	GEC and BB	174.000	Soft Loan	-	11 May 1987	See Note 3D
China	Cosco Ships	British Shipbuilders	72.000	Soft Loan	-	-	See Note 3E
China	Infant Rusk Factories	Baker Perkins/VBI	6.150	1.544	36	27 April 1987	See Note 4
China	Network Traffic Management Centre	BT	2.042	0.616	35	26 May 1987) 26 June 1987) 29 June 1987)	See Note 5
Ecuador	Guayaquil Earth Station	Marconi/GEC	4.400	1.130	34	13 May	See Note 6

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of SCAT Case</u>	<u>Date of Approval/Comments</u>
Ethiopia	Wonji/Shoa Waterworks	Biwater	7.000	1.795	35.14	22 December 1986	See Note 7
India	Combined Cycle Power	HSPE/ Babcocks	167.000	Soft Loan	33	31 July 1986	See Note 8
India	URI Hydroelectric	Boving	46.900	Soft Loan	17	3 February 1986	See Note 9
India	Yelehanka Power	(i) HSPE (ii) JBE	29.200	7.400	42	21 April 1987	See Note 10
India	Gas Turbines for South Bassein	Rustons	5.742	2.182	43	29 April (Revised)	See Note 11
India	Optical Fibres	STC	40.550	Soft Loan	47.3	13 May) 27 May)	Revised offer made 12 June 1987.
Indonesia	Scattered Diesels	GEC (Rustins) HSPE	7.000	Soft Loan	47.4	31 July 1986	See Note 12A
Indonesia	Radio	NKY)	16.620	Soft Loan	NKY	19 June 1986	See Note 12B See Note 12C
Indonesia	TV	Link) Electronics)					
Indonesia	Cigading Port Facilities	Davy BR	14.000	Soft Loan	-	-	See Note 12D
Jordan	Potato Storage	Grenco	3.850	0.970	39	16 February 1987	See Note 13
Malaysia	Accelerated Transmission	GEC/MSPE	20.200	5.100	NKY	12 March 1987	See Note 14
Mauritius	New Power Station	Mirrlees Blackstone	6.000	Soft Loan	40	15 May 1987	Offer made 4 June 1987

ANNEX I
(contd)

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of SCAT Case</u>	<u>Date of Approval/Comments</u>
Mexico	Railway Coaches	BREL	49.700	12.467	34.03	12 December 1986 (revised case received 18 May)	Offer made 9 June 1986 received <i>1987</i>
Seychelles	Generating Set	Mirrlees Blackstone	2.000	9.502	35	30 March 1987	See Note 15
Tunisia	Dump Trucks	Tenex	1.430	0.312	31	16 February 1987	Approved 11 June 1986 <i>1987</i>
Turkey	Human Vaccine Facility	Stearns Catalytic/ Wellcome Foundation	17.700	4.440	30.2	8 September	See Note 16
Zimbabwe	Telecommunications	GEC	4.909	1.232	33	9 February	See Note 17
TOTALS			<u>782.827</u>	<u>50.662</u>	(mixed credits)		

Footnote:

There are four projects on which no decision is required at present.
 China Shidongkou Power Station - No aid agreement in place
 Egypt Ayoun Moussa Power Station - Japanese feasibility study being carried out.
 Jordan Shidiya Phosphate Project - French feasibility study being carried out.
 Malaysia Peninsular Gas Project - No aid agreement in place

NOTES ON ATP PROPOSALS UNDER CONSIDERATION ON 1 JUNE

1. Burma: Jute Mill (Time elapsed since SCAT case: six months)
Mackies are bidding for a contract for the expansion and rehabilitation of a Jute carpet backing plant coupled with the rehabilitation of Jute sacking plants incorporating new machinery and furnishings. To set the rehabilitation and expansion on a sound footing a brief consultancy study has been offered. The Burmese have submitted revised terms of reference which we are considering with DTI.

2. Cameroon: Railway Diesel Units (Time elapsed since SCAT case: four months)
British Rail Engineering is seeking to supply diesel multiple units to the State Railway of Cameroon (Regifercam). The UK content of the contract would be £3.629 million with ATP at £1.012 million. Discussions between ODA advisers and Regifercam in May on BREL specifications were inconclusive but BREL have now reported that they have reached agreement with the Cameroonians. Subject to this being confirmed, a submission will be prepared recommending approval.

3. CHINA SOFT LOAN PROJECTS
 - A Luoyang Tractor Factory
Lucas CAV are seeking contracts for the transfer of diesel fuel injection technology including the licensing of Lucas CAV projects. The company has visited China several times this year, and the various problems that have arisen are close to resolution. It is hoped that the first of the three contracts concerned with technology transfer, will be signed in July. It is expected that the remaining two contracts, covering machine tools and components and to which the soft loan will be applied, will be signed between 6 and 12 months thereafter.

B Shanghai Telecommunications Equipment

Factory 519 requires transmission equipment, which STC is ready to supply, and optical devices, for which STC and Plessey are competing. But Factory 519 insist that these are two parts of the same project for which it can only afford £25m, whereas STC cost the transmission equipment above or about that amount. The optical devices may also incur objections from COCOM. Factory 519, STC and Plessey continue to discuss the scope and cost of the project.

C Daye Steel Works

There is still a substantial gap between the budget prices set by the Chinese and the price quoted Davy McKee/Tube Investments (DMT). DMT are due to have further discussions in China.

D Yueyang Power Plant

The Chinese continue to press Balfour Beatty/NEI for price reductions. The negotiating body (HIPDC) have expressed interest in mixed credit rather than soft loan terms. The very considerable political and financial difficulties this would cause have been fully explained. Soft loan support for up to £174m and ATP/TC of up to £3.856 million was approved by Minister on 3 July: ATP/TC offered to Chinese by Lord Young on 6 July.

E COSCO Ships

The contract for two ships with an option for a third, all at £23.15 million each, was signed on 12 April 1987. The formal offer to the Government of China will be formulated when negotiations of financial contract are finalised and option on third ship decided on by COSCO.

4. China: Infant Rusk Factories: (Time elapsed since SCAT case: two months)

Baker Perkins BCS and United Biscuits are bidding for the supply of equipment and technology for the manufacture of infant rusks in five key sites in china. Out of a total contract value of £6.3 million UK and EC content amounts to £6.15 million with ATP requested at £1.54 million. Further economic information has been requested from DTI.

5. China: Network Traffic Management Centre: (Time elapsed since original SCAT case: one month
British Telecommunications (BT) is seeking a contract with the Chinese Ministry of Posts and Telecommunications (MPT) for a turnkey system to be delivered in three stages, including all hardware, software, documentations, consultancy and training support and all other services required to bring into use an operational network traffic management system. A submission recommending approval will be made shortly.
6. Ecuador: Guayaquil Earth Station: (Time elapsed since SCAT case: six weeks)
Marconi wish to bid for the supply and installation of a Standard A Earth Station. However, we are unable to support the proposal, in particular because of strong reservations by the World Bank. World Bank endorsement of ATP projects in DX countries is necessary. The Bank will be mounting a Telecommunications mission in July/August and we have agreed with DTI that action should await their recommendations. The company has been made aware of the position.
7. Ethiopia: Wonji/Shoa Waterworks (Time elapsed since SCAT case: six months)
Biwater are bidding to design and construct a waterworks at Wonji/Shoa and Metahara Sugar Estates. There is insufficient ECGD cover to accommodate this particular proposal as it stands. However, Biwater are currently seeking ways to overcome the problem, possibly by phasing the project in two stages.

The application has been overtaken by a reappraisal of the question of ATP for Ethiopia. In June 1985 EX Committee agreed that ATP should not be made to communist countries except in exceptional circumstances. In DTI's view, since others offer aid to Ethiopia in support of trade, the EX principle is met. FCO Ministers have taken the view that it would be inconsistent to support ATP proposals for Ethiopia because of the current regime's policies. At Mr Clark's request both the principle of

ATP cover for Ethiopia and the Biwater case were shelved until after the Election. Mr Clark has now written seeking urgent reconsideration of the case.

8. India: Combined Cycle Power Station (Time elapsed since SCAT case: eleven months)

HSPE/Babcocks are seeking to secure a contract for the design, manufacture and construction of three gas based combined cycle power stations. The Indians have invited international tenders with a view to using World Bank finance. Following tender evaluation the UK appears unlikely to secure any of this business.

9. India: Uri Hydroelectric Power Station (Time elapsed since SCAT case: five months)

Boving are bidding in consortium with Skanska and ASEA Sweden. The total offshore content would be around £370 million most of which would be sourced from Sweden. For the £47 million UK content it is proposed that a soft loan be offered denominated in Swiss Francs at 3% p.a. interest with repayment over 15 years at 5 years grace. This would fit in with the terms to be offered in support of Boving's consortium partners. Although we have a general disposition not to see loans denominated in foreign currencies this does seem to be an attractive proposal. The outstanding economic issues have still to be resolved and we await news of the Swedish offer of aid. The company has been asked to provide us with more detailed information on certain aspects of the project.

As the Indians may prefer an alternative form of concessional financing, a letter has been sent to SCAT Departments seeking approval for the option of a sterling soft-loan or a mixed credit package, should the Indians prefer these alternatives.

10. India: Yelehanka Power Station: (time elapsed since SCAT case: two months)

The Karnataka Electricity Board has invited tenders for two possible technical options. HSPE are offering diersel engines,

whereas JBE's bid is based on gas turbines. The Indians are currently evaluating the bids, but further information is required before the economic and technical case can be finalised.

11. India: Gas turbines for South Bassein (Time elapsed since revised SCAT case: two months)

In October last year an aid grant of up to £1.7 million was offered in support of a bid by Ruston Gas Turbine to supply gas turbine generating sets for the South Bassein II oil platform. Additional UK equipment has now been identified requiring ATP support of £2.2 million and an enhanced offer was made on 5 June 1987.

12. INDONESIA SOFT LOAN PROJECTS

A Scattered Diesels

Once the economic and technical assessment has been completed GEC and HSPE should be invited to bid for a contract to instal diesel power stations in Sumatra, Kalimantan, Sulawesi and Java. Progress on the developmental assessment has been delayed until recently when a project description, design and equipment specification, were provided by the Indonesian national power corporation (PLN). Further essential information has been requested; and the Electrical and Mechanic Engineering Adviser is visiting Indonesia this month in an attempt to clarify the situation. PLM's draft conditions of contract provided at the same time as the project details have been cleared.

B Radio Equipment

This has now been split from the T.V. project. The Government of Indonesia are currently looking at terms of reference for a consultancy to ensure efficient utilisation of the new equipment. The UK supplier has not yet been identified.

C TV Equipment

The UK firm Link Electronics have presented the draft scope and specifications of the project to the Indonesians for their consideration

D Cigading Port Facilities

This project is interlinked with the two railway projects, and the three were appraised as a single transportation scheme. The Indonesians have been re-defining their requirements at Cigading. We have been told that their conclusions will be made known to us soon.

13. Jordan: Potato Storage (Time elapsed since SCAT case: four months)

Agreement has been sought to the provision of £0.97 million of ATP, to match the concessionality of a Belgian aid offer, for a potato cold storage plant. Grenco Refrigeration Services and Tate and Lyle are the UK Companies who are seeking ATP support. The proposal has been rejected, and the companies informed, because of institutional problems in the sector in Jordan and because of the very tight ECGD position.

14. Malaysia: Accelerated Transmission System (Time elapsed since SCAT case: three months)

GEC and HSPE are both bidding to secure a contract for a power transmission project in Malaysia comprising eight packages of equipment. Depending on which packages are won, ATP would range between £3.2m and £5.1m. However, doubts have been expressed in SCAT on the justification for an initiation of aid in this case and as time constraints have ruled out a no-aid agreement it has been agreed to run this as a shadow case for the time being.

15. Seychelles: Generating Set: Time elapsed since SCAT case: three months)

ATP of £0.502 million is sought in support of a bid by Mirrlees Blackstone to sell a 5MW diesel generating set to the Seychelles Utilities corporation (SUC). The case is supported on developmental grounds but because the Seychelles is not a

regular recipient of tied aid doubts have been expressed within SCAT on the justification of an initiation of aid.

16. Turkey: Human Vaccines Facility (Time elapsed since SCAT case: nine months)

SCAT can not agree case for aid until ECGD's security requirements have been satisfied. These arrangements must provide for loan repayments to be unconditionally agreed by either Turkish Government or Turkish State Banks agreeable to ECGD. A meeting between companies and DTI/ECGD/ODA was held on 8 April to review the project. The companies plan a further visit to Ankara when they will present a finance offer whose terms they have agreed with HMG. Thereafter a formal proposal will be made to ODA.

17. Zimbabwe: Telecommunications (Time elapsed since SCAT case: four months)

The project concerns the supply of technology, plant and machinery for the local manufacture of telephone instruments in Zimbabwe. The UK company is GEC Telecommunications. We have agreed to fund a short study to examine the effective demand for telephone handsets in the Preferential Trade Area.

ATP PROPOSALS RECEIVED DURING JUNE 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export Value £m</u>	<u>ATP Support £m</u>	<u>HMG Subsidy Element (%)</u>	<u>Date of SCAT case</u>	<u>Remarks</u>
Mauritius	System X	GEL Telecommunications	11.900	Soft loan	35.29	2 June 15 June (revised)	Submission made recommending approval.
India	Rapid Intervention Vehicles	Mountain Range Group	2.361	0.708	30.65	10 June	Offer made 10 July.
Turkey	Istanbul Expressway & Golden Horn Crossing	Tarmac	64.900	19.540	38	9 June	Under consideration
Sri-Lanka	Hill Country Water	Biwater	6.274	1.882	36	15 June	Under consideration, but doubts on developmental case.
Thailand	Bangkok Refuse Disposal Plant	Motherwell Bridge	6.900	1.742	26.1	16 June	Offer made 28 June
Panama	Gas Turbine Power Station	JBE	13.300	3.800	33	16 June	Submission recommending approval in preparation.
Morocco	Jerada Mine Expansion	Cementation Mining	7.600	2.287	33.4	19 June) 30 June)	To be funded by World Bank.
Philippines	System X	Plessey	50.000	15.050	37.7	26 June	Under Consideration.

ANNEX II
(contd)

Pakistan	Port Qasim Dredger	British Shipbuilders	13.200	4.020	36.6	29 June	Submission recommending approval in preparation.
Ecuador	System X	GEC	10.000	3.010	34.7	30 June	Under consideration.
		TOTAL	<u>186.435</u>	<u>52.039</u>	(mixed credits)		

ATP PROJECTS ON WHICH OFFERS WERE STILL OUTSTANDING ON 30 JUNE 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Burma	Gas Turbines	JBE	12.200	3.540	32	March 1986
Burma	Marine Engines	Sykes Marine	5.000	1.600	44.11	August 1986
Burma	Railway Rehabilitation	HSPE	28.000	Soft Loan	33	June 1986
Cameroon	Agricultural Mechanisation	NKY	3.522	0.885	29	February 1987
Cameroon	Railway Insp. Vehicles	D Wickham & Co.	1.659	0.425	32	February 1987
Cameroon	Railway Signalling	Westinghouse	10.875	2.729	39	March 1987
China	System X Shenda	GEC	4.038	1.014	25.1	October 1986
China	Beijing Urban Traffic Control	Plessey	7.300	1.832	43	May 1987
China	Boiler Pumps	Weir Pumps	12.000	3.012	33.5	May 1987 Conditional match.
Cyprus	Larnaca Airport	UK Airport Group	18.975	4.763	33	January 1986
Colombia	System X	Plessey	12.750	Soft Loan	36	March 1987 (revised case 10 June 1987)
India	Ammonia Plant	Humphreys & Glasgow	26.730	6.709	38	February 1987
India	Coach Factory	BREL	27.500	Soft Loan	37	July 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
India	Bombay & Delhi Airports	UK Airports Group	42.000	13.020	31	December 1986
India	Optical Fibres	STC	40.550	Soft Loan	47.30	June 1987
India	Navigational Aids	Racal Avionics	1.622	0.495	44	March 1987
India	Electric Locomotives	Brush	76.820	19.280	38	May 1987 Conditional match.
India	South Bassein Power	Rustons	5.742	2.182	43	June 1987
Indonesia	Surabaya Shipyard	Cunlogan	61.200	15.400	38.2	November 1986
Jordan	Aqaba II Power Station	NEI/Parsons/Reyrolle/FW	35.000	8.785	33.5	March 1987
Kenya	System X	Plessey	10.200	2.620	35	October 1986
Kenya	Digital Radio Link	GEC	5.064	1.324	36	May 1987
Malaysia	Digital Multiplex	STC	64.720	16.240	33.4	June 1986
Malaysia	Communications Equip.	Racal Avionics	1.449	0.363	30	July 1986
Malaysia	132 KV Transmission Switchgear	GEC	3.245	0.815	29	January 1987
Malaysia	Airport Equipment	Racal	1.449	0.363	26	July 1986
Malta	LUQA Airport	TWI and BAA	1.988	0.489	25	December 1986
Mexico	Railway coaches	BREL	49.668	12.467	42	June 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Pakistan	VHF Communications	IAL	6.040	1.620	32	June 1986
Pakistan	Flight Simulator	Rediffusion Simulation	7.448	1.869	33	April 1987 Conditional Match
Rwanda	Diary Project	IPVAL	2.623	0.752	31	January 1987
Thailand	Telecommunications	Balfour Kilpatrick/BT	74.500	18.700	34	o
Thailand	Mae Moh Chimneys	Tileman	2.000	0.502	34	March 1986
Thailand	Refuse Disposal	Motherwell Bridge	6.944	1.742	26.1	June 1987
Turkey	Gas Insulated Substations	GEC Switchgear	5.700	1.430	28	*
Turkey	Ankara Natural Gas	AMEC	46.750	Soft Loan	39	February 1987
Total			723.271	146.967		

* DTI have delayed formal offer for tactical reasons.

o Formal offer to be made with presentation of consortium's proposals.

ATP OFFERS ACCEPTED IN PRINCIPLE BY RECIPIENT COUNTRY AS AT 30 JUNE 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value (£m)</u>	<u>HMG ATP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date Offered</u>	<u>Date Accepted</u>
Belize	Trucks	Leyland	0.463	0.116	28	January 1987	April 1987
Cameroon	NW Electrification	Balfour Beatty	5.428	1.362	33	June 1984	November 1985
Cameroon	Four Towns Water	Biwater	6.000	1.490	33	June 1983	August 1983
Cameroon	Bamenda Ring Road Lots 2 & 3	UK Firms Bidding	33.000	8.283	44.65	May 1987	May 1987
China	Shanghai No.3 Flour Mill	Henry Simon	10.000	2.585	30	January 1987	June 1987
Economic Commission for West African States	Telecommunications	Balfour Beatty/GEC	14.250	4.000	35	October 1985	November 1985
Egypt	Pyramid Road Hospital	Higgs and Hill	4.250	1.200	32	March 1987 (replaced loan offered in August 1981)	November 1983
Indonesia	Rural Electrification	NEI Projects	39.882	Soft Loan	44	November 1986)	Approved in) principle under) soft loan agreement) signed in 1986 and) now approved.
Indonesia	Cigading/Serpong Railway Rehabilitation	Davy/British Rail Int	33.000	Soft Loan	44.3	November 1986)	
Indonesia	Citajam and Cibinong/ Nambo Railway	Foster Wheeler World	23.000	Soft Loan	44	November 1986)	
India	HBJ Pipeline	Toyo UK	24.000	6.048	38	May 1986	November 1986
India	India/UAE Submarine Cable	STC	24.450	6.140	37	April 1987	May 1987
Ken	Rural Telecomms	Communication Supplies	18.750	6.654	42	January 1987	April 1987

ANNEX IV
(contd)

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value (£m)</u>	<u>HMG ATP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date Offered</u>	<u>Date Accepted</u>
Pakistan	Switching Systems	Ferranti	1.157	0.310	41	March 1987	June 1987
Tunisia	SAKMO II	Froude Consine	2.500	0.709	33	December 1986	January 1987
Tunisia	Polypropylene Plant	Extrusion Systems	0.188	0.047	30	April 1986	May 1987
Turkey	Circuit Breakers	GEC Switchgear	3.745	0.940	28	October 1986	February 1987
		Total	234.063	39.885	(Mixed credits)	(mixed credits)	

ATP OFFERS SIGNED UP IN JUNE

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export Value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy</u>	<u>Aid Agreements Signed</u>
Malawi	UXD5	GEC	5.405	1.734	31	15 June 1987
Malawi	Power Transmission	Balfour Beatty/HSPE	8.080	2.590	33	15 June 1987



DEPARTMENT OF TRADE AND INDUSTRY

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PS/ Secretary of State for Trade and Industry

8 June 1987

R L Culshaw Esq MVO
Private Secretary to the
Rt Hon Sir Geoffrey Howe QC
Foreign & Commonwealth Office
Downing Street
London SW1A 2AL

NBM

Dear Robert

at hand

AID AND TRADE PROVISION BI-MONTHLY REPORT OF PROBLEM CASES

Thank you for your letter of 5 May, and the attached report on ATP problem cases.

My Secretary of State agrees that it would now be appropriate to combine the bi-monthly report of problem cases with the monthly ATP progress report. As you suggest, it will be important to identify in the Report those cases which have been agreed at official level as containing points of difficulty. I am copying this letter to the recipients of yours.

Yours

Paul Steeples

PAUL STEEPLES
Private Secretary

JG5AXZ

OVERSEAS AID: Policy PTS





cc: PC

Foreign and Commonwealth Office
London SW1A 2AH

14 May 1987

Dear Timothy

CDP
145

/ I attach the April Monthly Report on the Aid and Trade Provision for your Secretary of State's information. A copy of this letter and the Report are also being sent to David Norgrove (Number 10) and Jill Rutter (Chief Secretary's Office).

Yours ever

(R N Culshaw)
Private Secretary

Timothy Walker Esq
PS/DTI

AID AND TRADE PROVISION

MONTHLY PROGRESS REPORT : APRIL 1987

Proposals under consideration at the beginning^A April
(see Annex I)

1. 25 projects were under consideration at the beginning of April. Of these, nine were under the China and Indonesian soft loan agreements (they have already been appraised, but firm offers cannot be made until commercial negotiations are completed). One project was approved during the month, and one is about to be submitted for approval. Another is the subject of ministerial correspondence (Wonji/Shoa in Ethiopia). The remaining 13 are being actively pursued with a view to reaching a decision in the near future.

Proposals received during April (see Annex II)

2. During April we received nine formal ATP proposals from the DTI for new projects. Two have been approved and offers made; one has been submitted for approval; and another has been won by the Dutch.

Offers outstanding on 30 April (see Annex III)

3. On 30 April there were a total of 41 offers still outstanding on which recipient governments had not taken a decision on the award of a contract. The total potential export value of these projects amounted to £700 million: 35 projects with an export value of £490 million are being supported with mixed credit offers involving ATP grant support of £129 million, and the balance are the subject of soft loan offers worth £210 million.

4. During April we made one mixed credit offer on a conditional matching basis for the Flight Simulator project in Pakistan (UK export value £7.5 million: ATP £1.9 million).

Projects accepted in principle on 30 April (see Annex IV)

5. On 30 April there were 15 projects accepted in principle by recipient governments but which had not by then resulted in contracts and aid agreements being signed. The total potential export value of these projects is £184 million. Eleven projects with an export value of £78 million are the subject of mixed credit offers involving ATP grant support of £21 million. In addition to one project under way, we have confirmed offers of soft loans to Indonesia on projects worth £106 million under the soft loan agreement.

Projects signed since last Report (see Annex V)

6. On 2 April the soft loan Project Allocation Letter for the Steel Bridging project in Indonesia was signed (British export value £10.7 million).

Lines of Credit : Mixed Credits and Soft Loans

7. At present we have lines of mixed credits to Cameroon, Egypt and Mauritius, and agreements on lines of soft loans to China (£300 million), and Indonesia (£140 million). Proposals under these arrangements are dealt with in the same way as other projects.

8. Two missions to China have appraised all five priority projects identified under the soft loan agreement. The contract was signed for the first of these (COSCO Ships) on 12 April 1987. In the case of the Indonesian soft loan agreement, the nine projects identified between ourselves and the Indonesian authorities have been appraised. One project is now under way, and confirmed offers have been made on four other projects - progress on others depends upon commercial negotiations.

Possible ATP cases for which advance details were received during April

9. During April details of twelve potential new ATP cases were passed by DTI to ODA for a provisional assessment. The British export value of the business involved amounts to at least £276 million. ATP funds of not less than £70 million would be required.

ATP financial position at end of April

10. Some further payments made before 31 March remain to be processed, so that it is not yet possible to give an exact outturn expenditure figure for 1986/87. A summary of the 1986/87 position will be included with the July Report, when all the information will be available. But we estimate expenditure to have totalled £81.5 million.

11. Existing commitments (including offers outstanding) on mixed credit cases which could lead to expenditure in 1987/88 are relatively high for this early stage in the new financial year, by comparison with the allocation of £66 million. We

/see

see no need to put the brake on new proposals at this stage, but this could happen if there is a substantial number of new applications. Experience to date with delays in concluding commercial negotiations on soft loan projects suggests that expenditure can be accommodated within the £10 million allocation.

Aid Policy Department
May 1987

ATP PROPOSALS UNDER CONSIDERATION ON 1 APRIL 1987

Country	Project	Company	UK Export value (£m)	ATP Support (£m)	HMG Subsidy element (%)	Date of Application	Date of Approval/Comments
Burma	Jute Mill	Mackies	3.000	0.960	36	5 January	See Note 1
Cameroon	Railway Diesel Units	BREL	3.629	1.012	33	17 February	See Note 2
China	Luoyang Tractor Factory	Lucas CAV	12.000	Soft Loan	32	12 May	See Note 3A)
China	Shanghai Telecomms Equip	STC	25.300	Soft Loan	32.1	9 Sept	See Note 3B) } Agreed in principle
China	Steel Plant	Davy McKee	39.600	Soft Loan	-	-	See Note 3C) } under soft loan
China	Yueyang Power Plant	GEC and BB	170.000	Soft Loan	-	-	See Note 3D) } agreement
China	Cosco Ships	British Shipbuilders	72.000	Soft Loan	-	-	See Note 3E)
China	Boiler Pumps	Weir Pumps	12.000	3.012	33.5	22 December	See Note 4
Ethiopia	Wonji/Shoa Waterworks	Biwater	7.000	1.795	35.14	22 December	See Note 5
India	Combined Cycle Power	HSPE/Babcocks	167.000	Soft Loan	33	31 July	See Note 6
India	URI Hydroelectric	Boving	46.900	Soft Loan	17	3 February	See Note 7
India	Electric Locos	Brush	76.820	19.280	38	25 February	Potential matching offer approval 4 April.
Indonesia	Scattered Diesels	GEC (Rustins) HSPE	7.000	Soft Loan	47.4	31 July	See Note 8A) } Agreed in
Indonesia	Radio	NKY	) 16.620	Soft Loan	NKY	19 June	See Note 8B) } principle
Indonesia	TV	Link Electronics		) "	"	"	See Note 8C) } under soft loan
Indonesia	Cigading Port Facilities	Davy BR	14.000	Soft Loan	-	-	See Note 8D) } agreement

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>HMG ATP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/Comments</u>
Indonesia	"Gloria" Underwater Survey	Marconi Underwater Systems	4.300	1.500	35.5	14 November	See Note 9
Jordan	Potato Storage	Grenco	3.850	0.970	39	16 February	See Note 10
Kenya	Digital Radio Link	GEC	5.264	1.321	36	26 February	Recommended for approval
Malaysia	Accelerated Transmission	GEC/HSPE	20.200	5.100	NKY	12 March	See Note 11
Mexico	Railway Coaches	BREL	43.800	10.990	34.03	12 December	See Note 12
Pakistan	Transmission Switchgear	NEI Reyrolle	17.000	4.267	29.8	1 September	See Note 13
Seychelles	Generating Set	Mirrlees Blackstone	2.000	0.502	35	30 March	See Note 14
Turkey	Human Vaccine Facility	Stearns Catalytic/ Wellcome Foundation	17.700	4.440	30.2	8 September	See Note 15
Zimbabwe	Telecommunications	GEC	4.909	1.232	33	9 February	See Note 16
TOTALS			<u>791.892</u>	<u>56.381</u>	(mixed credits)		

Footnote: There are four projects on which no decision is required at present.
China Shidongkou Power Station - No aid agreement in place
Egypt Ayoun Moussa Power Station - Japanese feasibility study being carried out.
Jordan Shidiya Phosphate Project - French feasibility study being carried out.
Malaysia Peninsular Gas Project - No aid agreement in place

NOTES ON ATP PROPOSALS UNDER CONSIDERATION ON 1 APRIL

1. Burma: Jute Mill (Time elapsed since application: four months)

Mackies are bidding for a contract for the expansion and rehabilitation of a Jute carpet backing plant coupled with the rehabilitation of Jute sacking plants incorporating new machinery and furnishings. To set the rehabilitation and expansion on a sound footing a brief consultancy study has been offered. The Burmese are still considering its terms of reference.

2. Cameroon: Railway Diesel Units (Time elapsed since application: two months)

British Rail Engineering is seeking to supply diesel multiple units to the State Railway of Cameroon (Regifercam). The UK content of the contract would be £3.629 million, with ATP at £1.012 million. DTI have been advised that we could not recommend support for the project until the BREL specifications have been discussed with Regifercam's technical staff.

3. CHINA SOFT LOAN PROJECTS

A Luoyan Tractor Factory

Lucas CAV are seeking contracts for the transfer of diesel fuel injection technology including the licensing of Lucas CAV projects. The company has visited China several times this year, but a number of problems are still unresolved and further negotiations are necessary.

B Shanghai Telecommunications Equipment

STC are seeking to supply equipment for the manufacture of digital transmission equipment. This project can be accommodated within the existing loan allocation. Some of this equipment may conflict with COCOM rules. Commercial negotiations have yet to be finalised.

C Daye Steel Works

Daye have invited quotations from several suppliers for a seamless steel tube mill for the above, including Davy McKee/Tube Investments (DMT). However, there is a substantial gap between the budget prices set by the Chinese and the price quoted by DMT. DMY are due to have further discussions in China.

D Yueyang Power Plant

Both GEC and NEI/Balfour Beatty are continuing commercial negotiations with the Chinese, who say they require further substantial price reductions. SCAT case including modest ATP/TC element to be circulated shortly.

E COSCO Ships

Following a visit to China by British Shipbuilders and a meeting with ODA officials, Ministers have agreed to increase the allocation for the project to £72 million. The contract for two ships with an option for a third, all at £22.15 million each, was signed on 12 April 1987. The formal offer to the Government of China will be formulated when negotiations of financial contract are finalised and option on third ship taken up.

4. China: Boiler Pumps (Time elapsed since application: four months)

Weir Pumps are seeking to supply boiler feed pumps to the Ministry of Water Resources and Electric Power. More information was required to enable officials to reach a recommendation, and the company met officials in early February. The further information provided has now been assessed and a submission recommending approval will be made shortly.

5. Ethiopia: Wonji/Shoa and Metahara Waterworks (Time elapsed since application: four months)

Biwater are bidding to design and construct a waterworks at Wonji/Shoa and Methara Sugar estates. There is insufficient ECGD cover to accommodate this particular proposal as it stands. However, Biwater are currently seeking ways to overcome the problem, possibly by phasing the project in two stages. Mr Clark has asked that Mr Patten should agree that officials continue to seek a solution even at this late stage.

The application has been overtaken by a reappraisal of the question of ATP for Ethiopia. In June 1985 EX Committee agreed that ATP should not be made to communist countries except in exceptional circumstances. In DTI's view, since others offer aid to Ethiopia in support of trade, the EX principle is met. FCO Ministers have taken the view that it would be inconsistent to support ATP proposals for Ethiopia because of the current regime's policies. Ministerial correspondence on this wider issue and on the specific project continues.

6. India: Combined Cycle Power Station (Time elapsed since application: nine months)

HSPE/Babcocks are seeking to secure a contract for the design, manufacture and construction of three gas based combined cycle power stations. The Indians have invited international tenders with a view to using World Bank finance. However, there might possibly be scope for ATP co-financing with the World Bank if British firms were competitive.

7. India: Uri Hydroelectric Power Station (Time elapsed since application: three months)

Boving are bidding in consortium with Skanska and ASEA Sweden. The total offshore content would be around £370 million most of which would be sourced from Sweden. For the £47 million UK content it is proposed that a soft loan be offered denominated in Swiss Francs at 3% p.a. interest with repayment over 15 years at 5 years grace. This would fit in with the terms to be offered in support of Boving's consortium partners. Although we have a general disposition not to see loans denominated in foreign currencies this does seem to be an attractive proposal. The outstanding economic issues are now close to being resolved and we await news of the Swedish offer of aid expected around the middle of May.

8. INDONESIA SOFT LOAN PROJECTS

A Scattered Diesels

GEC and HSPE are bidding to secure a contract for the installation of diesel power stations in Sumatra, Kalimantan and Java. Latest reports suggest that the Indonesians will be going to limited tender in the near future.

B Radio Equipment

This has now been split from the T.V. project. the Government of Indonesia are currently looking at terms of reference for a consultancy to ensure efficient utilisation of the new equipment. The UK supplier has not yet been identified.

C TV Equipment

The UK firm Link Electronics are seeking to define the scope of work.

D Cigading Port Facilities

This project is interlinked with the two railway projects, and the three were appraised as a single transportation scheme. The two railway projects have now been approved but the Indonesians are currently defining their requirements at Cigading and we have offered to fund a feasibility study to consider implementation. Discussions are continuing with the Indonesians.

9. Indonesia: Gloria Underwater Survey (Time elapsed since application: five months)

ATP support of £1.5 million was sought by Marconi Underwater Systems Ltd to cover training and technology transfer in the processing of data to be produced by the "Gloria" survey of the Banda Sea region of the Indonesian Exclusive Economic Zone (EEZ). The project has now been cancelled by the Government of Indonesia.

10. Jordan: Potato Storage (Time elapsed since application: two months)

Agreement is sought to the provision of ATP of £0.97 million, to match the concessionality of a Belgian aid offer, for a potato cold storage plant. Grenco Refrigeration Services are the UK company who have been involved to date, but Tate and Lyle have now also expressed interest. The proposal appeared initially to be financially and economically attractive but advice from TDRI has not been reassuring on the ability of the project authority to operate the plant. With the ECGD cover position very tight we needed to be assured that this was a particularly good project and we will be writing to DTI at official level conveying our doubts

11. Malaysia: Accelerated Transmission System (Time elapsed since application: six weeks)

GEC and HSPE are both bidding to secure a contract for a power transmission project in Malaysia comprising eight packages of equipment. Depending on which packages are won, ATP would range between £3.2m and £5.1m. However, doubts have been expressed in SCAT on the justification for an initiation of aid in this case and as time constraints have ruled out a no-aid agreement it has been agreed to run this as a shadow case for the time being.

12. Mexico: Railway coaches (Time elapsed since revised application: four months)

In 1985 an ATP grant was approved to support the bid by BREL to secure a negotiated contract worth £11 million for the supply of 30 railway coaches. Since then the requirement

has increased to 200 coaches costing £85.6 million with £43.8 million of UK content. The Export Guarantee Committee recently agreed to the introduction of DX cover for Mexico within a limit of £150 million, subject to the signing of the bilateral rescheduling agreement with Mexico. The Treasury has agreed in principle that both ATP and DX cover could be used for this project subject to World Bank endorsement of the proposals. This would also apply to the question of ATP support. The report of the World Bank team which recently visited Mexico to discuss railway investment plans has concluded that the long-term needs for a coach replacement programme are in line with the proposals put forward by BREL. ECGD will shortly be confirming that DX cover is now available for this project following conclusion of the bilateral debt rescheduling agreement with Mexico and this will clear the way for a recommendation to be made to Ministers.

13. Pakistan: Switchgear (Time elapsed since application: eight months)

The project involves the design, manufacture, complete installation and commissioning of two sub-stations, but it is possible that the Government of Pakistan may not have sufficient funds for the project. The post have also advised that one sub-station is being financed by the Germans. Further advice and revised figures are still awaited from the DTI.

14. Seychelles: Generating Set: Time elapsed since application: one month)

ATP of £0.502 million is sought in support of a bid by Mirrlees Blackstone to sell a 5MW diesel generating set to the Seychelles Utilities Corporation (SUC). The case is supported on developmental grounds but because the Seychelles is not a regular recipient of tied aid doubts have been expressed within SCAT on the justification of an initiation of aid.

15. Turkey: Human Vaccines Facility (Time elapsed since application: seven months)
SCAT can not agree case for aid until ECGD's security requirements have been satisfied. These arrangements must provide for loan repayments to be unconditionally agreed by either Turkish Government or Turkish State Banks agreeable to ECGD. A meeting between companies and DTI/ECGD/ODA was held on 8 April to review the project. the companies plan a further visit to Ankara when they will present a finance offer whose terms they will agree in advance with HMG.
16. Zimbabwe: Telecommunications (Time elapsed since application: two months)

The project concerns the supply of technology, plant and machinery for the local manufacture of telephone instruments in Zimbabwe. The UK company is GEC Telecommunications. Further information is required before we can agree to recommend support and this is being pursued with the post and GEC's local agents in Zimbabwe.

ATP PROPOSALS RECEIVED DURING APRIL 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Application</u>	<u>Remarks</u>
China	Beijing	Plessey Controls	6.600	2.105	43.61	2 April	Submitted for approval.
Pakistan	Flight Simulator	Rediffusion Simulation	7.448	1.860	33	7 April	Conditional matching offer made 10 April.
India	Cochin Port Dredger	British Shipbuilders	6.398	1.606	38	13 April	Won by the Dutch.
Thailand	Air Traffic Control	Marconi Radar	16.427	4.123	26	14 April	Potential matching offer approved 29 April.
India	Yelehanka Power Station	i) HSPE ii) JBE	29.200	7.400	42	21 April	Under consideration.
Cameroon	Bamenda Ring road	NKY	32.249	9.000	43	21 April	Under consideration.
China	Infant Rusk Factories	Baker Perkins/UBI	6.150	1.544	36	27 April	Under consideration.
Turkey	50 Locomotives	GEC Traction	5.000	1.255	32	28 April	Under consideration.
India	Gas Turbines for for South Bassein	Rustons	5.742	2.182	43	29 April (revised)	Under consideration.
			<hr/>	<hr/>			
			143.614	31.048			

ATP PROJECTS ON WHICH OFFERS WERE STILL OUTSTANDING ON 30 APRIL 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Algeria	Bellara Steelworks	Atkins	13.769	3.463	30	September 1985
Burma	Gas Turbines	JBE	12.200	3.540	32	March 1986
Burma	Marine Engines	Sykes Marine	5.000	1.600	44.11	August 1986
Burma	Railway Rehabilitation	HSPE	28.000	Soft Loan	33	June 1986
Cameroon	Agricultural Mechanisation	NYK	3.522	0.885	29	February 1987
Cameroon	3 Railbus	BREL/Leyland	5.126	1.287	30.7	January 1986
Cameroon	Domestic Water Supply	Unknown	6.400	1.600	31	April 1985
Cameroon	Railway Insp. Vehicles	D Wickham & Co.	1.659	0.425	32	February 1987
Cameroon	Railway Signalling	Westinghouse	10.875	2.729	39	March 1987
China	System X Shenda	GEC	4.038	1.014	25.1	October 1986
China	Shanghai Flour Mill	Henry Simon	10.000	2.585	30.15	December 1986
Cyprus	Larnaca Airport	UK Airport Group	18.975	4.763	33	January 1986
Columbia	System X	Plessey	12.750	Soft Loan	36	March 1987
India	Ammonia Plant	Humphreys & Glasgow	26.730	6.709	38	February 1987
India	UAE Submarine Cable	STC	24.450	6.140	37	April 1986
India	Coach Factory	BREL	27.500	Soft Loan	37	June 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
India	Bombay & Delhi Airports	UK Airports Group	42.000	13.020	31	December 1986
India	Optical Fibres	STC	40.550	Soft Loan	47.30	May 1986
India	Unchahar Power Station	NEI Parsons	55.000	Soft Loan	33.5	November 1986
India	Navigational Aids	Racal Avionics	1.622	0.495	44	March 1987
Indonesia	Surabaya Shipyard	Cunlogan	61.200	15.400	38.2	November 1986
Jordan	Aqaba II Power Station	NEI/Parsons/Reyrolle/FW	35.000	8.785	33.5	March 1987
Kenya	System X	Plessey	10.200	2.620	35	October 1986
Kenya	Distribution Transformers	Babcock	2.090	0.525	33.5	January 1987
Kenya	Rural Telecomms	Communication Supplies	18.190	6.452	41.79	January 1987
Malaysia	Digital Multiplex	STC	64.720	16.240	33.4	June 1986
Malaysia	Communications Equip.	Racal Avionics	1.449	0.363	30	July 1986
Malaysia	132 KV Transmission Switchgear	GEC	3.245	0.815	33	January 1987
Malaysia	Airport Equipment	Racal	1.449	0.363	26	July 1986
Malta	LUQA Airport	TWI and BAA	1.988	0.489	25	December 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Mozambique	Trucks	Leyland	2.496	0.661	32	October 1986
Pakistan	VHF Communications	IAL	6.040	1.620	32	June 1986
Pakistan	Switching Systems	Ferranti	1.157	0.310	41	March 1987
Pakistan	Flight Simulator	Rediffusion Simulation	7.448	1.869	33	April 1987 Conditional Match
Rwanda	Diary Project	IPVAL	2.623	0.752	31	January 1987
Thailand	Telecommunications	Balfour Kilpatrick/BT	74.500	18.700	34	∅
Thailand	Mae Moh Chimneys	Tileman	2.000	0.502	34	March 1986
Tunisia	Polypropylene Plant	Extrusions	0.188	0.047	30	April 1986
Tunisia	Dump Trucks	Terex	1.231	0.312	25	April 1986
Turkey	Gas Insulated Substations	GEC Switchgear	5.700	1.430	28	*
Turkey	Ankara Natural Gas	AMEC	46.750	Soft Loan	39	February 1987
Total			699.830	128.510	(Mixed Credits)	

* DTI have delayed formal offer for tactical reasons.

∅ Formal offer to be made with presentation of consortium's proposals.

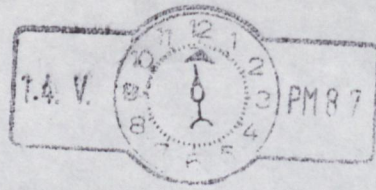
ATP OFFERS ACCEPTED IN PRINCIPLE BY RECIPIENT COUNTRY AS AT 30 APRIL 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value (£m)</u>	<u>HMG ATP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date Offered</u>	<u>Date Accepted</u>
Belize	Trucks	Leyland	0.463	0.116	28	January 1987	April 1987
Cameroon	NW Electrification	Balfour Beatty	5.428	1.362	33	June 1984	November 1985
Cameroon	Four Towns Water	Biwater	6.000	1.490	33	June 1983	August 1983
Cyprus	Southern Conveyor	SPP	3.467	0.870	33	July 1986	December 1986
Economic Commission for West African States	Telecommunications	Balfour Beatty/GEC	14.250	4.000	35	October 1985	November 1985
Egypt	Pyramid Road Hospital	Higgs and Hill	4.250	1.200	32	March 1987 (replaced loan offered in August 1981)	November 1983
Indonesia	Rural Electrification	NEI Projects	39.882	Soft Loan	44	November 1986	) Approved in) principle) under soft) loan agree-) ment signed) in 1986 and) now approved.
Indonesia	Cigading/Serpong Railway Rehabilitation	Davy/British Rail Int	33.000	Soft Loan	44.3	November 1986	
Indonesia	Citajam and Cibinong/ Nambo Railway	Foster Wheeler World	23.000	Soft Loan	44	November 1986	
Indonesia	Navigational Aids	Pharos Marine	10.587	Soft Loan	44	December 1986	
India	HBJ Pipeline	Toyo UK	24.000	6.048	38	May 1986		November 1986
Malawi	Power Transmission	Balfour Beatty/HSPE	8.080	2.590	33	October 1985	August 1986
Malawi	UXD5	GEC	5.405	1.734	31	March 1986	December 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value (£m)</u>	<u>HMG ATP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date Offered</u>	<u>Date Accepted</u>
Tunisia	SAKMO II	Froude Consine	2.500	0.709	33	December 1986	January 1987
Turkey	Circuit Breakers	GEC Switchgear	3.745	0.940	28	October 1986	February 1987
		Total	184 057	21.059	(mixed credits)		

ATP OFFERS SIGNED UP SINCE LAST REPORT

<u>Country</u>	<u>Project</u>	<u>Company</u>	British Export Value (£m)	ATP Support (£m)	HMG Subsidy	Aid Agreements Signed
Indonesia	Steel Bridging	Mabey & Johnson	10.702	Soft Loan	49.1	2 April 1987





Foreign and Commonwealth Office

London SW1A 2AH

5 May 1987

Dear Timothy

CRP 5/15

Aid and Trade Provision Bi-Monthly Report
of Problem Cases

I attach the latest bi-monthly report.

The Foreign Secretary takes the view that now he is circulating a monthly ATP progress report for the information of his colleagues, it would be appropriate that if any potential problem cases arose they should be highlighted in those reports, officials having agreed inter-departmentally the points of difficulty. This would also have the advantage of more quickly bringing any problem cases to the attention of Ministers.

As the circulation of the bi-monthly report of problem cases was agreed by EX Committee on 26 June 1985, chaired by the Prime Minister, the Foreign Secretary is seeking the agreement of the Prime Minister and his colleagues before putting this into effect.

I am sending copies of this letter to Mark Addison (No 10) and Jill Rutter (HM Treasury).

Yours ever

(R N Culshaw)
Private Secretary

Timothy Walker Esq
Department of Trade and Industry

AID AND TRADE PROVISION:**BI-MONTHLY REPORT OF POTENTIAL PROBLEM CASES
APRIL 1987.****Current Problem Cases****Mexico Railway Coaches**

1. British Rail Engineering Ltd (BREL) have been seeking a contract with the Mexicans for the supply of 200 railway coaches costing £85.6 million with a British export content of £43.8 million. The project would involve close collaboration with the Mexican railway authorities and the transfer of technology to establish a local coach manufacturing capability. BREL have applied for ATP as part of a mixed credit requiring export credit support.
2. The Export Guarantee Committee has agreed to the introduction of DX cover for Mexico within a limit of £150 million, subject to the signing of the bilateral rescheduling agreement with Mexico.
3. The Treasury have agreed to DX cover being used for the project subject to it being endorsed by the World Bank. However, Treasury officials also took the view that the availability of ATP should be a separate matter. They felt that the use of ATP on DX cases could create conflicts between the separate objectives of the two facilities.
4. When the previous ATP problem case report was submitted an inter-departmentally agreed paper was attached setting out the arguments relating to the use of ATP with DX cover. The paper recognised that the use of ATP and DX cover may be compatible although their joint use is likely to be rare: individual cases should be considered on their merits, ensuring that they satisfy both ATP and DX criteria. Ministers agreed that the paper provided a suitable framework within which individual cases could be considered.

5. As regards this specific project, the Treasury agree in principle that both ATP and DX cover could be used. However, this remains conditional upon World Bank endorsement of the proposals, which is one of the criteria for DX cover. The same consideration would apply to the question of ATP support.

6. The IBRD has a Railway Sector loan to Mexico. While it has recognised a need for some additional coaches, it has taken the view that the scale of the new proposal is excessive. The Bank have said that they would not "endorse the proposal as important to Mexico's economic rehabilitation". Since then a further Bank team has visited Mexico to discuss the railway authorities' investment plans. On their return they have concluded that the long-term needs for a coach replacement programme are in line with the proposals put forward by BREL. ECGD will shortly be confirming that DX cover is now available for this project following conclusion of the bilateral debt rescheduling agreement with Mexico and this will clear the way for a recommendation to be made to Ministers.

THE FOLLOWING CASES APPEARED IN THE LAST REPORT, AND HAVE BEEN RESOLVED.

Indian Patrol Vessels

7. This has been noted as a problem case in the last two reports in which it was observed that there were several reasons why ATP seemed inappropriate. The Prime Minister agreed that further consideration could not be given to this proposal without a request from the Indian Government, and an assurance from them that the vessels would not be used for para-military purposes. The contract has now been won by South Korea.

Jordan: Aqaba Power Station

8. This project has been identified as a potential candidate for co-financing with the World Bank under the ATP co-financing framework agreement signed with the Bank last year.

9. The Chief Secretary has agreed to an increase in ECGD's Section II limit for Jordan to accommodate a mixed credit cover of £35 million in support of this project. This was conditional upon offsetting reductions in ECGD cover in other risky makets, consistent with the principle of portfolio management. A formal offer of ATP (a grant of £8.785m) was authorised to be made to the government of Jordan on 24 April.

AID POLICY DEPARTMENT

April 1987



PPS ✓ Pm ✓ CCBG ✓
15/4

Foreign and Commonwealth Office

London SW1A 2AH

15 April 1987

Dear Timothy

I attach the March Monthly Report on the Aid and Trade Provision for Mr Channon's information. A copy of this letter and the Report are also being sent to David Norgrove (Number 10) and Jill Rutter (Chief Secretary's Office).

Paul Steeples wrote to me on 7 April, copied to Charles Powell and Jill Rutter, pointing out certain inaccuracies in some of the project notes in the February report. ODA officials have been in touch with DTI officials to ensure that the latest position on individual projects is properly reflected in this and future reports.

Yours ever

(R N Culshaw)
Private Secretary

Timothy Walker Esq
PS/DTI

AID AND TRADE PROVISION

MONTHLY PROGRESS REPORT: MARCH 1987

Proposals under consideration at the beginning of March
(see Annex I)

1. 27 projects were under consideration at the beginning of March. Of these, nine were under the China and Indonesian soft loan agreements (they have already been appraised but firm offers cannot be made until commercial negotiations are completed). Two projects were approved during the month; one is to be submitted for approval; one is the subject of ministerial correspondence (Wonji/Shoa in Ethiopia); and the balance are being actively pursued with a view to reaching a decision in the near future.

Proposals received during March (see Annex II)

2. During March we received four formal ATP proposals from the DTI for new projects. Two have been approved and offers made.

Offers outstanding on 31 March (see Annex III)

3. On 31 March there were a total of 42 offers still outstanding on which recipient governments had not taken a decision on the award of a contract. The total potential export value of these projects amounted to £706 million: 37 projects with an export value of £500 million are being supported with mixed credit offers involving ATP grant support of £131 million and the balance are the subject of soft loan offers.

4. During March we made five mixed credit offers of ATP:

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value</u>	<u>£m</u>
Cameroon	Railway Signalling	Westinghouse	10.875	
Egypt	Pyramid Road Hospital	Higgs and Hill	4.250	(replaces loan offered and accepted in principle in 1981)
India	Navigational Aids	Racal Avionics	1.622	
Jordan	Aqaba II Power Station	NEI/Parsons/Reyrolle/FW	35.000	
Pakistan	Switching Systems	Ferranti	1.157	
Total			52.904	

Projects accepted in principle on 31 March (see Annex IV)

5. On 31 March there were sixteen projects accepted in principle by recipient governments but which had not by then resulted in contracts and aid agreements being signed. The total potential export value of these projects is £188 million. Eleven projects with an export value of £71 million are the subject of mixed credit offers involving ATP grant support of £23 million. We have now confirmed offers of soft loans to Indonesia on projects worth £117 million under the soft loan agreement.

Projects signed since last Report (see Annex V)

6. During March two projects were signed up. On 17 March the Shengli Gas Turbine project was signed in China (British Export value: £14.9 million. ATP content £49 million). On 19 March the soft loan Project Allocation Letter for the Walking Draglines project in Jordan was signed (British Export value £9 million).

Lines of Credit: Mixed Credits and Soft Loans

7. At present we have lines of mixed credits to Cameroon, Egypt and Mauritius and agreements on lines of soft loans to China (£300 million) and Indonesia (£140 million). Proposals under these arrangements are dealt with in the same way as other projects.

8. Two missions to China have appraised all five priority projects identified under the soft loan agreement. In the case of the Indonesian soft loan agreement, the nine projects identified between ourselves and the Indonesian authorities have been appraised. Confirmed offers have now been made on five Indonesian projects - progress on others depends upon commercial negotiations.

Possible ATP cases for which advance details were received during March

9. During March details of ten potential new ATP cases were passed by DTI to ODA for a provisional assessment. The British Export value of the business involved amounts to at least £740 million. ATP funds of not less than £185 million would be required.

ATP Financial Position at end of March

10. Following the completion of contract negotiations and the signing of the aid agreement in respect of the Malaysian Rural Water Supply Project, requiring ATP expenditure in 1986/87 financial year of £48.6 million, Mr Raison announced publicly the increase in the ATP budget for 1986/87 to £90 million (£3 million of which was for soft loans).

11. Some further payments made before 31 March remain to be processed, so it is not yet possible to give an exact out-turn figure for 1986/87. Our provisional estimate is that this will be about £84 million, as compared with an allocation of £87 million for mixed credits. During the course of 1986/87 the scope of British goods to be supplied under the on-going Amlori Coalmine project in India was reduced, and as a result some £5 million of expected ATP expenditure in 1986/87 was no longer required. Otherwise we would have over-spent the ATP mixed credit allocation. There was no expenditure on soft loans: although three contracts were signed before the end of the financial year the loan agreements with the banks were not in place to allow us to make ATP premium payments to ECGD.

12. Existing commitments (including offers outstanding) on mixed credit cases which could lead to expenditure in 1987/88 are relatively high for this early stage in the new financial year, by comparison with the allocation of £66 million. We see no need to put the brake on new proposals at this stage, but this could happen if there is a substantial number of new applications. Experience to date with the delays associated with processing soft loan proposals suggests that expenditure can be accommodated within the £10 million allocation.

Aid Policy Department
April 1987

ATP PROPOSALS UNDER CONSIDERATION ON 1 MARCH 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/Comments</u>
Burma	Jute Mill	Mackies	3.000	0.960	36	5 January	See Note 1
Cameroon	Railway Diesel Units	BREL	3.629	1.012	33	17 February	See Note 2
China	Luoyang Tractor Factory	Lucas CAV	12.000	Soft Loan	32	12 May	See Note 3A)
China	Shanghai Telecomms Equip	STC	25.300	Soft Loan	32.1	9 Sept	See Note 3B)
China	Steel Plant	Davy McKee	39.600	Soft Loan	-	-	See Note 3C)
China	Yueyang Power Plant	GEC and BB	170.000	Soft Loan	-	-	See Note 3D)
China	Cosco Ships	British Shipbuilders	72.000	Soft Loan	-	-	See Note 3E)
China	Boiler Pumps	Weir Pumps	12.000	3.012	33.5	22 December	See Note 4
Colombia	System X	Plessey	12.750	Soft Loan	36.0	16 December	See Note 5
Ethiopia	Wonji/Shoa Waterworks	Biwater	7.000	1.795	35.14	22 December	See Note 6
India	Combined Cycle Power	HSPE/Babcocks	167.000	Soft Loan	33	31 July	See Note 7
India	Patrol Vessels	Hall Russell	30.000	8.534	33.59	25 November	See Note 8
India	URI Hydroelectric	Boving	46.900	Soft Loan	17	3 February	See Note 9
India	Electric Locos	Brush	76.820	19.280	38	25 February	Submission recommending proposal in preparation.

Country	Project	Company	UK Export value (£m)	ATP Support (£m)	HMG Subsidy element (%)	Date of Application	Date of Approval/Comments
Indonesia	Scattered Diesels	GEC (Rustins) HSPE	7.000	Soft Loan	47.4	31 July	See Note 10A))Agreed)in prin
Indonesia	Radio	NKY	) 16.620	Soft Loan	NKY	19 June	See Note 10B)ciple
Indonesia	TV	Link Electronics	)	"	"	"	See Note 10C)under)soft lo
Indonesia	Cigading Port Facilities	Davy BR	14.000	Soft Loan	-	-	See Note 10D)Agreeme
Indonesia	"Gloria" Underwater Survey	Marconi Underwater Systems	4.300	1.500	35.5	14 November	See Note 11
Indonesia	Kendung Ombo Dam	Boving	5.865	1.610	42	23 February	Approved 31 March
Jordan	Aquaba II Power Station	NEI/Parsons NEI/Reyrolle NEI/PP	35.000	8.785	33.5	31 December	Offer made 26 March
Jordan	Potato Storage	Greenco	3.250	1.012	39	16 Februaqry	See Note 12
Kenya	Digital Radio Link	GEC	4.864	1.271	39	26 February	See Note 13
Mexico	Railway Coaches	BREL	43.800	10.990	34.03	12 December	See Note 14
Pakistan	Switchgear	NEI Reyrolle	17.000	4.267	29.8	1 September	See Note 15
Turkey	Human Vaccine Facility	Stearns Catalytic/ Wellcome Foundation	17.700	4.440	30.2	8 September	See Note 16
Zimbabwe	Telecommunications	GEC	4.909	1.232	33	9 February	See Note 17
TOTALS			852.307	68.429	(mixed credits)		

Footnote: There are four projects on which no decision is required at present.
 China Shidongkou Power Station - No aid agreement in place
 Egypt Ayoun Moussa Power Station - Japanese feasibility study being carried out.
 Jordan Shidiya Phosphate Project - French feasibility study being carried out.
 Malaysia Peninsular Gas Project - No aid agreement in place

NOTES ON ATP PROPOSALS UNDER CONSIDERATION ON 1 MARCH

1. Burma: Jute Mill (Time elapsed since application: three months)

Mackies are bidding for a contract for the expansion and rehabilitation of a Jute carpet backing plant coupled with the rehabilitation of Jute sacking plants incorporating new machinery and furnishings. To set the rehabilitation and expansion on a sound footing a brief consultancy study has been offered to the Burmese who are currently considering its terms of reference.

2. Cameroon: Railway Diesel Units (Time elapsed since application: six weeks)

British Rail Engineering is seeking to supply diesel multiple units to the State Railway of Cameroon (Regifercam). The UK content of the contract would be £3.629 million with ATP at £1.012 million. DTI have been advised that we could not recommend support for the project until the BREL specifications have been discussed with Regifercam's technical staff.

3. CHINA SOFT LOAN PROJECTS

A Luoyang Tractor Factory

Lucas CAV are seeking contracts for the transfer of diesel fuel injection technology including the licensing of Lucas CAV projects. The company visited China in January but a number of problems are still unresolved and further negotiations are necessary.

B Shanghai Telecommunications Equipment

STC are seeking to supply equipment for the manufacture of digital transmission equipment. This project can be accommodated within the existing loan allocation. Some of this equipment may conflict with COCOM rules. A feasibility study funded by ODA is currently under consideration but appears acceptable.

C Daye Steel Works

Daye have invited quotations from several suppliers for a seamless steel tube mill for the above, including Davy McKee/Tube Investments (DMT). However, there is a substantial gap between the budget prices set by the Chinese and the price quoted by DMT. DMT are due to have further discussions in China.

D Yueyang Power Plant

Both GEC and NEI/Balfour Beatty are continuing commercial negotiations with the Chinese who say they require further substantial price reductions. Officials are working up cases for SFI and ATP/TC support which may be useful to clinch the deal if the price gap is reduced.

E COSCO Ships

Following a visit to China by British Shipbuilders and a meeting with ODA officials Ministers have agreed to increase the allocation for the project to £72 million. Technical discussions are continuing, with commercial negotiations to follow.

4. China: Boiler Pumps (Time elapsed since application: three months)

Weir Pumps are seeking to supply boiler feed pumps to the Ministry of Water Resources and Electric Power. More information was required to enable officials to reach a recommendation and the company met officials in early February. The further information provided is now under consideration and it is expected that a submission recommending approval will be made shortly.

5. Colombia: System X (Time elapsed since revised application: three months)

An aid offer was made in April 1986, but the original tender was subsequently declared void and rebids were called for with a greatly increased scope of equipment supply. This has now been processed within ODA and ECGD increased cover has been confirmed. Revised approval has been given to the increased soft loan costs.

6. Ethiopia: Wonji/Shoa Waterworks (Time elapsed since application: three months)

Biwater are bidding to design and construct a waterworks at Wonji/Shoa and Metahara Sugar Estates. There is insufficient cover to accommodate this particular proposal at the present time. In June 1985 EX Committee agreed that ATP should not be made available to Communist countries except in exceptional circumstances. FCO Ministers have taken the view that given the Ethiopian regime's present policies there are insufficient grounds for making an exception in this case. Ministerial correspondence on this issue continues.

7. India: Combined Cycle Power Station (Time elapsed since application: eight months)

HSPE/Babcocks are seeking to secure a contract for the design, manufacture and construction of three gas based combined cycle power stations. The Indians have invited international tenders with a view to using World Bank finance. However, there might possibly be scope for ATP co-financing with the World Bank if British firms were competitive.

8. India: Patrol Vessels (Time elapsed since application: four months)

This order has been won by South Korea.

9. India: Uri Hydroelectric Power Station (Time elapsed since application: seven weeks)

Boving are bidding in consortium with Skanska and ASEA Sweden. The total offshore content would be around £370 million most of which would be sourced from Sweden. For the £47 million UK content it is proposed that a soft loan be offered denominated in Swiss Francs at 3% p.a. interest with repayment over 15 years at 5 years grace. This would fit in with the terms to be offered in support of Boving's consortium partners. Although we have a general disposition not to see loans denominated in foreign currencies this does seem to be an attractive proposal. There are a number of economic issues to be resolved.

10. INDONESIA SOFT LOAN PROJECTS

A Scattered Diesels

GEC and HSPE are bidding to secure a contract for the installation of diesel power stations in Sumatra, Kalimantan and Java. Latest reports suggest that the Indonesians may be going to limited tender and further details are awaited. Discussions are planned with Development Division Advisers later this month.

B Radio Equipment

This has now been split from the T.V. project. We are arranging for a study to be undertaken to ensure efficient utilisation of the new equipment. The UK supplier has not yet been identified.

C TV Equipment

The UK firm Link Electronics are seeking to define the scope of work.

D Cigading Port Facilities

This project is interlinked with the two railway projects, and the three were appraised as a single transportation scheme. The two railway projects have now been approved but the Indonesians are currently defining their requirements at Cigading and we have offered to fund a feasibility study to consider implementation. Discussions are continuing with the Indonesians.

11. Indonesia: Gloria Underwater Survey (Time elapsed since application: four months)

ATP support of £1.5 million is sought by Marconi Underwater Systems Ltd to cover training and technology transfer in the processing of data to be produced by the "Gloria" survey of the Banda Sea region of the Indonesian Exclusive Economic Zone (EEZ). Following a report by the British Geological Survey (BGS) a meeting was held with Marconi in January to resolve technical queries. The project appears sound, but the BGS report raised doubts as to whether the Indonesians will have the funds and the capability to implement it and Marconi returned to Indonesia to resolve these. Marconi have revised their costs and will re-submit for ATP/TC.

12. Jordan: Potato Storage (Time elapsed since application: six weeks)

Agreement is sought to the provision of ATP of £1.012 million, to match the concessionality of a Belgian aid offer, for a potato cold storage plant. Grenco Refrigeration Services are the UK company who have been involved to date, but Tate and Lyle have now also expressed interest. The proposal appears to be financially and economically attractive but as the figures supplied have not come from an independent source advice has been sought from TDRI.

13. Kenya: Radio Link (Time elapsed since application: five weeks)

ATP support of £1.271 million is sought by GEC Telecommunications Transmission Group to provide a 6.8GHz 140Mbit/s digital radio transmission link for the telecommunications trunk route Mombasa-Nairobi-Nakuru. In the light of the World Bank's appraisal report on the project this appears a sound investment. However, certain technical matters remain to be resolved with the company before a submission can be prepared.

14. Mexico: Railway coaches (Time elapsed since revised application: three months)

In 1985 an ATP grant was approved to support the bid by BREL to secure a negotiated contract worth £11 million for the supply of 30 railway coaches. Since then the requirement has increased to 200 coaches costing £85.6 million with £43.8 million of UK content. The Export Guarantee Committee recently agreed to the introduction of DX cover for Mexico

within a limit of £150 million, subject to the signing of the bilateral rescheduling agreement with Mexico. The Treasury has agreed in principle that both ATP and DX cover could be used for this project subject to World Bank endorsement of the proposals. This would also apply to the question of ATP support. The report of the World Bank team which recently visited Mexico to discuss railway investment plans is currently awaited.

15. Pakistan: Switchgear (Time elapsed since application: seven months)

The project involves the design, manufacture, complete installation and commissioning of two sub-stations, but it is possible that the Government of Pakistan may not have sufficient funds for the project. The post have also advised that one sub-station is being financed by the Germans. Further advice and revised figures are awaited from the DTI.

16. Turkey: Human Vaccines Facility (Time elapsed since application: six months)

SCAT can not agree case for aid until ECGD's security requirements have been satisfied. These arrangements must provide for loan repayments to be unconditionally agreed by either GoT or Turkish State Banks agreeable to ECGD. A further meeting between companies and DTI/ECGD/ODA is planned shortly.

17. Zimbabwe: Telecommunications (Time elapsed since application: six weeks)

The project concerns the supply of technology, plant and machinery for the local manufacture of telephone instruments in Zimbabwe. The UK company is GEC Telecommunications. Further information is required before we can agree to recommend support and this is being pursued with the post and GEC's local agents in Zimbabwe.

ATP PROPOSALS RECEIVED DURING MARCH 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export Value £m</u>	<u>ATP Support £m</u>	<u>HMG Subsidy Element (%)</u>	<u>Date of Application</u>	<u>Remarks</u>
Pakistan	Message Switching System	Ferranti	1.157	0.310	41	27 February	Offer made 22 March
Malaysia	Accelerated Transmission System	GEC/HSPE	12.600	5.100	NKY	12 March	Under consideration.
India	Navigational aids	Racal Avionics	1.622	0.495	44	20 March	Offer made 27 March
Seychelles	Generating Set	Mirrlees Blackstone	2.000	0.502	35	30 March	Under consideration.
		TOTAL	17.379	6.407	(mixed credits)		

ATP PROJECTS ON WHICH OFFERS WERE STILL OUTSTANDING ON 31 MARCH 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Algeria	Bellara Steelworks	Atkins	13.769	3.463	30	September 1985
Belize	Trucks	British Leyland	0.463	0.116	28	January 1987
Burma	Gas Turbines	JBE	12.200	3.540	32	March 1986
Burma	Marine Engines	Sykes Marine	5.000	1.600	44.11	August 1986
Burma	Railway Rehabilitation	HSPE	28.000	Soft Loan	33	June 1986
Cameroon	Agricultural Mechanisation	NYK	3.522	0.885	29	February 1987
Cameroon	3 Railbus	BREL/Leyland	5.126	1.287	30.7	January 1986
Cameroon	Domestic Water Supply	Unknown	6.400	1.600	31	April 1985
Cameroon	Railway Insp. Vehicles	D Wickham & Co.	1.659	0.425	32	February 1987
Cameroon	Railway Signalling	Westinghouse	10.875	2.729	39	March 1987
China	System X Shenda	GEC	4.038	1.014	25.1	October 1986
China	Shanghai Flour Mill	Henry Simon	10.000	2.585	30.15	December 1986
Cyprus	Larnaca Airport	UK Airport Group	18.975	4.763	33	January 1986
India	Ammonia Plant	Humphreys & Glasgow	26.730	6.709	31	February 1987
India	UAE Submarine Cable	STC	24.450	6.140	37	April 1986
India	Coach Factory	BREL	35.000	Soft Loan	37	June 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
India	Bombay & Delhi Airports	UK Airports Group	42.000	13.020	31	December 1986
India	Optical Fibres	STC	40.550	Soft Loan	47.30	May 1986
India	Gas Turbines/STM Bassein	Rustons	4.500	1.170	43.5	October 1986
India	Unchahar Power Station	NEI Parsons	55.000	Soft Loan	33.5	November 1986
India	Navigational Aids	Racal Avionics	1.622	0.495	44	March 1987
Indonesia	Surabaya Shipyard	Cunlogan	61.200	15.400	38.2	November 1986
Jordan	Aqaba II Power Station	NEI/Parsons/Reyrolle/FW	35.000	8.785	33.5	March 1987
Kenya	System X	Plessey	10.200	2.620	35	October 1986
Kenya	Distribution Transformers	Babcock	2.090	0.525	33.5	January 1987
Kenya	Rural Telecomms	Communication Supplies	18.190	6.452	41.79	January 1987
Malaysia	Digital Multiplex	STC	64.720	16.240	33.4	June 1986
Malaysia	Submarine Cable	Balfour Beatty	15.830	3.970	29	October 1985
Malaysia	Communications Equip.	Racal Avionics	1.449	0.363	30	July 1986
Malaysia	132 KV Transmission Switchgear	GEC	3.245	0.815	33	January 1987
Malta	LUQA Airport	TWI and BAA	1.988	0.489	25	December 1986
Malaysia	Airport Equipment	Racal	1.500	0.363	26	July 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Mozambique	Trucks	Leyland	2.496	0.661	32	October 1986
Pakistan	VHF Communications	IAL	6.040	1.620	32	June 1986
Pakistan	Switching Systems	Ferranti	1.157	0.310	41	March 1987
Rwanda	Diary Project	IPVAL	2.623	0.752	31	January 1987
Thailand	Telecommunications	Balfour Kilpatrick/BT	74.500	18.700	34	∅
Thailand	Mae Moh Chimneys	Tileman	2.000	0.502	34	March 1986
Tunisia	Polypropylene Plant	Extrusions	0.188	0.047	30	April 1986
Tunisia	Dump Trucks	Terex	1.231	0.312	25.3	April 1986
Turkey	Gas Insulated Substations	GEC Switchgear	5.700	1.430	27.82	*
Turkey	Ankara Natural Gas	AMEC	46.750	Soft Loan	39	February 1987
Total			706.154	131.402	(Mixed Credits)	

* DTI have delayed formal offer for tactical reasons.

∅ Formal offer to be made with presentation of consortium's proposals.

ATP OFFERS ACCEPTED IN PRINCIPLE BY RECIPIENT COUNTRY AS AT 31 MARCH 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value (£m)</u>	<u>HMG ATP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date Offered</u>	<u>Date Accepted</u>
Cameroon	NW Electrification	Balfour Beatty	5.428	1.362	33	June 1984	November 1985
Cameroon	Four Towns Water	Biwater	6.000	1.490	33	June 1983	August 1983
Cyprus	Southern Conveyor	SPP	3.467	0.870	33	July 1986	December 1986
Economic Commission for West African States	Telecommunications	Balfour Beatty/GEC	14.250	4.000	35	October 1985	November 1985
Egypt	Pyramid Road Hospital	Higgs and Hill	4.250	1.200	32	March 1987 (replaced loan offered in August 1981)	November 1983
Indonesia	Rural Electrification	NEI Projects	39.882	Soft Loan	44	November 1986	) Approved in) principle) under soft) loan agree-) ment signed) in 1986 and) now approved.)
Indonesia	Cigading/Serpong Railway Rehabilitation	Davy/British Rail Int	33.000	Soft Loan	44.3	November 1986	
Indonesia	Citajam and Cibinong/ Nambo Railway	Foster Wheeler World	23.000	Soft Loan	44	November 1986	
Indonesia	Navigational Aids	Pharos Marine	10.587	Soft Loan	44	December 1986	
Indonesia	Steel Bridging	Mabey & Johnson	10.702	Soft Loan	49.1	January 1987	
India	HBJ Pipeline	Toyo UK	24.000	6.048	38	May 1986	November 1986
Malawi	Power Transmission	Balfour Beatty/HSPE	8.080	2.590	33	October 1985	August 1986
Malawi	UXD5	GEC	5.405	1.734	31	March 1986	December 1986

ANNEX IV
cont'd

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value (£m)</u>	<u>HMG ATP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date Offered</u>	<u>Date Accepted</u>
Thailand	Railbus	BREL	7.308	1.834	36	June 1985	April 1986
Tunisia	SAKMO II	Froude Consine	2.500	0.709	33	December 1986	January 1987
Turkey	Circuit Breakers	GEC Switchgear	3.745	0.940	28	October 1986	February 1987
			<hr/>	<hr/>			
			Total	188.226	23.272	(mixed credits)	

ATP OFFERS SIGNED UP SINCE LAST REPORT

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export Value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy</u>	<u>Aid Agreements Signed</u>
China	Shengli Gas Turbine	JBE	14.913	4.873	25.1%	17 March 1987
Jordan	Walking Draglines	Ransomes & Rapier	9.000	Soft Loan	41.8	19 March 1987

13 B



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7 April 1987

R N Culshaw Esq
Private Secretary to the
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AY

ADD
✓ PS
PS/M Rutter
Sir C Tidd
Mr Britton
Mr Mand

Dear Robert

Thank you for your letter of 23 March, covering the February report on Aid and Trade Provision projects.

As you know, we find these reports very valuable and we are grateful for the work which goes into compiling them. We were concerned, however, to note several inaccuracies in the February Report, particularly in the project notes. It appears that, on this occasion, DTI project officers were not consulted during the compilation of the Report and, as a result, some of the notes were out of date. Officials are in touch and a corrected set of notes will be passed to ODA in time for the compilation of the March Report.

Handwritten initials and numbers: a large 'e' with a '3' above it, and a '4' below it.

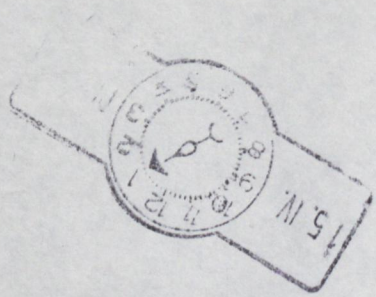
We shall also be proposing to ODA better procedures for future consultation.

I am copying this letter to Charles Powell and Jill Rutter.

Yours
Paul Steeples

PAUL STEEPLES
Private Secretary

OVERSEAS AID -
Policy P05





Secretary of State for Trade and Industry

PS/

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7 April 1987

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Private Secretary to the
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7/4*

Dear Robert

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I am copying this letter to Charles Powell and Jill Rutter.

*Yours
Paul Steeples*

PAUL STEEPLES
Private Secretary

JFLAHM

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Treasury Chambers, Parliament Street, SW1P 3AG

R N Culshaw Esq
Private Secretary to the Foreign Secretary
Foreign and Commonwealth Office
King Charles Street
London
SW1A 2AH

COP
27/3

26 March 1987

Dear Robert,

AID AND TRADE PROVISION: BI-MONTHLY REPORT OF PROBLEM CASES

Thank you for my copy of your letter of 6 March to Timothy Walker covering the latest bi-monthly report. I have also now seen the routine monthly progress report.

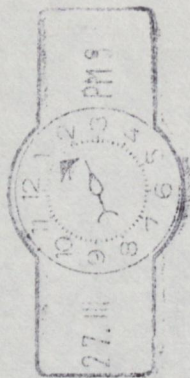
The Chief Secretary has noted the position, in particular on the Mexican railway coaches where it is possible that ATP may be offered in conjunction with DX funding. It is helpful to have the general policy considerations set out in the paper by officials on the joint use of ATP and DX. The Mexican case is, as the bi-monthly reports says, still subject to World Bank endorsement and, indeed, also to the availability of DX cover which in turn depends on the conclusion of the bilateral debt rescheduling negotiations.

I am copying this letter to Mark Addison (No.10) and Timothy Walker (DTI).

Yours sincerely,

JILL RUTTER
Private Secretary

OVERSEAS AID - Policy Review
pts



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/

CSA



Foreign and Commonwealth Office

London SW1A 2AH

23 March 1987

23/3

Dear Timothy

/

I attach the February Monthly Report on the Aid and Trade Provision for your Secretary of State's information. A copy of this letter and the Report are also being sent to Charles Powell (Number 10) and Jill Rutter (Chief Secretary's Office).

Yours ever

R N Culshaw

(R N Culshaw)
Private Secretary

Timothy Walker Esq
PS/DTI
Victoria Street, SW1

AID AND TRADE PROVISION

MONTHLY PROGRESS REPORT: FEBRUARY 1987

Proposals under consideration at the beginning of February
(see Annex I)

1. 23 projects were under consideration at the beginning of February. Of these, eight were under the China and Indonesian soft loan agreements (they have already been appraised but firm offers cannot be made until commercial negotiations are completed). Two projects were approved during the month; one has been rejected on policy grounds; one has been suspended with the agreement of DTI; and the balance are being actively pursued with a view to reaching a decision in the near future.

Proposals received during February (see Annex II)

2. During February we received ten formal ATP proposals from the DTI. Nine were for new projects and one sought an increased ATP offer.

Offers outstanding on 28 February (see Annex III)

3. On 28 February there were a total of 45 offers still outstanding on which recipient governments had not taken a decision on the award of a contract. The total potential export value of these projects amounted to £731 million: 39 projects with an export value of £515 million are being supported with mixed credit offers involving ATP grant support of £135 million and the balance are the subject of soft loan offers.

4. During February we made four mixed credit offers and one soft loan offer of ATP:

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value</u>	<u>£m</u>
Cameroon	Agricultural Mechanisation	NYK	3.522	(increased offer)
Cameroon	Railway Inspection Vehicles	D Wickham	1.659	
India	HBJ Pipeline	Ingersoll	24.000	(increased offer)
India	Ammonia Plant	Humphreys & Glasgow	26.730	"
Turkey	Ankara Natural Gas	AMEC	46.750	(Soft loan)
		Total	102.661	

Projects accepted in principle on 28 February (see Annex IV)

5. On 28 February there were fourteen projects accepted in principle by recipient governments but which had not by then resulted in contracts and aid agreements being signed. The total potential export value of these projects is £178 million. Eight projects with an export value of £52 million are the subject of mixed credit offers involving ATP grant support of £15 million. We have now confirmed offers of soft loans to Indonesia on projects worth £117 million under the soft loan agreement.

Projects signed since last Report

6. No projects have been signed since the last Report.

Lines of Credit: Mixed Credits and Soft Loans

7. At present we have lines of mixed credits to Cameroon, Egypt and Mauritius and agreements on lines of soft loans to China (£300 million) and Indonesia (£140 million). Proposals under these arrangements are dealt with in the same way as other projects.

8. Two missions to China have appraised all five priority projects identified under the soft loan agreement. In the case of the Indonesian soft loan agreement, the eight projects identified between ourselves and the Indonesian authorities have been appraised. Confirmed offers have now been made on five Indonesian projects - progress on others depends upon commercial negotiations.

Possible ATP cases for which advance details were received during February

9. During February details of six potential new ATP cases were passed by DTI to ODA for a provisional assessment. The British Export value of the business involved amounts to at least £267 million. ATP funds of not less than £67 million would be required. None of the proposals envisages expenditure in 1986/87.

ATP Financial Position at end of February

10. Following the completion of contract negotiations and the signing of the aid agreement in respect of the Malaysian Rural Water Supply Project, requiring ATP expenditure this financial year of £48.6 million, Mr Raison announced publicly the increase in the ATP budget for 1986/87 to £90 million (£3 million of which is for soft loans).

11. ATP expenditure to date in respect of mixed credits is £79.5 million. Further expenditure of about £5.5 million is likely in March, giving an estimated out-turn of £85 million against a budget of £87 million. For soft loans, it is becoming increasingly unlikely that any expenditure will be incurred against the budget of £3 million because of delays in finalising commercial negotiations. It remains possible that up to £1.4 million could be spent in Indonesia, in respect of ATP's contribution to ECGD premium payments, but this depends on the recipient Government processing two project agreements very quickly.

Aid Policy Department
March 1987

AIP PROPOSALS UNDER CONSIDERATION ON 1 FEBRUARY 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>AIP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/Comments</u>
Burma	Jute Mill	Mackies	5.000	0.960	36	5 January	See Note 1
China	Luoyang Tractor Factory	Lucas CAV	12.000	Soft Loan	32	12 May	See Note 2A)Agreed
China	Shanghai Telecomms Equip	SIC	25.300	Soft Loan	32.1	9 Sept	See Note 2B)in prin-)ciple
China	Steel Plant	Davy McKee	59.600	Soft Loan	-	-	See Note 2C)under)soft)loan
China	Yueyang Power Plant	GEC and BB	170.000	Soft Loan	-	-	See Note 2D)Agree-)ment
China	Cosco Ships	British Shipbuilders	72.000	Soft Loan	-	-	See Note 2E)
China	Boiler Pumps	Weir Pumps	12.000	3.012	33.5	22 December	See Note 3
Colombia	System X	Plessey	12.750	Soft Loan	36.0	16 December	See Note 4
Ethiopia	Wonji/Shoa Waterworks	Biwater	7.000	1.795	35.14	22 December	See Note 5
India	Combined Cycle Power	HSPE/Babcocks	167.000	Soft Loan	33	31 July	See Note 6
India	Patrol Vessels	Hall Russell	30.000	8.534	33.59	25 November	See Note 7
India	Ammonia Fertiliser	Humphrey & Glasgow	26.709	6.709	38	22 January	Offer made 9 February
Indonesia	Scattered Diesels	GEC (Rustins) HSPE	7.000	Soft Loan	47.4	31 July	See Note 8A)Agreed)in prin-)ciple
Indonesia	Radio & TV	Pye IVT	16.620	Soft Loan	55	19 June	See Note 8B)under)soft loan
Indonesia	Cigading Port Facilities	Davy BR	14.000	Soft Loan	-	-	See Note 8C)Agreement
Indonesia	"Gloria" Underwater Survey	Marconi Underwater Systems	4.300	1.500	35.5	14 November	See Note 9

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>AIP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/Comments</u>
Jordan	Aquaba II Power Station	NEI/Parsons NEI/Reyrolle NEI/PP	55.000	8.785	33.5	31 December	See Note 10
Malaysia	ULU AI Hydroelectric	Balfour Beatty	55.000	13.800	29.9	10 November	See Note 11
Mexico	Railway Coaches	BREL	43.800	10.990	34.03	12 December	See Note 12
Pakistan	Switchgear	NEI Reurolle	17.000	4.267	29.8	1 September	See Note 13
Pakistan	Tractors for Baluchistan	Caterpillar Tractor Co	6.200	1.600	29.89	18 November	See Note 14
Turkey	Ankara Natural Gas	AMEC	55.000	Soft Loan	39	12 December	Offer made 9 February
Turkey	Human Vaccine Facility	Stearns Catalytic/ Wellcome Foundation	17.700	4.440	30.2	8 September	See Note 15
TOTALS			849.000	66.392 (mixed credits)			

Footnote: There are four projects on which no decision is required at present.
China Shidongkou Power Station - No aid agreement in place
Egypt Ayoun Moussa Power Station - Japanese feasibility study being carried out.
Jordan Shidiya Phosphate Project - French feasibility study being carried out.
Malaysia Peninsular Gas Project - No aid agreement in place

NOTES ON ATP PROPOSALS UNDER CONSIDERATION ON 1 FEBRUARY

1. Burma: Jute Mill (Time elapsed since application: seven weeks)

Mackies are bidding for a contract to rehabilitate Thaksta Carpet Mill funded with ATP in 1980. To set the rehabilitation and expansion on a sound footing a brief consultancy study will be discussed with Burmese Jute Industries Corporation representatives visiting the UK this month.

2. CHINA SOFT LOAN PROJECTS

- A Luoyang Tractor Factory

Lucas CAV are seeking contracts for the transfer of diesel fuel injection technology including the licensing of Lucas CAV projects. The company visited China in January but a number of problems are still unresolved and further negotiations are necessary.

- B Shanghai Telecommunications Equipment

STC are seeking to supply equipment for the manufacture of digital transmission equipment. The Chinese have recently requested further equipment which would exceed the project allocation by £2 million. Some of this equipment may conflict with COCOM rules. At the moment we await the outcome of a feasibility study funded by ODA.

- C Daye Steel Works

Daye have invited quotations from several suppliers for a seamless steel tube mill for the above, including Davy McKee/Tube Investments (DMT). However, there is a substantial gap between the budget prices set by the Chinese and the price quoted by DMT. DMT are due to have further discussions in China.

D Yueuang Power Plant

GEC and NEI/Balfour Beatty submitted bids for power station equipment on 28 November. The Chinese are satisfied on technical aspects but both bids are over the allocated budget for the project and commercial negotiations are continuing.

E COSCO Ships

Following a visit to China by British Shipbuilders and a meeting with ODA officials Ministers have agreed to increase the allocation for the project to £72 million. Technical discussions are continuing, with commercial negotiations to follow.

3. China: Boiler Pumps (Time elapsed since application: two months)

Weir Pumps are seeking to supply boiler feed pumps to the Ministry of Water Resources and Electric Power. More information was required to enable officials to reach a recommendation and the company met officials in early February. The further information provided is now under consideration and it is expected that a submission recommending approval will be made shortly.

4. Colombia: System X (Time elapsed since revised application: two months)

An aid offer was made in April 1986, but was subsequently declared void and rebids were called for with a greatly increased scope of equipment supply. This has now been processed within ODA and ECGD increased cover has been confirmed. A submission will now be made recommending approval.

5. Ethiopia: Wonji/Shoa Waterworks (Time elapsed since application: two months)
Biwater are bidding to design and construct a waterworks at Wonji/Shoa and Metahara Sugar Estates. There is insufficient cover to accommodate this particular proposal, but the Secretary of State has in any case agreed that there should be no ATP for Ethiopia. Ministerial correspondence on this issue continues.

6. India: Combined Cycle Power Station (Time elapsed since application: seven months)
HSPE/Babcocks are seeking to secure a contract for the design, manufacture and construction of three gas based combined cycle power stations. The Indians have invited international tenders with a view to using World Bank finance. However, there should be scope for ATP co-financing with the World Bank if British firms were competitive.

7. India: Patrol Vessels (Time elapsed since application: three months)
The company originally applied for ATP support for two completed vessels at a cost of £34 million, with a British content of £20.6 million. An ATP grant of £8.534 million was sought. Recently Hall Russell presented a revised application for export credit cover for three vessels costing £46.2 million for four kits costing £42.4 million. An ATP grant of at least £22.24 million would be needed to support the new proposal. The post advise that these are patrol boats which would carry light armaments and would be operated by the Indian Navy. Hall Russell's negotiations with the Indians do not assume that ATP will be available. Ministers have agreed that support would be inappropriate

unless the Indians requested aid and were able to provide assurances that the vessels were not for para-military purposes. The DTI also advise that Shipbuilding Intervention Fund assistance would not be appropriate. The Prime Minister has written to Hall Russell in these terms and the post has been informed of the situation. The issue was not raised formally or informally at bilateral aid talks held in Delhi in the week beginning 9 March, and the two conditions Ministers have set for supporting the proposal remain unfulfilled.

8. INDONESIA SOFT LOAN PROJECTS

A Scattered Diesels

GEC and HSPE are bidding to secure a contract for the installation of diesel power stations in Sumatra, Kalimantan and Java. Latest reports suggest that the Indonesians may be going to open tender with revised scope of work. Further details awaited. Discussions are planned with Development Division Advisers later this month.

B Radio and TV

The project has now been split into two components for radio and TV. For the radio we are arranging for a study to be undertaken to ensure efficient utilisation of the new equipment. On the TV side the firm are seeking to define the scope of work.

C Cigading Port Facilities

This project is interlinked with the two railway projects, and the three were appraised as a single transportation scheme. The two railway projects have now been approved but the Indonesians are currently defining their requirements at Cigading and we have offered to fund a feasibility study to consider implementation. Discussions are continuing with Development Division Advisers.

9. Indonesia: Gloria Underwater Survey (Time elapsed since application: three months)
ATP support of £1.5 million is sought by Marconi Underwater Systems Ltd to cover training and technology transfer in the processing of data to be produced by the "Gloria" survey of the Banda Sea region of the Indonesian Exclusive Economic Zone (EEZ). Following a report by the British Geological Survey (BGS) a meeting was held with Marconi in January to resolve technical queries. The project appears sound, but the BGS report raised doubts as to whether the Indonesians will have the funds and the capability to implement it and Marconi returned to Indonesia to resolve these. We currently await a report on the visit from DTI/Marconi.
10. Jordan: Aquaba II Power Station (Time elapsed since application: two months)
This is a potential co-financing arrangement with the World Bank involving a 2 x 130 MW coal/oil fired power station. The three UK companies involved will be bidding separately for the supply of turbine generators, sub-stations and boilers. The Chief Secretary has agreed to an increase in ECGD's Section II limit for Jordan to accommodate a mixed credit cover of £35 million in support of this project.
11. Malaysia: Ulu Ai Hydro-electric (Time elapsed since application: three months)
Balfour Beatty are leading a consortium involving GEC Large Machines and Boving, which is seeking to secure a contract for the design, construction, supply and installation of a 54 MW power station. Total UK content would be £55 million, with ATP of £13.8 million. Officials from DTI and ODA recently joined an IBRD appraisal team to review the Malaysian energy sector. It was possible that the project might have been co-financed with the World Bank but following the mission's report the Bank do not favour the project against cheaper alternative sources of power. The DTI have agreed to suspend the project for the time being.

12. Mexico: Railway coaches (Time elapsed since revised application: two months)

In 1985 an ATP grant was approved to support the bid by BREL to secure a negotiated contract worth £11 million for the supply of 30 railway coaches. Since then the requirement has increased to 200 coaches costing £85.6 million with £43.8 million of UK content. The Export Guarantee Committee recently agreed to the introduction of DX cover for Mexico within a limit of £150 million, subject to the signing of the bilateral rescheduling agreement with Mexico. The Treasury has agreed in principle that both ATP and DX cover could be used for this project subject to World Bank endorsement of the proposals. This would also apply to the question of ATP support. The report to the World Bank team which recently visited Mexico to discuss railway investment plans is currently awaited.

13. Pakistan: Switchgear (Time elapsed since application: six months)

The project involves the design, manufacture, complete installation and commissioning of two sub-stations, but it is possible that the Government of Pakistan may not have sufficient funds for the project. The post have also advised that one sub-station is being financed by the Germans. Further advice and revised figures are awaited from the DTI.

14. Pakistan: Tractors for Baluchistan (Time elapsed since application: two months)

Caterpillar Tractor Co (UK) have bid to supply 100 tractors to the Government of Baluchistan in Quetta, but in view of the uncertainties over the future of the company the project is currently in abeyance.

15. Turkey: Human Vaccines Facility (Time elapsed since application: five months)

The applicants are Stearns Catalytic International Limited in consortium with the Wellcome Foundation who are seeking a contract for the construction of a plant for the production of human vaccines and sera, both for domestic consumption and for export. DTI are awaiting the outcome of a meeting in Ankara which will determine whether the business to be supported under ATP will consist entirely of goods and services originating in the UK and that local finance will be available to complete the project. ECGD will not indicate cover without details of the Turkish proposals. It is understood that the French are making an offer: further details are awaited from the DTI.

AIP PROPOSALS RECEIVED DURING FEBRUARY 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>AIP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/Comments</u>
Cameroon	Railway Inspection Units	D Wickham	1.693	0.425	31	29 January	Offer made 9 February 1987
India	URI Hydroelectric	Boving	46.900	Soft Loan	17	3 February	Under consideration but DW have doubts on proposal
Zimbabwe	Telecommunications	GEC	4.909	1.232	33	9 February	More information required.
India	HBJ Pipeline	Ingersoll	24.000	6.048	38	9 February	Revised offer made 20 February 1987
Cameroon	Railway Diesel Units	BREL	3.629	1.012	33	17 February	Under consideration
Jordan	Potato Storage	GRESCO	3.250	0.970	39	16 February	" "
Cameroon	Railway Signalling	Westinghouse	10.875	2.730	39	19 February	Submission recommen- ding proposal in preparation
Indonesia	Kedung Ombo Dam	Boving	5.865	1.610	42	23 February	Under consideration
Kenya	Digital Radio Link	GEC	4.864	1.271	39	26 February	" "
India	Electric Locos	Brush	76.820	19.280	38	25 February	" "
		TOTAL	182.805	34.578	(Mixed Credits)		

AIP PROJECTS ON WHICH OFFERS WERE STILL OUTSTANDING ON 28 FEBRUARY 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>AIP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>	
Algeria	Bellara Steelworks	Atkins	13.769	3.463	30	September 1985	
Belize	Trucks	British Leyland	0.463	0.116	37	January 1987	
Burma	Gas Turbines	JBE	12.200	3.540	32	March 1986	
Burma	Marine Engines	Sykes Marine	5.000	1.600	44.11	August 1986	
Burma	Railway Rehabilitation	HSPE	28.000	Soft Loan	33	June 1986	
Cameroon	Agricultural Mechanisation	NYK	3.522	0.885	29	February 1987	
Cameroon	3 Railbus	BREL/Leyland	5.126	1.287	30.7	January 1986	
Cameroon	Domestic Water Supply	Unknown	6.400	1.600	31	April 1985	
Cameroon	Railway Insp. Vehicles	D Wickham & Co.	1.659	0.425	32	February 1987	
China	System X Shenda	GEC	4.038	1.014	25.1	October 1986	
China	Shengli Gas Turbine	JBE	14.913	4.873	25.1	November 1986	
China	Shanghai Flour Mill	Henry Simon	10.000	2.585	30.15	December 1986	(New SCAT case received - see Annex III)
Colombia	System X	Plessey	10.400	Soft Loan	39	April 1986	- " -
Cyprus	Larnaca	UK Airport Group	19.000	4.760	33	January 1986	
India	Ammonia Plant	Humphreys & Glasgow	26.730	6.709	31	February 1987	
India	UAE Submarine Cable	SIC	24.450	6.140	37	April 1986	
Ir.	Coach Factory	BREL	35.000	Soft Loan	37	June 1986	

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>AIP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
India	VSP Data Acquisition	Principia Mechanical	0.700	0.176	35	August 1986
India	Bombay & Delhi Airports	UK Airports Group	42.000	13.020	31	December 1986
India	Optical Fibres	STC	40.550	Soft Loan	47.30	May 1986
India	Gas Turbines/STM Bassein	Rustons	4.500	1.170	43.5	October 1986
India	Unchahar Power Station	NEI Parsons	55.000	Soft Loan	33.5	November 1986
India	HBJ Pipeline	Ingersoll	24.000	6.048	38	February 1987
Indonesia	Pindad Forging Plant	Klockner Ina	6.233	1.691	30	August 1986
Indonesia	Surabaya Shipyard	Cunlogan	61.200	15.400	38.2	November 1986
Kenya	System X	Plessey	10.200	2.620	35	October 1986
Kenya	Distribution Transformers	Babcock	2.090	0.525	29.14	January 1987
Kenya	Rural Telecomms	Communication Supplies	18.190	6.452	41.79	January 1987
Malaysia	Digital Multiplex	STC	64.720	16.240	28	June 1986
Malaysia	Submarine Cable	Balfour Beatty	15.830	3.970	29	October 1985
Malaysia	Communications Equip.	Racal Avionics	1.449	0.363	30	July 1985
Malaysia	3 KV Transmission Switch- gear	GEC	1.9300	0.480	37	August 1986
Malaysia	132 KV Transmission Switchgear	GEC	5.245	0.815	33	January 1987

Malta	LUQA Airport	IWI and BAA	1.988	0.489	25	December 1986
Malaysia	Airport Equipment	Racal	1.500	0.363	26	July 1986
Mozambique	Trucks	Leyland	2.496	0.661	32	October 1986
Pakistan	VHF Communications	IAL	6.040	1.620	32	June 1986
Rwanda	Diary Project	IPVAL	2.623	0.752	31	January 1987
Thailand	Telecommunications	Balfour Kilpatrick/BI	74.590	18.700	34	∅
Thailand	Mae Moh Chimneys	Tileman	2.000	0.502	34	March 1986
Tunisia	Polypropylene Plant	Extrusions	0.188	0.047	30	April 1986
Tunisia	Phosphate Plant	Tagmal	12.000	3.054	34	December 1985
Tunisia	Engine Testing Equip.	Froude Consine	2.500	0.709	33	December 1986
Turkey	Gas Insulated Substations	GEC Switchgear	5.700	1.430	27.82	*
Turkey	Ankara Natural Gas	AMEC	46.750	Soft Loan	39	February 1987
Total			730.792	134.694	(Mixed Credits)	

* DTI have delayed formal offer for tactical reasons.

∅ Formal offer to be made with presentation of consortium's proposals in February.

AIP OFFERS ACCEPTED IN PRINCIPLE BY RECIPIENT COUNTRY AS AT 28 FEBRUARY 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value (£m)</u>	<u>HMG AIP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date Offered</u>	<u>Date Accepted</u>
Cameroon	NW Electrification	Balfour Beatty	5.428	1.362	33	June 1984	November 1985
Cyprus	Southern Conveyor	SPP	3.467	0.870	33	July 1986	December 1986
Economic Commission for West African States	Telecommunications	Balfour Beatty/GEC	14.250	4.000	35	October 1985	November 1985
Egypt	Pyramid Road Hospital	Higgs and Hill	4.250	1.200	32	August 1981	November 1983
Indonesia	Rural Electrification	NEI Projects	39,882	Soft Loan	44	November 1986	) Approved in) principle) under soft) loan agree-) ment signed) in 1986 and) now approved
Indonesia	Cigading/Serpong Railway Rehabilitation	Davy/British Rail Int	33.000	Soft Loan	44.3	November 1986	
Indonesia	Citajan and Cibinong/ Nambo Railway	Foster Wheeler World	23.000	Soft Loan	44	November 1986	
Indonesia	Navigational Aids	Pharos Marine	11.587	Soft Loan	44	December 1986	
Indonesia	Steel Bridging	Mabey & Johnson	10.702	Soft Loan	49.1	January 1987	
Jordan	Walking Dragline	Ransomes & Rapier	9.000	Soft Loan	33.5	April 1986		December 1986
Malawi	Power Transmission	Balfour Beatty/HSPE	8.080	2.590	33	October 1985	August 1986
Malawi	UXD5	GEC	5.405	1.734	33	March 1986	December 1986
Thailand	Railbus	BREL	7.308	1.834	36	June 1985	April 1986
Turkey	Circuit Breakers	GEC Switchgear	3.745	0.940	28	October 1986	February 1987
Total			178.104	14.530	(mixed credits)		

cc PD



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PS/ Secretary of State for Trade and Industry

18 March 1987

R N Culshaw Esq
Private Secretary
Foreign and Commonwealth Office
London SW1A 2AH

cc PD
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Dear Robert

AID AND TRADE PROVISION: BI-MONTHLY REPORT OF PROBLEM CASES

Thank you for your letter of 6 March and the attached bi-monthly report on ATP problem cases.

My Secretary of State agrees that the interdepartmental paper on the use of ATP and DX cover provides a satisfactory basis for the consideration of future cases. He similarly hopes that it will be possible to reach a rapid conclusion on the Mexico Railway Coach Project following the latest World Bank appraisal mission.

I am copying this letter to Mark Addison and Jill Rutter.

Yours

Paul Steeples

PAUL STEEPLES
Private Secretary

JG2AZG

OVERSEAS ATD: Policy review: PES.





Foreign and Commonwealth Office

London SW1A 2AH

6 March 1987

ccpc

CDP 413

Dear Timothy

requested

Aid and Trade Provision: Bi-Monthly Report of Problem Cases

I attach the latest bi-monthly report.

The Foreign Secretary believes that the interdepartmentally agreed paper by officials on the use of ATP and DX cover provides a suitable framework within which individual cases could be considered. He has noted that the Treasury have agreed in principle the use of ATP for the Mexican railway coach project, subject to endorsement by the World Bank: he would like officials to pursue the matter with the World Bank as soon as possible and to report back to Ministers.

I am sending copies of this letter to Mark Addison (No 10) and Jill Rutter (HM Treasury).

Yours

R N Culshaw

(R N Culshaw)
Private Secretary

Timothy Walker Esq
Department of Trade & Industry

AID AND TRADE PROVISION

BI-MONTHLY REPORT OF POTENTIAL PROBLEM CASES
FEBRUARY 1987

Current Problem Cases**Indian Patrol Vessels** (Hall Russell, Aberdeen)

1. This was noted as a problem case in the last report, in which it was observed that there were several reasons why ATP seemed inappropriate. The Prime Minister has agreed that further consideration could not be given to this proposal without a request from the Indian Government, and an assurance from them that the vessels would not be used for paramilitary purposes. Negotiations have continued between the company and the Indians, but HMG has not received any communication from the Indian government.

Mexico Railway Coaches

2. British Rail Engineering Ltd (BREL) have been seeking a contract with the Mexicans for the supply of 200 railway coaches costing £85.6 million with a British export content of £43.8 million. The project would involve close collaboration with the Mexican railway authorities and the transfer of technology to establish a local coach manufacturing capability. BREL have applied for ATP as part of a mixed credit requiring export credit support.

3. The Export Guarantee Committee has recently agreed to the introduction of DX cover for Mexico within a limit of £150 million, subject to the signing of the bilateral rescheduling agreement with Mexico.

4. The Treasury have agreed to DX cover being used for the project subject to it being endorsed by the World Bank. However,

/Treasury

Treasury officials also took the view that the availability of ATP should be a separate matter. They felt that the use of ATP on DX cases could create conflicts between the separate objectives of the two facilities.

Flag A

5. When the previous ATP problem case report was submitted the Foreign Secretary asked for a paper to be prepared inter-departmentally by officials setting out the arguments relating to the use of ATP with DX cover. An inter-departmentally agreed paper is attached. It recognises that the use of ATP and DX cover may be compatible although their joint use is likely to be rare: individual cases should be considered on their merits, ensuring that they satisfy both ATP and DX criteria.

6. As regards this specific project, the Treasury agree in principle that both ATP and DX cover could be used. However, this remains conditional upon World Bank endorsement of the proposals, which is one of the criteria for DX cover. The same consideration would apply to the question of ATP support.

7. The IBRD has a Railway Sector loan to Mexico. while it has recognised a need for some additional coaches, it has taken the view that the scale of the new proposal is excessive. The Bank have said that they would not "endorse the proposal as important to Mexico's economic rehabilitation". Since then a further Bank team has visited Mexico to discuss the railway authorities' investment plans. We are now trying to establish with the Bank their latest views in the light of these discussions.

Jordan: Aqaba Power Station

8. This project has been identified as a potential candidate for co-financing with the World Bank under the ATP co-financing framework agreement signed with the Bank last year.

9. The Chief Secretary has agreed to an increase in ECGD's Section II limit for Jordan to accommodate a mixed credit cover of £35 million in support of this project. This is conditional upon offsetting reductions in ECGD cover in other risky markets, consistent with the principle of portfolio management. This issue is being pursued through separate Ministerial correspondence.

Aid Policy Department
February 1987

ATP AND DX COVER

The primary objective of ATP is to support competitive British companies bidding for major capital goods and project business in the developing countries of industrial and commercial significance to Britain. It is intended to put British companies on a similar footing to their competitors whose Governments make available similar financial support. In addition to the industrial and commercial benefits, which can take numerous forms, a project supported by ATP should also be a sound investment for the recipient country. ATP is essentially a pump-priming measure to be used where there is a good prospect that it will lead to follow-on business, preferably on commercial terms. The commercial case for ATP support will often relate to the "reference sale" benefit of a particular contract, although, in considering the resultant enhanced business opportunities, the market of reference can extend far beyond the immediate recipient country. ATP is usually used for fairly large projects.

2. DX cover is intended to provide a degree of cautious support for a market uncreditworthy by normal underwriting standards but judged to be in the early stages of recovery. It is the first support measure offered to countries brought back on cover after debt rescheduling: and is intended to enable them to begin to conduct business again on normal commercial terms. Such business should contribute directly to a debtor country's foreign exchange earning capacity, economic rehabilitation or immediate welfare. Projects may be considered exceptionally and ad hoc when endorsed by the IMF/IBRD. It is important that they should not undermine agreed public investment programmes and priority use of scarce resources which could put economic recovery at risk. A tightly drawn list of criteria, together with prudently set market limits, is intended to control the greater degree of risk involved in early resumption of cover on such

markets. A resumption of normal Section 2 cover would be expected to follow as economic recovery progressed.

3. Since its inception in 1984, DX cover has been conceded for only 6 markets, of which only 3 are in active use (see Schedule). The Ivory Coast has not yet made use of the facility. The Brazilian facility granted in principle in 1984 has never been activated, since the criteria have not been met. In the case of Mexico, DX cover, originally granted in 1985 for private sector business, has not been utilised. EGC has recently agreed the introduction of DX cover within a limit of £150 million for public/private sector business, subject to signature of the UK/Mexico bilateral agreement. It is unlikely that many additional markets will qualify for DX cover in the near future, though EGC is currently considering DX for the public sector market in Panama with a £20 million limit.

4. Because of their different natures, there is no necessary coincidence between ATP support and DX cover. However, the two are not necessarily incompatible either; indeed cases may arise in which they are complementary. The nub of the matter is that although DX cover and ATP support share certain objectives - support of UK trade and of the economic well being of the importing country - they are intended for different categories of exports: ATP is directed towards projects and DX cover is generally non-project oriented. However, cases of overlap may arise. For example, project business endorsed by the World Bank which exceptionally qualifies for DX cover may also qualify for use of ATP if the commercial and industrial arguments warrant it. Some ATP projects may also assist the recipient in increasing foreign exchange earnings or conserving reserves through import substitution, and there must be a presumption that the welfare objective of DX is met, if business meets the developmental criteria of an ATP case.

5. For ATP to be appropriate, it may be necessary to establish that the commercial follow-on business for larger projects will arise outside the DX country concerned. DX limits would make it difficult for any immediate substantial follow-on business to be financed in the same country. Smaller value ATP cases may give rise to follow-on business even within a tight DX limit. More typically, such opportunities will arise as a country's economy is responding to economic policy reforms and resumption of normal cover is in prospect, as with Chile at present.

6. It is possible for ATP and DX cover to be compatible. Nevertheless, the joint use of ATP and DX is likely to be rare, and few cases have so far come forward. Individual cases will need to be considered on their merits, ensuring that they satisfy both ATP and DX cover criteria.

MARKET FOR WHICH DX COVER HAS BEEN APPROVED

<u>Country</u>	<u>Type of Cover</u>	<u>Limit</u>	<u>Use of Facility</u>
Brazil	public and private sectors	100	Cover agreed some 2 years ago, but it has not been used in the absence of an IMF programme. Currently under discussion at Paris Club.
Chile	public sector	50	Firm business: £15.8m Indications: £104m Under consideration: NIL Declined: £11.7m
Ecuador	public and private sectors	25	Firm business: £1.3m Indications: £42m Under consideration: £39.3m Declined: 176m
Mexico	private sector	50	Under consideration: £74m (Racal £36m, BR £34m) EGC agreement is for cover of £150 million for public and private sectors, subject to signature of UK/Mexico bilateral agreement
Ivory Coast	public sector	25	No cover; facility made available August 1985. £10m line of Credit available. Declined: £30
Malawi	public sector	20	Firm business: £20m (firm Reservations of: Escom £8.24m and System X £6.75m for which ATP support has been offered) Indications: £0.4m Under consideration: £0.9m Declined: £28.5m

February 1987



Foreign and Commonwealth Office

London SW1A 2AH

6 February 1987

CDP/11

Dear Timothy

Aid and Trade Provision

I attach the January Monthly Report on the Aid and Trade Provision for your Secretary of State's information. A copy of this letter and the Report are also being sent to Charles Powell (No 10) and Jill Rutter (Chief Secretary's Office).

Yours ever

(R N Culshaw)
Private Secretary

Timothy Walker Esq
PS/Secretary of State for Trade & Industry
DTI

AID AND TRADE PROVISION

MONTHLY PROGRESS REPORT: JANUARY 1987

Proposals under consideration at the beginning of December
(see Annex I)

1. 26 projects were under consideration at the beginning of December. Of these, nine are under the China and Indonesian soft loan agreements (they have already been appraised but firm offers cannot be made until commercial negotiations are completed), five projects were approved during the month including one Indonesian soft loan project; two may be co-financed with the World Bank; and 11 projects are being actively pursued with a view to reaching a decision in the near future.

Proposals received during January (see Annex II)

2. During January we received two formal ATP proposals from the DTI. One was for a new project and the other seeks an increased ATP offer.

Offers outstanding on 31 January (see Annex III)

3. On 31 January there were a total of 42 offers still outstanding on which recipient governments had not taken a decision on the award of a contract. The total potential export value of these projects amounted to £630 million: 37 projects with an export value of £469 million are being supported with mixed credit offers involving ATP grant support of £128 million and the balance are the subject of soft loan offers.

4. During January we made five mixed credit offers of ATP:

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value</u> <u>£m</u>
Belize	Trucks	Leyland Vehicles	0.463
Kenya	Distribution Transformers	Babcock	2.090
Kenya	Rural Telecomms	Communication Supplies	18.190
Malaysia	132 KV Switch- gear	GEC	3.245
Rwanda	Diary Project	APVIL	<u>3.000</u>
		Total	<u>26.988</u>

Projects accepted in principle on 31 January (see Annex IV)

5. On 31 January there were fifteen projects accepted in principle by recipient governments but which had not by then resulted in contracts and aid agreements being signed. The total potential export value of these projects is £190 million. Nine projects with an export value of £62 million are the subject of mixed credit offers involving ATP grant support of £17 million. We have now confirmed offers of soft loans to Indonesia on projects worth £118 million under the soft loan agreement.

Projects signed since last Report

6. No projects have been signed since the last Report.

Lines of Credit: Mixed Credits and Soft Loans

7. At present we have lines of mixed credits to Cameroon, Egypt and Mauritius and agreements on lines of soft loans to China (£300 million) and Indonesia (£140 million). Proposals under these arrangements are dealt with in the same way as other projects.

8. Two missions to China have appraised all five priority projects identified under the soft loan agreement. In the case of the Indonesian soft loan agreement, the eight projects identified between ourselves and the Indonesian authorities have been appraised. Confirmed offers have been made on five Indonesian projects - progress on others depends upon commercial negotiations.

Possible ATP cases for which advance details were received during December

9. During January details of thirteen potential new ATP cases were passed by DTI to ODA for a provisional assessment. The British Export value of the business involved amounts to at least £171 million. ATP funds of not less than £43 million would be required. None of the proposals envisages expenditure in 1986/87.

ATP Financial Position at end of January

10. Following the completion of contract negotiations and the signing of the aid agreement in respect of the Malaysian Rural Water Supply Project, requiring ATP expenditure this financial year of £48.6 million, Mr Raison announced publicly the increase in the ATP budget for 1986/87 to £90 million (£3 million of which is for soft loans).

11. The prospects for ATP expenditure in respect of mixed credits against a budget of £87 million are as follows:

	£m
(1) Actual expenditure to date	69.6
(2) Further expenditure on projects already in progress	15.6
(3) Projects already accepted in principle	3.1
(4) Offers outstanding	<u>0.6</u>
	<u>88.9</u>

12. However, expenditure under items (3) and (4) looks increasingly unlikely as we are now in the last quarter of the financial year. Contract negotiations for projects accepted in principle by recipients are continuing; it remains uncertain whether these contracts will be signed and become effective so that initial ATP payments could be made before the end of March. Although the companies concerned have remained confident that funds would be needed this financial year for certain projects on which offers are still outstanding, there is now little prospect of any further expenditure under item (4). It is therefore possible that actual expenditure in 1986/87 will fall somewhat short of the £87 million available.

13. In respect of soft loans, the delay in finalising commercial negotiations for projects in China and Indonesia means that we are unlikely to spend more than about £0.5 million out of a budget of £3 million.

14. We are now looking at ways of bringing forward certain ATP expenditure from next year into 1986/87 to ensure that total ATP expenditure this year is as close as possible to £90 million.

Aid Policy Department

January 1987

ATP PROPOSALS UNDER CONSIDERATION ON 1 JANUARY 1987

Country	Project	Company	UK Export value (£m)	ATP Support (£m)	HMG Subsidy element (%)	Date of Application	Date of Approval/Comments
China	Luoyang Tractor Factory	Lucas CAV	12.000	Soft Loan	32	12 May	See Note 1A
China	Shanghai Telecomms Equip	STC	25.300	Soft Loan	32.1	9 Sept	See Note 1B
China	Steel Plant	Davy McKee	39.600	Soft Loan	-	-	See Note 1C
China	Yueyang Power Plant	GEC and BB	39.600	Soft Loan	-	-	See Note 1D
China	Cosco Ships	British Shipbuilders	75.000	Soft Loan	-	-	See Note 1E
China	Boiler Pumps	Weir Pumps	12.000	3.012	33.5	22 December	See Note 2
Columbia	System X	Plessey	12.750	Soft Loan	36.0	16 December	See Note 3
Ethiopia	Wonji/Shoa Waterworks	Biwater	7.000	1.795	35.14	22 December	See Note 4
India	Combined Cycle Power	HSPE/Babcocks	167.000	Soft Loan	33	31 July	See Note 5
India	Patrol Vessels	Hall Russell	30.000	8.534	33.59	25 November	See Note 6
Indonesia	Scattered Diesels	GEC (Rustins) HSPE	7.000	Soft Loan	47.4	31 July	See Note 7A
Indonesia	Radio & TV	Pye TVT	16.620	Soft Loan	55	19 June	See Note 7B
Indonesia	Steel Bridging	Mabey & Johnson	10.880	Soft Loan	49.1	11 December	Approved 23 January
Indonesia	Cigading Port Facilities	Davy BR	14.000	Soft Loan	-	-	See Note 7C
Indonesia	"Gloria" Underwater Survey	Marconi Underwater Systems	4.300	1.500		14 November	See Note 8

} Agreed in principle under soft loan Agreement

} Agreed in principle under soft loan Agreement

ANNEX I
contd.

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/Comments</u>
Jordan	Aquaba II Power Station	NEI/Parsons NEI/Reyrolle NEI/PP	35.000	8.785	33.5	31 December	See Note 9
Kenya	Distribution Trans- formers	Babcock Transformers	1.700	9.400	29.14	14 November	Approved 16 January
Kenya	Rural Telecommunications	Communication Supplies	18.190	6.440	41.79	17 November	Approved 26 January
Malaysia	Switchgear	GEC Switchgear	3.250	0.800	28.87	29 October	Approved 12 January
Malaysia	ULU A1 Hydroelectric	Balfour Beatty	55.000	13.800	29.9	10 November	See Note 10
Mexico	Railway Coaches	BREL	43.800	10.990	34.03	12 December	See Note 11
Pakistan	Switchgear	NEI Reurolle	17.000	4.267	29.8	1 September	See Note 12
Pakistan	Tractors for Baluchistan	Caterpillar Tractor Co	6.200	1.600	29.89	18 November	See Note 13
Rwanda	Dairy Project	APV Hall International	2.623	0.752	33	25 June (Revised 28 November)	Approved 12 January
Turkey	Ankara Natural Gas	AMEC	55.000	13.800	30.7	12 December	See Note 14
Turkey	Human Vaccine Facility	Stearns Catalytic/ Wellcome Foundation	17.700	4.440	30.2	8 September	See Note 15
TOTALS			<u>728.575</u>	<u>89.915</u> (mixed credits)			

Footnote:

There are three projects on which no decision is required at present.
 China Shidongkou Power Station - No aid agreement in place
 Jordan Shidiya Phosphate Project - French feasibility study being carried out.
 Malaysia Peninsular Gas Project - No aid agreement in place

NOTES ON ATP PROPOSALS UNDER CONSIDERATION ON 1 JANUARY

1. CHINA SOFT LOAN PROJECTS

A Luoyang Tractor Factory

Lucas CAV are seeking contracts for the transfer of diesel fuel injection technology including the licensing of Lucas CAV projects. The company visited China in January but a number of problems are still unresolved and further negotiations are necessary.

B Shanghai Telecommunications Equipment

STC are seeking to supply equipment for the manufacture of digital transmission equipment. The Chinese have recently requested further equipment which may conflict with COCOM rules.

C Daye Steel Works

Daye have invited quotations from several suppliers for a seamless steel tube mill for the above, including Davy McKee/Tube Investments (DMT). However, there is a substantial gap between the budget price set by the Chinese and the price quoted by DMT. DMT are due to have further discussions in China early February.

D Yueuang Power Plant

GEC and NEI/Balfour Beatty submitted bids for power station equipment on 28 November. The Chinese are satisfied on technical aspects but both bids are over the allocated budget for the project and commercial negotiations are continuing.

E COSCO Ships

British Shipbuilders have just returned from China and will be meeting ODA officials on 4 February. The outcome will probably be an order for three ships costing £75 million - £9 million more than was envisaged when the Minister agreed to increase the soft loan facility to accommodate an extra ship.

2. China: Boiler Pumps (Time elapsed since application: five weeks)

Weir Pumps are seeking to supply boiler feed pumps to the Ministry of Water Resources and Electric Power. More information is required to enable officials to reach a recommendation and the company will be meeting officials early February.

3. Columbia: System X (Time elapsed since revised application: six weeks)

An aid offer was made in April 1986, but was subsequently declared void and rebids were called for with a greatly increased scope of equipment supply. This was now been processed within ODA and once ECGD increased cover has been confirmed a submission will be made recommending approval.

4. Ethiopia: Wonji/Shoa Waterworks (Time elapsed since application: five weeks)

Biwater are bidding to design and construct a waterworks at Wonji/Shoa and Metahara Sugar Estates. There is at present insufficient export credit cover for Ethiopia and the FCO has reservations about providing aid for such purposes while the policies of the present regime continues.

- 5 India: Combined Cycle Power Station (Time elapsed since application: six months)

HSPE/Babcocks are seeking to secure a contract for the design, manufacture and construction of three gas based combined cycle power stations. The Indians have invited international tenders with a view to using World Bank finance. However, there should be scope for ATP co-financing with the World Bank if British firms were competitive.

- 6 India: Patrol Vessels (Time elapsed since application: two months)

The company originally applied for ATP support for two completed vessels at a cost of £34 million, with a British content of £20.6 million. An ATP grant of £8.534 million was sought. Recently Hall Russell presented a revised application for export credit cover for three vessels costing £46.2 million for four kits costing £42.4 million. An ATP grant of at least £22.24 million would be needed to support the new proposal. The post advise that these are patrol boats which would carry light armaments and would be operated by the Indian Navy. Hall Russell's negotiations with the Indians do not assume that ATP will be available. Ministers have agreed that support would be inappropriate unless the Indians requested aid and were able to provide assurances that the vessels were not for para-military purposes. The DTI also advise that Shipbuilding Intervention Fund assistance would not be appropriate. The Prime Minister has written to Hall Russell in these terms and the post has been informed of the situation.

7. INDONESIA SOFT LOAN PROJECTS

A Scattered Diesels

GEC and HSPE are bidding to secure a contract for the installation of diesel power stations in Sumatra, Kalimantan and Java. Latest reports suggest that the Indonesians may be going to open tender with revised scope of work. Further details awaited.

B Radio and TV

The project has now been split into two components for radio and TV. For the radio we are arranging for a study to be undertaken to ensure efficient utilisation of the new equipment. On the TV side the firm are seeking to define the scope of work.

C. Cigading Port Facilities

This project is interlinked with the two railway projects, and the three were appraised as a single transportation scheme. The two railway projects have now been approved, but the Indonesians are currently defining their requirements at Cigading and we have offered to fund a feasibility study to consider implementation.

8. Indonesia: Gloria Underwater Survey (Time elapsed since application: two months)

ATP support of £1.5 million is sought by Marconi Underwater Systems Ltd to cover training and technology transfer in the processing of data to be produced by the "Gloria" survey of the Banda Sea region of the Indonesian

Exclusive Economic Zone (EEZ). Following a report by the British Geological Survey (BGS) a meeting was held with Marconi in January to resolve technical queries. The project appears sound, but the BGS report raised doubts as to whether the Indonesians will have the funds and the capability to implement it and Marconi are returning to Indonesia to resolve these.

9. Jordan: Aquaba II Power Station (Time elapsed since application: four weeks)

This is a potential co-financing arrangement with the World Bank involving a 2 x 130 MW coal/oil fired power station. The three UK companies involved will be bidding separately for the supply of turbine generators, substations and boilers. Whilst the developmental soundness of the project and the desirability of the co-financing proposal are now in dispute, a difficulty has arisen because the limit on cover for Jordan has been reached. A meeting of the Export Guarantee Committee (ECG) has been unable to resolve the question of whether or not this project should be accommodated on an exceptional basis, even though this would take the amount of business covered above the limit, and the case is to be put to Ministers.

10. Malaysia: Ulu Ai Hydro-electric (Time elapsed since application: two months)

Balfour Beatty are leading a consortium involving GEC Large Machines and Boving, which is seeking to secure a contract for the design, construction, supply and installation of a 54 MW power station. Total UK content would be £55 million, with ATP of £13.8 million. Officials from DTI and ODA have recently joined an IBRD appraisal team to review the Malaysian energy sector: it is possible that the project may be co-financed with the Bank.

11. Mexico: Railway Coaches (Time elapsed since revised application: six weeks)

In 1985 an ATP grant was approved to support the bid by BREL to secure a negotiated contract worth £11 million for the supply of 30 railway coaches. Since then the requirement has increased to 200 coaches costing £85.6 with £43.8 million of UK content. ECGD cover for Mexico is currently suspended but a recommendation is expected to be made to the Export Guarantee Committee that DX cover should be introduced. A World Bank team is also visiting Mexico to discuss railway investment plans and a decision in principle whether or not the project should be eligible for DX cover and ATP will be taken after the Bank's report is available.

12. Pakistan: Switchgear (Time elapsed since application: five months)

The project involves the design, manufacture, complete installation and commissioning of two sub-stations, but it is possible that the Government of Pakistan may not have sufficient funds for the project. The post have also advised that one sub-station is being financed by the Germans. Further advice and revised figures are awaited from the DTI.

13. Pakistan: Tractors for Baluchistan (Time elapsed since application: six weeks)

Caterpillar Tractor Co (UK) have bid to supply 100 tractors to the Government of Baluchistan in Quetta, but in view of the uncertainties over the future of the company the project is currently in abeyance.

14. Turkey: Ankara Natural Gas (Time elapsed since revised application: six weeks)

In March 1986 we were asked to recommend a standard ATP grant for a turnkey bid by AMEC International Construction for a contract to convert Ankara to natural gas. To assist the developmental appraisal of the case we commissioned British Gas to carry out a feasibility study. British Gas were also successful in winning a contract to carry-out a front-end design implementation study. It now appears that to maximise the UK's chances of winning the project it will be necessary to offer a soft loan rather than a standard grant. However, as cover for Turkey is now limited the Treasury are unable to support the project either on grant or soft loan terms. A submission is to be put to Ministers by DTI.

15. Turkey: Human Vaccines Facility (Time elapsed since application: four months)

The applicants are Stearns Catalytic International Limited in consortium with the Wellcome Foundation who are seeking a contract for the construction of a plant for the production of human vaccines and sera, both for domestic consumption and for export. DTI are awaiting the outcome of a meeting in Ankara which will determine whether the business to be supported under ATP will consist entirely of goods and services originating in the UK and that local finance will be available to complete the project. The American parent company of Stearns has been taken over for the second time recently, and this has slowed down progress with the project.

ATP PROPOSALS RECEIVED DURING JANUARY 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export Value £m</u>	<u>ATP Support £m</u>	<u>HMG Subsidy Element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/ Comments</u>
Burma	Jute Mill	Mackies	3.000	0 960	35.72	5 January	Under consideration but more information may be required.
India	Ammonia Fertiliser	Humphrey & Glasgow	26.730	6.709	38.24	22 January	Original offer made May 1986. Company now hopeful of increasing UK content.

ATP PROJECTS ON WHICH OFFERS WERE STILL OUTSTANDING ON 31 JANUARY 1987

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>	
Algeria	Bellara Steelworks	Atkins	13.800	3.700	30	September 1985	
Belize	Trucks	British Leyland	0.463	0.116	37	January 1987	
Burma	Gas Turbines	JBE	12.200	3.540	32	March 1986	
Burma	Marine Engines	Sykes Marine	5.000	1.600	44.11	August 1986	
Burma	Railway Rehabilitation	HSPE	28 000	Soft Loan	33	June 1986	
Cameroon	Agricultural Mechanisation	NYK	2.000	0.520	29	July 1983	
Cameroon	3 Railbus	BREL/Leyland	8.570	2.152	30.7	January 1986	
Cameroon	Domestic Water Supply	unknown	6.400	1 600	31	April 1985	
China	System X Shenda	GEC	4.475	1 230	25.1	October 1986	
China	Shengli Gas Turbine	JBE	14.600	4.800	25.1	November 1986	
China	Shanghai Flour Mill	Henry Simon	10.000	2.585	30.15	December 1986	(New SCAT case received - see Annex II)
Colombia	System X	Plessey	10.400	Soft Loan	39	April 1986	
Cyprus	Larnaca	UK Airport Group	19 000	4 760	33	January 1986	
India	Ammonia Plant	Humphreys & Glasgow	5.000	3.765	31	May 1986	(New SCAT case received - see Annex I)
India	UAE Submarine Cable	STC	24.450	6.140	37	April 1986	
India	Coach Factory	BREL	35.000	Soft Loan	37	June 1986	

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
India	VSP Data Acquisition	Principia Mechanica	0.700	0.176	35	August 1986
India	Bombay & Delhi Airports	UK Airports Group	42.000	13.020	31	December 1986
India	Optical Fibres	STC	40.550	Soft Loan	47.30	May 1986
India	Gas Turbines/STM Bassein	Rustons	4.500	1.170	43.5	October 1986
India	Unchahar Power Station	NEI Parsons	55.000	Soft Loan	33.5	November 1986
Indonesia	Pindad Forging Plant	Klockner Ina	6.233	1.691	30	August 1986
Indonesia	Surabaya Shipyard	Cunlogan	61.200	15.400	38.2	November 1986
Kenya	Distribution Transformers	Babcock	2.090	0.525	29.14	January 1987
Kenya	Rural Telecomms	Communication Supplies	18.190	6.452	41.79	January 1987
Malaysia	Digital Multiplex	STC	64.720	16.240	28	June 1986
Malaysia	Submarine Cable	Balfour Beatty	15.830	3.970	29	October 1985
Malaysia	Railbus	BREL	4.400	1.100	30	February 1985
Malaysia	3 KV Transmission Switch- gear	GEC	1.9300	0.480	37	July 1986
Malaysia	132 KV Transmission Switchgear	GEC	3.245	0.815	33	January 1987
Malta	LUQA Airport	TWI and BAA	1.988	0.489	25	December 1986
Malaysia	Airport Equipment	Racal	1.500	0.363	26	July 1986
Mozambique	Trucks	Leyland	2.600	0.660	32	August 1986

Country	Project	Company	UK Export value (£m)	ATP Support (£m)	HMG Subsidy element (%)	Date of Offer
Pakistan	VHF Communications	IAL	6.040	1.620	32	June 1986
Rwanda	Diary Project	IPVAL	3.000	0.752	31	January 1987
Thailand	Telecommunications	Balfour Kilpatrick/BT	74.500	18.700	34	∅
Thailand	Mae Moh Chimneys	Tileman	2.000	0.502	34	March 1986
Tunisia	Polypropylene Plant	Extrusions	0.188	0.047	30	April 1986
Tunisia	Phosphate Plant	Tagmal	12.000	3.048	34	December 1985
Tunisia	Engine Testing Equip.	Froude Consine	2.500	0.732	33	December 1986
Turkey	Circuit Breakers	GEC Switchgear	6.450	1.620	27.82	October 1986
Turkey	Gas Insulated Substations	GEC Switchgear	5.700	1.430	27.82	*
Totals			638.412	127.510	(mixed credits)	

* DTI have delayed formal offer for tactical reasons.

∅ Formal offer to be made with presentation of consortium's proposals in February.

ATP OFFERS ACCEPTED IN PRINCIPLE BY RECIPIENT COUNTRY AS AT 31 JANUARY 1987

Country	Project	Company	British Export value (£m)	HMG ATP Support (£m)	Subsidy element (%)	Date Offered	Date Accepted
Cameroon	NW Electrification	Balfour Beatty	5.428	1.362	33	June 1984	November 1985
Cyprus	Southern Conveyor	SPP	4.000	1.000	33	July 1986	December 1986
Economic Commission for West African States	Telecommunications	Balfour Beatty/GEC	14.250	4.000	35	October 1985	November 1985
Egypt	Pyramid Road Hospital	Higgs and Hill	4.250	1.200	32	August 1981	November 1983
Egypt	Brake Block Foundry	Davy McKee	2.749	0.884	40	February 1985	June 1985
India	HBJ Pipeline	Ingersoll	10.000	2.510	40	May 1986	November 1986
Indonesia	Rural Electrification	NEI Projects	40.000	Soft Loan	44	November 1986	} Approved in principle under soft loan agree- ment signed in 1986 and now approved
Indonesia	Cigading/Serpong Railway Rehabilitation	Davy/British Rail Int	33.000	Soft Loan	44.3	November 1986	
Indonesia	Citajam and Cibinong/ Nambo Railway	Foster Wheeler World	23.000	Soft Loan	44	November 1986	
Indonesia	Navigational Aids	Pharos Marine	11.200	Soft Loan	44	December 1986	
Indonesia	Steel Bridging	Mabey & Johnson	10.880	Soft Loan	49.1	January 1987	
Jordan	Walking Dragline	Ransomes & Rapier	9.000	Soft Loan	33.5	April 1986	December 1986
Malawi	Power Transmission	Balfour Beatty/HSPE	8.080	2.590	33	October 1985	August 1986
Malawi	UXD5	GEC	5.405	1.730	33	March 1986	December 1986
Tanzania	Railbus	BREL	7.966	2.000	36	June 1985	April 1986
Total			189.208	17.276 (mixed credits)			

mai



CCBG



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PS
16/1

Secretary of State for Trade and Industry

PS/

16 January 1987

R N Culshaw Esq
Private Secretary to the
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

Dear Robert

at Plas.

ATP : BIMONTHLY REPORT OF POTENTIAL PROBLEM CASES

Thank you for your letter of 29 December enclosing the November/December ATP Report. We find these reports very valuable and we are grateful for the work which goes into compiling them.

There are still one or two outstanding issues on the current cases described in the Report and I understand that officials are in touch on these points. As you say, a paper on the use of ATP with DX cover is being prepared and should be circulated to Ministers shortly.

I am copying this letter to Tim Flesher (No.10) and Jill Rutter (Treasury).

Yours ever
Paul Steeples

PAUL STEEPLES
Private Secretary

JF4AMI

OVERSEAS AID: policy review pts

CDD
16/1

FROM: B R Ireton
DATE: 12 January 1987

- 1 Mr Vereker
- 2 Sir Crispin Tickell
- 3 PS/Minister
- 4 Private Secretary

cc PS/Lady Young
PS/Mrs Chalker
PS/Mr Renton
PS/Mr Eggar
Mr Ainscow
Mr Hudson
Dr Healey
Mr Samuel
Mr Fergusson
Mr Braithwaite
Mr Gillmore
Mr Maud
Mr Smith, TRED/FCO
Mr Wilmshurst

**AID AND TRADE PROVISION : MONTHLY PROGRESS REPORT
DECEMBER 1986**

- ...
1. I submit the Aid and Trade Provision monthly progress report for December 1986. It provides a full list of all projects under consideration during December, including new proposals submitted by the DTI during the month. Notes are provided on individual projects which have been under consideration for some time or where difficulties have arisen. The report also includes details of all projects on which ATP offers have been made but are either still outstanding or have been accepted in principle by the recipient government, but in respect of which contracts have yet to be fully concluded.
 2. The progress report also includes an assessment of the ATP budget situation.
- ...
3. I attach a draft Private Secretary letter to PS/Secretary of State for Trade and Industry, with copies marked for No 10 and HMT.

B R Ireton
Aid Policy Department



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: PRIVATE SECRETARY

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

I Walker Esq
 PS/Secretary of State for
 Trade and Industry

Copies to:
 Mr Powell, No 10
 Ms Rutter, HMT

PRIVACY MARKING

SUBJECT: AID AND TRADE PROVISION

.....In Confidence

I attach a copy of the December Monthly Progress
 Report on ATP for your information.

CAVEAT.....

Enclosures—flag(s).....

December Progress
Report

AID AND TRADE PROVISION

MONTHLY PROGRESS REPORT : DECEMBER 1986

Proposals under consideration at the beginning of December (see Annex I)

1. 24 projects were under consideration at the beginning of December. Of these, nine are under the China and Indonesian soft loan agreements (they have already been appraised but firm offers cannot be made until commercial negotiations are completed) three projects were approved during the month; two may be co-financed with the World Bank; and 8 projects are being actively pursued with a view to reaching a decision in the near future.

Proposals received during December (see Annex II)

2. During December we received seven formal ATP proposals from the DTI. Four proposals related to new projects and three to ongoing projects.

Offers outstanding on 31 December (see Annex III)

3. On 31 December there were a total of 43 offers still outstanding on which recipient governments had not taken a decision on the award of a contract. The total potential export value of these projects amounted to £663 million: 38 projects with an export value of £494 million are being supported with mixed credit offers involving ATP grant support of £132 million and the balance are the subject of soft loan offers.

4. During December we made four mixed credit offers of ATP:-

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value</u>	<u>£m</u>
China	Shanghai Flour Mills Project	Henry Simon	10.000	
India	Bombay and Delhi Airports	UKAG	43.000	
Tunisia	Sakmo Diesel Engine Factory	Froud Consine	2.500	
Malta	Luqa Airport	TWI in competition with BAA	<u>1.988</u>	
		TOTAL	<u>57.488</u>	

Projects accepted in principle on 31 December (see Annex IV)

5. On 31 December there were twelve projects accepted in principle by recipient governments but which had not by then resulted in contracts and aid agreements being signed. The total potential export value of these projects is £174 million. Seven projects with an export value of £58 million are the subject of mixed credit offers involving ATP grant support of £16 million. We have now confirmed offers of soft loans to Indonesia on projects worth £107 million under the soft loan agreement. In December Ransom and Rapier won a contract worth £9 million for a walking dragline in Jordan supported by a soft loan offer. However, the Jordanians appear to have received information calling into question to company's ability to carry out the contract and are seeking satisfactory information and assurances before proceeding.

Projects signed since last Report (see Annex V)

6. The Samanala Wewa hydro-electric project was signed in Sri Lanka (British export value £57.2 million; ATP grant £16.57 million).

/Lines of

Lines of Credit : Mixed Credits and Soft Loans

7. At present we have lines of mixed credits to Cameroon, Egypt and Mauritius and agreements on lines of soft loans to China (£300 million) and Indonesia (£140 million). Proposals under these arrangements are dealt with in the same way as other projects.

8. Two missions to China have appraised all five priority projects identified under the soft loan agreement. In the case of the Indonesian soft loan agreement, the eight projects identified between ourselves and the Indonesian authorities have been appraised. Confirmed offers have been made on four Indonesian projects - progress on others depends upon commercial negotiations.

Possible ATP cases for which advance details were received during December

9. During December details of four potential new ATP cases were passed by DTI to ODA for a provisional assessment. The British Export value of the business involved amounts to at least £24 million. ATP funds of not less than £6 million would be required. None of the proposals envisages expenditure in 1986/87.

/ATP Financial

ATP Financial Position at end of December

10. Following the completion of contract negotiations and the signing of the aid agreement in respect of the Malaysian Rural Water Supply Project, requiring ATP expenditure this financial year of £48.6 million, Mr Raison announced publicly the increase in the ATP budget for 1986/87 to £90 million (£3 million of which is for soft loans).

11. The prospects for ATP expenditure in respect of mixed credits against a budget of £87 million are as follows:

(1) Actual expenditure to date	67.6
(2) Further expenditure on projects already in progress	16.7
(3) Projects already accepted in principle	3.6
(4) Offers outstanding	<u>0.9</u>
	<u>88.8</u>

12. However, expenditure under items (3) and (4) looks increasingly unlikely as we move into the last quarter of the financial year. Contract negotiations for projects accepted in principle by recipients are continuing; it remains uncertain whether these contracts will be signed and become effective so that initial ATP payments could be made before the end of March. Although the companies concerned remain confident that funds will be needed this financial year for certain projects on which offers are still outstanding, experience indicates that this is now unlikely. It is therefore possible that actual expenditure in 1986/87 will fall somewhat short of the £87 million available.

13. In respect of soft loans, the delay in finalising commercial negotiations for projects in China and Indonesia means that we are unlikely to spend more than about £0.5 million out of a budget of £3 million.

14. We have during the course of the year accommodated certain additional ATP expenditure this financial year. We are now looking at ways of bringing forward certain ATP expenditure from next year into 1986/87 to ensure that total ATP expenditure this year is as close as possible to £90 million.

Aid Policy Department
January 1987

ATP PROPOSALS UNDER CONSIDERATION ON 1 DECEMBER 1986

Country	Project	Company	UK Export value (£m)	ATP Support (£m)	HMG Subsidy element (%)	Date of Application	Date of Approval/Comments
Cameroon	Fourtowns Water Supply	Biwaters	7.000	2.650	29	14 November	Increase in ATP recommended for approval
China	Luoyang Tractor Factory	Lucas CAV	12.000	Soft Loan	32	12 May	See Note 1A
China	Shanghai Telecomms Equip	STC	25.300	Soft Loan	32.1	9 Sept	See Note 1B
China	Steel Plant	Davy McKee	39.600	Soft Loan	-	-	See Note 1C
China	Yveyang Power Plant	GEC and BB	39.600	Soft Loan	-	-	See Note 1D
China	Cosco Ships	British Shipbuilders	75.000	Soft Loan	-	-	See Note 1E
China	Shanghai No 3 Flour Mill	Henry Simon	10.000	2.600	13 November		Approved 1 December
India	Combined Cycle Power	HSPE/Babcocks	167.000	Soft Loan	33	31 July	See Note 2
India	Patrol Vessels	Hall Russell	30.000	8.534	33.59	25 November	See Note 3
Indonesia	Scattered Diesels	GEC (Rustins) HSPE	7.000	Soft Loan	47.4	31 July	See Note 4A
Indonesia	Radio & TV	Pye TVT	16.620	Soft Loan	55	19 June	See Note 4B
Indonesia	Steel Bridging	Mabey & Johnson	10.9881	Soft Loan	49.1	11 December	See Note 4C
Indonesia	Cigading Port Facilities	Davy BR	14.000	Soft Loan	-	-	See Note 4D
Indonesia	"Gloria" Underwater Survey	Marconi Underwater Systems	4.300	1.500		14 November	See Note 5

Agreed in principle under soft loan Agreement

Agreed in principle under soft loan Agreement

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/Comments</u>
Kenya	Distribution Trans- formers	Babcock Transformers	1.700	9.400	29.14	14 November	} To be discussed with Kenya authorities in January
Kenya	Rural Telecommunications	Communication Supplies	18.190	6.440	41.79	17 November	
Malta	LUQA Airport	TNI and BAA	1.988	0.489	25.1	17 November	Approved 10 December
Malaysia	Switchgear	GEC Switchgear	3.250	0.800	28.87	29 October	Submitted for approval
Malaysia	ULU A1 Hydroelectric	Balfour Beatty	55.000	13.800	29.9	10 November	See Note 6
Pakistan	Switchgear	NEI Reurolle	17.000	4.267	29.8	1 September	See Note 7
Pakistan	Tractors for Baluchistan	Caterpillar Tractor Co	6.200	1.600	29.89	18 November	Under consideration
Rwanda	Dairy Project	APV Hall International	2.623	0.752	33	25 June (Revised 28 November)	See Note 8
Tunisia	Engine Testing Equip.	Froude Consine	2.500	0.732	33	24 November	Approved 10 December
Turkey	Human Vaccine Facility	Stearns Catalytic/ Wellcome Foundation	17.700	4.440	30.2	8 September	See Note 9
TOTALS			714.852	49.004 (mixed credits)			

Footnote:

There are four projects on which no decision is required at present.

China Shidongkou Power Station - No aid agreement in place

Jordan Shidiya Phosphate Project - French feasibility study being carried out.

Malaysia Peninsular Gas Project - No aid agreement in place

Ankara Natural Gas Project - UK feasibility and design study partly funded under ATP now under consideration.

NOTES ON ATP PROPOSALS UNDER CONSIDERATION ON 1 DECEMBER

1. CHINA SOFT LOAN PROJECTSA Luoyang Tractor Factory

Lucas CAV are seeking contracts for the transfer of diesel fuel injection technology including the licensing of Lucas CAV products. The company are visiting China this month when it is hoped that contract negotiations will be finalised, including prices, which would allow a submission to be put to Ministers in late January.

B Shanghai Telecommunications Equipment

STC are seeking to supply equipment for the manufacture of digital transmission equipment. The Chinese have recently requested further equipment which may conflict with COCOM rules.

C Daye Steel Works

Daye have invited quotations from several suppliers for a seamless steel tube mill for the above, including Davy McKee/Tube Investments (DMT). However, there is a substantial gap between the budget price set by the Chinese and the price quoted by DMT. DMT are due to have further discussions in China.

D Yueuang Power Plant

GEC and NEI/Balfour Beatty submitted bids for power station equipment on 28 November. The Chinese are satisfied on technical aspects but both bids are over the allocated budget for the project and commercial negotiations are continuing.

E COSCO Ships

British Shipbuilders are visiting China later this month. The outcome will probably be an order for three ships costing £75 million - £9 million more than was envisaged when the Minister agreed to increase the soft loan facility to accommodate an extra ship.

2. India: Combined Cycle Power Station

(Time elapsed since application: five months)

HSPE/Babcocks are seeking to secure a contract for the design, manufacture and construction of three gas based combined cycle power stations. The Indians have invited international tenders with a view to using World Bank finance. However, there should be scope for ATP co-financing with the World Bank if British firms were competitive.

3. India: Patrol Vessels

(Time elapsed since application: five weeks)

The company originally applied for ATP support for two completed vessels at a cost of £34 million, with a British content of £20.6 million. An ATP grant of £8.534 million was sought. Recently Hall Russell presented a revised application for export credit cover for three vessels costing £46.2 million and four kits costing £42.4 million. An ATP grant of at least £22.24 million would be needed to support the new proposal. The post advise that these are patrol boats which would carry light armaments and would bne operated by the Indian Navy. Hall Russell's negotiations with the Indians do not assume that ATP will be available. Ministers have agreed that support would be inappropriate unless the Indians requested aid and were able to provide assurances that the vessels were not for para-military purposes. The DTI also advise that Shipbuilding Intervention Fund assistance would not be appropriate. The Prime Minister has written to Hall Russell in these terms and the post has been informed of the situation.

5. Indonesia: "Gloria" Underwater Survey

(Time elapsed since application: six weeks)

ATP support of £1.5 million is sought by Marconi Underwater Systems Ltd to cover training and technology transfer in the processing of data to be produced by the "Gloria" survey of the Banda Sea region of the Indonesian Exclusive Economic Zone (EEZ). Following a report by the British Geological Survey a meeting is to be held with Marconi in January to resolve any technical queries. The project appears sound, but there are doubts as to whether the Indonesians will have the funds and the capability to implement it.

6. Malaysia: Ulu Ai Hydro-electric

(Time elapsed since application: six weeks)

Balfour Beatty are leading a consortium involving GEC Large Macines and Boving, which is seeking to secure a contract for the design, construction, supply and installation of a 54 MW power station. total UK content would be £55 million, with ATP of £13.8 million. Officials from DTI and ODA will be joining an IBRD appraisal team to review the Malaysian energy sector towards the end of January: it is possible that the project may be co-financed with the Bank.

7. Pakistan: Switchgear

(Time elapsed since application: four months)

The project involves the design, manufacture, complete installation and commissioning of two sub-stations, but it is possible that the Government of Pakistan may not have sufficient funds for the project. The post have also advised that one sub-station is being financed by the Germans. Further advice and revised figures are awaited from the DTI.

8. Rwanda: Dairy Project

(Time elapsed since application: six months)

Following a visit to Rwanda the company advised that the project had to be redesigned with revised costings. The project has been submitted to the Minister for approval.

9. Turkey: Human Vaccines Facility

(Time elapsed since application: four months)

The applicants are Stearns Catalytic International Limited in consortium with the Wellcome Foundation who are seeking a contract for the construction of a plant for the production of human vaccines and sera, both for domestic consumption and for export. DTI are awaiting the outcome of a meeting in Ankara which will determine whether the business to be supported under ATP will consist entirely of goods and services originating in the UK and that local finance will be available to complete the project. The American parent company of Stearns has been taken over for the second time recently, and this has slowed down progress with the project.

ATP PROPOSALS RECEIVED DURING DECEMBER

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export Value £M</u>	<u>ATP Support £M</u>	<u>HMG Subsidy Element (%)</u>	<u>Date of Application</u>	<u>Date of Approval Comments</u>
Kenya	Construction of Eldoret Water	Kier International	5.300	1.330	29.19	2 December	£10,000 Consultancy approved to to review options for Kenyan authorities
Jordan	Aqaba II Power Station	Nei/Parsons Nei/Reyrolle FW/PP	35.000	8.785	33.5	31 December	Possible co-financing financing with World Bank
Mexico	Railway Coaches	BREL	43.800	10.990	34.03	12 December	Noted as potential problem in December bi monthly problem case report.
Turkey	Ankara Natural Gas	AMEC	55.000	13.800	30.70	12 December	Design and economic study just received
Colombia	System X	Plessey	12.750	Soft Loan	36.00	16 December	Project already approved. Increase being considered.

ANNEX II
contd

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export Value £M</u>	<u>ATP Support £M</u>	<u>Subsidy Element (%)</u>	<u>Date of Application</u>	<u>Date of Approval Comments</u>
China	Boiler Pumps	Wier Pumps Ltd	12.000	3.012	33.50	22 December	Under con- sideration
Ethiopia	Construction of Waterworks	Biwater Int.	7.000	1.795	35.14	22 December	Under con- sideration
		Total	<hr/>	<hr/>			
			170.850	39.712			

ATP PROJECTS ON WHICH OFFERS WERE STILL OUTSTANDING ON 31 DECEMBER

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Algeria	Bellara Steelworks	Atkins	13.800	3.700	30	September 1985
Belize	Trucks	British Leyland	0.463	0.116	37	#
Burma	Gas Turbines	JBE	12.200	3.540	32	March 1986
Burma	Marine Engines	Sykes Marine	5.000	1.600	44.11	August 1986
Burma	Railway Rehabilitation	HSPE	28.000	Soft Loan	33	June 1986
Cameroon	Agricultural Mechanisation	NYK	2.000	0.520	29	July 1983
Cameroon	3 Railbus	BREL/Leyland	8.570	2.152	30.7	January 1986
Cameroon	Domestic Water Supply	unknown	6.400	1.600	31	April 1985
China	System X Shenda	GEC	4.475	1.230	25.1	October 1986
China	Shengli Gas Turbine	JBE	14.600	4.800	25.1	November 1986
China	Shanghai Flour Mill	Henry Simon	10.000	2.585	30.15	December 1986
Colombia	System X	Plessey	10.400	Soft Loan	39	April 1986
Cyprus	Larnaca	UK Airport Group	19.000	4.760	33	January 1986
Cyprus	Southern Conveyor	SPP/Weir	4.000	1.000	33	July 1986
Cyprus	Dhekelia Power Station	Foster Wheeler/GEC/NEI	8.800	2.200	29.7	October 1986
India	Ammonia Plant	Humphreys & Glasgow	5.000	3.765	31	May 1986
India	UAE Submarine Cable	STC	24.450	6.140	37	April 1986
India	Coach Factory	BREL	35.000	Soft Loan	37	June 1986

(New SCAT case received - see Annex II)

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
India	VSP Data Acquisition	Principia Mechanical	0.700	0.176	35	August 1986
India	Bombay & Delhi Airports	UK Airports Group	42.000	13.020	31	December 1986
India	Optical Fibres	STC	40.550	Soft Loan	47.30	May 1986
India	Gas Turbines/STM Bassein	Rustons	4.500	1.170	43.5	October 1986
India	Unchahar Power Station	NEI Parsons	55.000	Soft Loan	33.5	November 1986
Indonesia	Pindad Forging Plant	Klockner Ina	6.233	1.691	30	August 1986
Indonesia	Surabaya Shipyard	Cunlogan	61.200	15.400	38.2	November 1986
Jordan	Aqaba Rail Workshop	Howard	2.060	0.510	33	April 1986
Malaysia	Digital Multiplex	STC	64.720	16.240	28	June 1986
Malaysia	Submarine Cable	Balfour Beatty	15.830	3.970	29	October 1985
Malaysia	Railbus	BREL	4.400	1.100	30	February 1985
Malaysia	Transmission Switchgear	GEC	1.9300	0.480	37	July 1986
Malta	LUQA Airport	TWI and BAA	1.988	0.489	25	December 1986
Malaysia	Airport Equipment	Racal	1.500	0.363	26	July 1986
Mozambique	Trucks	Leyland	2.600	0.660	32	August 1986
Pakistan	VHF Communications	IAL	6.040	1.620	32	June 1986
Syria	Sweideh Power Station	JBE	33.400	8.400	30	March 1986
Thailand	Telecommunications	Balfour Kilpatrick/BT	74.500	18.700	34	∅

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Thailand	Mae Moh Chimneys	Tileman	2.000	0.502	34	March 1986
Tunisia	Polypropylene Plant	Extrusions	0.188	0.047	30	April 1986
Tunisia	Phosphate Plant	Tagmal	12.000	3.048	34	December 1985
Tunisia	Off Highway Trucks	Terex	2.600	0.664	35	March 1986
Tunisia	Engine Testing Equip.	Froude Consine	2.500	0.732	33	December 1986
Turkey	Circuit Breakers	GEC Switchgear	6.450	1.620	27.82	October 1986
Turkey	Gas Insulated Substations	GEC Switchgear	5.700	1.430	27.82	*
Totals			662.747	131.740	(mixed credits)	

* DTI have delayed formal offer for tactical reasons.

Offer made in January now that financial arrangements agreed for this financial year.

∅ Formal offer to be made with presentation of consortium's proposals in January.

ATP OFFERS ACCEPTED IN PRINCIPLE BY RECIPIENT COUNTRY AS AT 31 DECEMBER 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value (£m)</u>	<u>HMG ATP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date Offered</u>	<u>Date Accepted</u>
Cameroon	NW Electrification	Balfour Beatty	5.428	1.362	33	June 1984	November 1985
Economic Commission for West African States	Telecommunications	Balfour Beatty/GEC	14.250	4.000	35	October 1985	November 1985
Egypt	Pyramid Road Hospital	Higgs and Hill	4.250	1.200	32	August 1981	November 1983
Egypt	Brake Block Foundry	Davy McKee	2.749	0.884	40	February 1985	June 1985
India	HBJ Pipeline	Ingersoll	10.000	2.510	40	May 1986	November 1986
Indonesia	Rural Electrification	NEI Projects	40.000	Soft Loan	44	November 1986	Approved in principle under soft loan agreement signed in 1986 and now approved.
Indonesia	Cigading/Serpong Railway Rehabilitation	Davy/British Rail Int	33.000	Soft Loan	44.3	November 1986	
Indonesia	Citajam and Cibinong/ Nambo Railway	Foster Wheeler World	23.000	Soft Loan	44	November 1986	
Indonesia	Navigational Aids	Pharos Marine	11.200	Soft Loan	44	December 1986	
Jordan	Walking Dragline	Ransomes & Rapier	9.000	Soft Loan	33.5	April 1986	December 1986
Malawi	Power Transmission	Balfour Beatty/HSPE	8.080	2.590	33	October 1985	August 1986
Malawi	UXDS	GEC	5.405	1.730	33	March 1986	December 1986
Thailand	Railbus	BREL	7.966	2.000	36	June 1985	April 1986
Total			174.328	16.276 (mixed credits)			

ATP OFFERS SIGNED SINCE LAST REPORT

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export Value (£m)</u>	<u>ATP Support (%)</u>	<u>HMG Subsidy (%)</u>	<u>Aid Agreement signed</u>
Sri Lanka	Samanala Wewa Hydroelectric Project	Balfour Beatty	57.2	16.57	36	3 December 1986

RESTRICTED

cc PG



Foreign and Commonwealth Office

London SW1A 2AH

PSB

29 December 1986

Dear Timothy

Aid and Trade Provision: Bi-Monthly Report
of Potential Problem Cases

I attach the report for November/December 1986.

In the two Indonesian cases noted in the October report, the Foreign Secretary considered the issues with his colleagues and agreed that offers of ATP should be made.

The Foreign Secretary has noted the potential difficulty over the railway coaches project for Mexico and agrees that this cannot be resolved before his visit there in early January. He has asked that officials agree inter-departmentally a note setting out the arguments relating to the use of ATP with DX cover, which Ministers should consider soon.

I am copying this letter to Tim Flesher (NO 10) and Jill Rutter (HM Treasury).

Yours ever

(R N Culshaw)
Private Secretary

T Walker Esq
DTI

RESTRICTED

AID AND TRADE PROVISION

BI-MONTHLY REPORT OF POTENTIAL PROBLEM CASES
DECEMBER 1986

CURRENT PROBLEM CASES

Indian Patrol Vessels (Hall Russell, Aberdeen)

The company originally applied for ATP support for two completed vessels at a cost of £34 million, with a British content of £30.6 million. An ATP grant of £8.534 million was sought. Recently Hall Russell has presented a revised application for export credit cover for 3 vessels costing £46.2 million and 4 kits costing £42.4 million. An ATP grant of at least £22.24 million would be needed to support the new proposal.

2. There are several difficult features about this case, including the fact that the High Commission advise these are patrol boats which would carry light armaments and would be operated by the Indian Navy. This appears to make ATP inappropriate. Hall Russell's negotiations with the Indians do not assume that ATP will be available. DTI Ministers now accept that without a request for aid from the Indians (which the Post advise is unlikely to be made in view of the nature of the vessels) and establishing that the vessels were not for para-military purposes the ATP case could not be pursued.

Mexico: Railway Coaches

3. In August 1985 an ATP grant was approved to support the bid by British Rail Engineering Limited (BREL) to secure a negotiated contract worth £11 million for the supply of 30 railway coaches to the Mexican railways (FCM).

4. Since then FCM has revised its requirements to 200 coaches costing £85.6 million with £43.8 million of UK content. BREL has sought ATP support. The project will involve close collaboration between BREL and FCM, and a significant transfer of technology to establish a local coach manufacturing capability.

5. Although this is not a competitive tender it is known that the Japanese, Spanish and French are potential competitors for the supply of these coaches. BREL have made considerable efforts to secure the business and this has resulted in strong interest from Mexico Railways in the advanced design of the international coach. The project was noted in the final record of the recent UK/Mexico Joint Commission. The project would bring substantial commercial and industrial benefits to the UK and is strongly supported by the DTI and Post. It is likely to be raised during the Foreign and Commonwealth Secretary's visit to Mexico in early January.

6. Since the original ATP project was approved ECGD cover for Mexico has been suspended as a result of the Paris Club multilateral rescheduling negotiations. A recommendation is expected to be made to the Export Guarantee Committee in the near future that DX cover should be introduced in Mexico as soon as a bilateral debt rescheduling agreement has been concluded. A decision is expected during the first quarter of 1987.

7. DX cover is intended to provide a measure of cautious support for a market uncreditworthy by normal underwriting standards but judged to be in the early stages of recovery. The criteria for DX cover agreed by the ECG includes (item E), "New cover for large value project business could be considered only exceptionally ad hoc, for projects endorsed by the IMF/IBRD as important to economic rehabilitation. Such endorsement must take the form of either IMF/IBRD direct lending, or a structural or sectoral loan which embraces the project, or alternatively a specific endorsement by the IMF/IBRD of the project itself." The same economic considerations would apply to the question of ATP support.

8. The IBRD has a Railway Sector loan to Mexico. While it recognises a need for some additional coaches the scale of the new proposal is in their view excessive. The Bank have said that they would not "endorse the proposal as important to Mexico's economic rehabilitation". A Bank team is visiting Mexico in January to discuss FCM's investment plans during which they will consider the project further.

9. The Treasury's agreement to the project being eligible for DX cover is conditional upon the World Bank's endorsement of the project. However Treasury officials take the view that even if DX cover for the project were approved, the availability of ATP should be a separate matter. In principle, the use of ATP in DX cases would create conflicts between the separate objectives of the two facilities.

10. Officials recommend that a decision in principle whether or not the project should be eligible for DX cover and ATP should be taken only after the Bank has further considered the project during their visit to Mexico in January. A final decision to support the project could only be taken DX cover is introduced.

THE FOLLOWING CASES APPEARED IN THE LAST REPORT, AND HAVE BEEN RESOLVED

Indonesia: Surabaya Shipyard Project

11. This project was noted as a potential problem case in the August and October bi-monthly reports. Cunlogan, in association with Appledore, had applied for ATP support for a contract they were seeking to equip the Surabaya Shipyard in Indonesia (UK export value of about £70-80 million). The proposal raised important industrial and economic issues which Ministers had not yet been asked to consider, and ODA's initial assessment suggested that the proposed investment was not sound.

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12. In circulating the August report Mr Raison, in the Foreign Secretary's absence, suggested that officials should agree a note inter-departmentally which the Foreign Secretary might consider with colleagues on his return. The Prime Minister agreed this should be done.

13. In August an officials' note was agreed but it was decided not to submit it to Ministers until the DTI confirmed that it wished to support the Cunlogan bid with ATP. The DTI presented the case for doing so on 17 October.

14. Ministers met under the Chairmanship of the Foreign Secretary on 20 November to consider the case following circulation of their officials' agreed note. Ministers felt that the doubts about the project's viability were in this case insufficient to reject the proposal, and that as the Indonesians were likely to proceed with the project anyway our commercial and industrial interests were best served by trying to secure the contract for Cunlogan. A formal offer of ATP (a grant of £15.4 million) was made to the Indonesian Government on 24 November.

15. The Indonesians are still negotiating with Cunlogan and its competitors.

Indonesia: Rural Electrification Project

16. This project is one of eight projects jointly identified by Indonesia and the UK as being eligible for support from the £140 million soft loan agreement. In 1985 NEI Projects Ltd were asked by the Ministry of Cooperation to assist with its rural electrification programme. The company identified a £50 million package of works in Sumatra with a UK content of £40 million. The project involves the construction of a 4 x 2MW coal-fired power station in Lampung Province and two 1MW diesel stations in Aceh Province, which is more remote.

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17. ODA's appraisal concluded that there were doubts about the cost-effectiveness of one component of the project.

18. It was proposed that a study be offered to the Indonesians to identify quickly the cheapest way of providing power to the target area. After considering the issues the Foreign Secretary and the Minister for Overseas Development decided that as the project was one of those already identified under the soft loan agreement it would be inappropriate at this late stage to question the proposal with the Indonesian Government.

19. The rural electrification project was therefore approved as presented and an offer of a soft loan of up to £40 million was made to the Indonesian Government in November.



Foreign and Commonwealth Office
London SW1A 2AH

5 December 1986

CAT
005/12

Dear Timothy

/ I attach a copy of the November Monthly Progress Report on ATP.

I am sending a copy of this letter and the report to Charles Powell (Number 10) and Jill Rutter (Chief Secretary's Office).

Yours ever

Robert (Bob) Culshaw

(R N Culshaw)
Private Secretary

Dr T Walker
PS/DTI
1 Victoria Street
LONDON SW1

AID AND TRADE PROVISION

MONTHLY PROGRESS REPORT: NOVEMBER 1986

Proposals under consideration at the beginning of November (See Annex I)

13 projects were under consideration at the beginning of November. Four projects were approved during the month, and a further eight projects are being actively pursued with a view to reaching a decision in the near future.

Proposals received during November (See Annex II)

2. During November we received 11 formal ATP proposals from the DTI. One has been approved, two submitted for approval and the rest are under consideration.

Offers Outstanding on 30 November (See Annex III)

3. On 30 November there were a total of 44 offers still outstanding on which recipient governments had not taken a decision on the award of contract. The total potential export value of these projects amounted to £694 million: 38 projects with an export value of £464 million are being supported with mixed credit offers with ATP support of £132 million. A further six projects with an export value of £230 million are being supported with soft loan offers to cover the full export value.

4. During November we made three mixed credit offers of ATP and one enhanced offer (Cyprus, Dhekelia Power Station):

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export Value</u> £m
India	Unchahar Power Station	NEI Parsons	5.5
Indonesia	Surabaya Shipyard	Cunlogan	6.1
China	Shengli	JBE	14.6
Cyprus	Dhekelia Power Station	Foster Wheeler/ GEC/NEI	8.8 increased from £7.25m
		TOTAL	139.4

Projects accepted in principle on 30 November (See Annex IV)

5. On 30 November there were ten mixed credit projects accepted in principle by recipient governments but which had not by then resulted in contracts and aid agreements being signed. The total potential export value of these projects is £122 million (with an ATP support of £36 million).

Projects signed since last Report

6. No projects have been signed since the last Report.

Lines of Credit: Mixed Credits and Soft Loans

7. At present we have lines of mixed credits to Cameroon, Egypt and Mauritius and agreements on lines of soft loans to China (£300m) and Indonesia (£140m). Proposals under these arrangements are dealt with in the same way as other projects.

8. Two missions to China have appraised all five priority projects identified under the soft loan agreement. In the case of the Indonesian

soft loan agreement eight projects have been identified between ourselves and the Indonesian authorities. Six formal proposals have been received from the DTI of which three have been approved. Revised proposals are awaited from the DTI on the Steel Bridging Project and a consultancy is to be engaged to define the details of the port facilities project.

Possible ATP cases for which advance details were received during November

9. During November details of three potential new ATP cases were passed by DTI to ODA for a provisional assessment. The British Export value of the business involved amounts to £174 million. ATP funds of not less than £43.5 million would be required. None of the proposals envisages expenditure in 1986/87.

ATP Financial Position at end of November

10. Following the completion of contract negotiations and the signing of the aid agreement in respect of the Malaysian Rural Water Supply Project, requiring ATP expenditure this financial year of £48.6 million, Mr Raison announced publicly the increase in the ATP budget for 1986/87 to £90 million (£3 million of which is for soft loans).

11. We now expect expenditure in respect of mixed credits to be £90 million against a budget of £87 million although outturn expenditure under items (3) and (4) below remain uncertain:

	£m
(1) Actual expenditure to date	64.0
(2) Further expenditure on projects already in progress	10.7
(3) Projects already accepted in principle	13.7
(4) Offers outstanding	<u>1.6</u>
	<u>90.0</u>

12. It is now looking increasingly unlikely that we shall overspend the ATP budget for mixed credits. At this stage the £3m earmarked for soft loans is expected to be fully utilised.

13. For 1987/88 from our existing commitments, including offers outstanding, we expect to spend £57.3 million of ATP on mixed credit cases, against the allocations for such cases of £66 million. A further potential commitment of £7.2 million in respect of soft loans exists against the £10 million earmarked for that purpose. Commitments of this order are normal for this time of the year if we are to fully spend the budget next financial year.

Aid Policy Department
December 1986

ATP PROPOSALS UNDER CONSIDERATION ON 1 NOVEMBER 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/Comments</u>
China	Factory 519 Shanghai	STC	25.300	Soft Loan	32.1	9 Sept	See Note 1.
China	Luoyang Tractor Factory	Lucas CAV	12.000	Soft Loan	c32	12 May	See Note 2.
India	Combined Cycle Power Stations	HSPE/Babcocks	167.000	Soft Loan	33	31 July	See Note 3.
India	Unchahar Power Station	NEI Parsons	55.000	Soft Loan	33.5	4 Sept	Approved 3 November.
Indonesia	Surabaya	Cunlogan	60.000	18.000	38.2	17 Oct	Approved 20 November.
Indonesia	Rural Electrification	NEI Projects	40.000	Soft Loan	55	17 March	Approved 12 November.
Indonesia	Cigading/Serpong Railway Rehabilitation	Davy/British Rail Int	33.000	Soft Loan	44.3	29 Oct	Approved 19 November.
Indonesia	Citajam and Cibinong/ Nambo Railway	Foster Wheeler World Services	23.000	Soft Loan	44	29 Oct	Approved 19 November.
Indonesia	Scattered Diesels	GEC (Rustins)	7.000	Soft Loan	55	31 July)	Approved earlier as mixed credits
Indonesia	Radio & TV	Pye TVT	16.620	Soft Loan	55	19 June)	
Malaysia	Switchgear	GEC Switchgear	3.250	0.800	28.87	29 Oct	See Note 4.
Pakistan	Switchgear	NEI Reyrolle	17.000	4.267	29.8	1 Sept	See Note 5.
Rwanda	Dairy	APV Hall International	6.800	1.7	33	25 June	See Note 6.
Turkey	Human Vaccine Facility	Stearns Catalytic/ Wellcome Foundation	17.700	4.44	25.1	8 Sept	See Note 7.
TOTALS			483.670	29.207 (mixed credits)			

Footnote: There are three projects on which no decision is required at present.

China Shidongkou Power Station - No aid agreement in place

Jordan Shidiya Phosphate Project - French feasibility study being carried out

Malaysia Peninsular Gas Project - No aid agreement in place

Ankara Natural Gas Project - UK feasibility and design study partly funded under ATP to go ahead

NOTES ON ATP PROPOSALS UNDER CONSIDERATION ON 1 NOVEMBER

1. China: Factory 519, Shanghai (Time elapsed since application: Four months)

STC are bidding to supply equipment for the manufacture of digital transmission equipment. The project was appraised during the recent mission to China but there is at present disagreement as to whether a further equipment element should be supplied by STC which may conflict with COCOM rules. This is under consideration by DTI

2. China: Luoyang Tractor Factory (Time elapsed since application six months)

Lucas CAV are seeking contracts for the transfer of diesel fuel injection technology including the licensing of Lucas CAV products. Discussions are continuing on the exact timing of hardware contract.

3. India: Combined Cycle Power Station (Time elapsed since application: four months)

HSPE/Babcocks are seeking to secure a contract for the design, manufacture and construction of three gas based combined cycle power stations. However the post have advised, and the World Bank has confirmed, that the Indians intend to invite international tenders under World Bank finance, although there may be scope for ATP cofinancing with the World Bank if British firms were competitive.

4. Malaysia: Switchgear (Time elapsed since application: one month)

The project involves the supply of transmission switchgear for eight new or existing substations. ODA's appraisal is almost complete and

ANNEX I CONTD

no major problems have been identified. Approval should be possible early in December.

5. Pakistan: Switchgear (Time elapsed since application: three months)

The project involves the design, manufacture, complete installation and commissioning of two sub-stations, but it is possible that the Government of Pakistan may not have sufficient funds for the project. The Post have also advised that one substation is being financing by the Germans. Further advice and revised figures are awaited from the DTI.

6. Rwanda: Dairy Project (Time elapsed since application: five months)

ODA's Animal Health Adviser supports the project in principle. The company agreed to provide additional information following a visit to Rwanda. On their return they informed DTI that the project had been radically redesigned and revised costings were provided. However, additional information is necessary and this has been sought from Rwanda by the firm. If this is not available by the end of the month judgement will be made on the information available.

7. Turkey: Human Vaccines Facility (Time elapsed since application: three months)

The applicants are Stearns Catalytic International Limited in consortium with the Wellcome Foundation who are seeking a contract for the construction of a plant for the production of human vaccines and sera, both for domestic consumption and for export. DTI are seeking confirmation that the business to be supported under ATP will consist entirely of goods and services originating in the UK and that local finance will be available to complete the project. However the American parent company of Stearns has just been taken over for the second time recently and this has slowed down progress with the company.

NEW ATP PROPOSALS RECEIVED DURING NOVEMBER

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/Comments</u>
China	Shengli Gas Turbine Project	JBE	14.600	4.800	25.1	7 Nov	Offer made 18 Nov.
Malaysia	ULU AI Hydroelectric	Balfour Beatty	55.000	13.800	29.9	10 Nov	Awaiting IBRD report.
Indonesia	Navigation Aids	Pharos Marine	10.800	Soft Loan	46.5	12 Nov	Submitted for approval.
China	Shanghai No 3 Flour Mill	Henry Simon	10.000	2.600	30.15	13 Nov	Submitted for approval.
Indonesia	"Gloria" Underwater Survey	Marconi Underwater Systems	4.300	1.500	35.5	14 Nov	Submitted for approval.
Kenya	Distribution Transformers	Babcock Transformers	1.700	0.400	29.14	14 Nov	Submitted for approval.
Cameroon	Fourtowns Water Supply	Biwaters	7.000	2.650	25.1	14 Nov	Project already approved increase in size being considered.
Kenya	Rural Telecommunications	Communication Supplies	18.190	3.900	41.79	17 Nov	Under consideration.
Pakistan	Tractors for Baluchistan	Caterpillar Tractor Co	6.200	1.600	29.89	18 Nov	Under consideration.
Tunisia	Engine Testing Equipment for Sakmo	Froude Consine	2.500	0.732	33	24 Nov	Under consideration.
India	Ships for ONGC	Hall Russell	30.600	8.500	33.59	25 Nov	Under consideration.
			<hr/>	<hr/>			
			147.090	40.482			

PROJECTS ON WHICH OFFERS WERE STILL OUTSTANDING ON 30 NOVEMBER

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Algeria	Bellara Steelworks	Atkins	13.800	3.7	c 30	September 1985
Belize	Trucks	British Leyland	0.463	0.116	37	#
Burma	Gas Turbines	JBE	12.200	3.540	32	March 1986
Burma	Marine Engines	Sykes Marine	5.000	1.600	44.11	August 1986
Burma	Railway Rehabilitation	HSPE	28.000	Soft Loan	33	June 1986
Cameroon	Agricultural Mechanisation	NYK	2.000	0.520	29	July 1983
Cameroon	3 Railbus	BREL/Leyland	8.570	2.152	30.7	January 1986
Cameroon	Domestic Water Supply	unknown	6.400	1.600	31	April 1985
China	System X Shenda	GEC	4.475	1.230	25.1	October 1986
China	Shengli Gas Turbine	JBE	14.600	4.800	25.1	November 1986
Colombia	System X	Plessey	10.400	Soft Loan	39	April 1986
Cyprus	Larnaca	UK Airport Group	19.000	4.760	33	January 1986
Cyprus	Southern Conveyor	SPP/Weir	4.000	1.000	33	July 1986
Cyprus	Dhekelia Power Station	Foster Wheeler/GEC/NEI	8.800	2.200	29.7	October 1986
India	Ammonia Plant	Humphreys & Glasgow	5.000	3.765	31	May 1986
India	UAE Submarine Cable	STC	24.450	6.140	37	April 1986
India	Coach Factory	BREL	35.000	Soft Loan	37	June 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
India	VSP Data Acquisition	Principia Mechanica	0.700	0.176	c 35	August 1986
India	Bombay & Delhi Airports	UK Airports Group	42.000	13.020	31	*
India	Optical Fibres	STC	40.550	Soft Loan	47.30	May 1986
India	Gas Turbines/STM Bassein	Rustons	4.500	1.170	43.5	October 1986
India	Unchahar Power Station	NEI Parsons	55.000	Soft Loan	33.5	November 1986
Indonesia	Pindad Forging Plant	Klockner Ina	6.233	1.691	30	August 1986
Indonesia	Ombelin coal Washery Plant	Birtley Eng	2.500	0.762	35.92	August 1986
Indonesia	Surabaya Shipyard	Cunlogan	61.200	15.400	38.2	November 1986
Jordan	Aqaba Rail Workshop	Howard	2.060	0.510	33	April 1986
Jordan	Draglines	Ransom & Rapier	13.000	Soft Loan	41.8	September 1986
Kenya	System X	Plessey	14.900	3.740	37	September 1986
Malawi	UXD5/System X	GEC	5.400	1.980	40	March 1986
Malaysia	Digital Multiplex	STC	64.720	16.240	28	June 1986
Malaysia	Submarine Cable	Balfour Beatty	15.830	3.970	29	October 1985
Malaysia	Railbus	BREL	4.400	1.100	30	February 1985
Malaysia	Transmission Switchgear	GEC	1.9300	0.480	37	July 1986
Malaysia	Airport Equipment	Racal	1.500	0.363	26	July 1986
Mozambique	Trucks	Leyland	2.600	0.660	32	August 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Pakistan	VHF Communications	IAL	6.040	1.620	32	June 1986
Syria	Sweideh Power Station	JBE	33.400	8.400	30	March 1986
Thailand	Telecommunications	Balfour Kilpatrick/BT	74.500	18.700	c 34	∅
Thailand	Mae Moh Chimneys	Tileman	2.000	0.502	34	March 1986
Tunisia	Polypropylene Plant	Extrusions	0.188	0.047	30	April 1986
Tunisia	Phosphate Plant	Tagmal	12.000	3.048	34	December 1985
Tunisia	Off Highway Trucks	Terex	2.600	0.664	35	March 1986
Turkey	Circuit Breakers	GEC Switchgear	6.450	1.620	27.82	October 1986
Turkey	Gas Insulated Substations	GEC Switchgear	5.700	1.430	27.82	*
Totals			694.059	132.316	(mixed credits)	

* DTI have delayed formal offer for tactical reasons.

Offer to be made when financial arrangements agreed for this financial year.

∅ Formal offer to be made with presentation of consortium's proposals around December/January.

ATP OFFERS ACCEPTED IN PRINCIPLE BY RECIPIENT COUNTRY AS AT 30 NOVEMBER 1986

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value (£m)</u>	<u>HMG ATP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date Offered</u>	<u>Date Accepted</u>
Cameroon	NW Electrification	Balfour Beatty	5.428	1.362	33	June 1984	November 1985
Economic Commission for West African States	Telecommunications	Balfour Beatty/GEC	16.000	5.750	35	October 1985	November 1985
Egypt	Pyramid Road Hospital	Higgs and Hill	4.250	1.200	c 32	August 1981	November 1983
Egypt	El Omoum Drain	Sulzer	3.672	0.922	37	December 1983	March 1984
Egypt	Brake Block Foundry	Davy McKee	2.749	0.884	c 40	February 1985	June 1985
India	HBJ Pipeline	Ingersoll	10.000	2.510	40	May 1986	November 1986
Malaysia	Cross Braced Bogies	BREL	7.083	1.850	28	August 1985	December 1985
Malawi	Power Transmission	Balfour Beatty/HSPE	8.080	2.590	33	October 1985	August 1986
Sri Lanka	Samanala Wewa	Balfour Beatty	57.200	16.570	36	March 1986	April 1986
Thailand	Railbus	BREL	7.966	2.000	36	June 1985	April 1986
Total			122.428	35.638			



CCPC

Foreign and Commonwealth Office

London SW1A 2AH

11 November 1986

CDP
11/11

Dear Timothy,

Aid and Trade Provision

The Foreign Secretary has made arrangements to ensure that he and other FCO Ministers are kept regularly informed about progress on ATP proposals. This is being done monthly: I attach a copy of the report for October, and we shall send them to you regularly in future, for the benefit of all DTI Ministers.

The system of inter-departmental consultation on ATP projects appears to be working well following the streamlining of procedures agreed by EX in June 1985, and individual proposals are being properly dealt with. Officials are assessing projects with greater speed, and striving to meet commercial deadlines: those projects which remain under consideration for some time generally involve prolonged commercial negotiations.

The Foreign Secretary has noted the large number of ATP offers made to recipient governments which remain outstanding for a long time. Recipient governments have yet to decide on offers totalling £571 million of mixed credits and £161 million of soft loans (outside China and Indonesia), some of which were made last year (Annex III of the report). A further £112 million of mixed credit offers have been accepted in principle but have not yet resulted in a contract being signed (Annex IV). The Foreign Secretary wonders whether more could be done to

/follow



follow up offers made. Perhaps we should consider allowing offers to lapse after their six-month validity period has expired, or if the prospects look dim. He thinks that it is important that we do not hang on to lost causes if they are in danger of crowding out potential new business.

Yours ever

A handwritten signature in dark ink, appearing to read 'R N Culshaw', with a stylized flourish at the end.

(R N Culshaw)
Private Secretary

T Walker Esq
PS/Secretary of State for Trade and Industry

cc.

C D Powell Esq, No 10
Ms Rutter, HMT

AID AND TRADE PROVISION

MONTHLY PROGRESS REPORT: OCTOBER 1986

Proposals under consideration at the beginning of October

Annex I provides details of the 13 projects under consideration at the beginning of October. Two projects were approved during the month, and on a third (Cyprus Dhekelia Power Station), approved earlier by the Minister, a matching offer was made following notification of an Austrian aid offer. A further nine projects are being actively pursued with a view to reaching a decision in the near future, while one project has fallen away.

Proposals received during October

2. During October we received six formal ATP proposals from the DTI, which are under consideration (see Annex II). Four of these projects are for Indonesia; three under the soft loan facility and one mixed credit proposal, the Surabaya Shipyard project, on which a paper is to be submitted to Ministers shortly.

Offers Outstanding on 31 October (See Annex III)

3. On 31 October there were a total of 44 offers still outstanding on which recipient governments had not taken a decision on the award of contract. The total potential export value of these projects amounted to £570 million: 39 projects with an export value of £444 million are being supported with mixed credit offers with ATP support of £119 million. A further five projects with an export value of £126 million are being supported with soft loan offers to cover the full export value.

4. During October we made four mixed credit offers of ATP:

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export Value £m</u>
India	Gas Turbines South Bassein Power Station	Rustons	4.5
Turkey	Circuit Breakers	GEC	6.45
China	System X Shender	GEC	4.475
Cyprus	Dhekelia Power Station	Foster Wheeler/ GEC/NEI	<u>6.25</u>
		TOTAL	21.675

Projects accepted in principle on 31 October (See Annex IV)

5. On 31 October there were nine mixed credit projects accepted in principle by recipient governments but which had not by then resulted in contracts and aid agreements being signed. The total potential export value of these projects is £112 million (with an ATP support of £33 million).

Projects signed since last Report

6. No projects have been signed up since the last Report.

Lines of Credit: Mixed Credits and Soft Loans

7. At present we have lines of mixed credits to Cameroon, Egypt and Mauritius and agreements on lines of soft loans to China (£300m) and Indonesia (£140m). Proposals under these arrangements are dealt with in the same way as other projects.

8. Two missions to China have appraised all five priority projects identified under the soft loan agreement. In the case of the Indonesian

soft loan agreement eight projects have been identified between ourselves and the Indonesian authorities. Five formal proposals have been received from the DTI and further proposals will be forwarded in due course. ODA has now appraised all these projects. In the case of the rural electrification project the appraisal has identified certain problems: the Secretary of State has asked for a separate note on this.

Possible ATP cases for which advance details were received during October

9. During October details of 8 potential new ATP cases were passed by DTI to ODA for a provisional assessment. The British export value of the business involved amounts to £80 million. ATP funds of not less than £23 million would be required. None of the proposals envisages expenditure in 1986/87.

ATP Financial Position at end of October

10. Following the completion of contract negotiations and the signing of the aid agreement in respect of the Malaysian Rural Water Supply Project, requiring ATP expenditure this financial year of £48.6 million, Mr Raison announced publicly the increase in the ATP budget for 1986/87 to £90 million (£3 million of which is for soft loans).

11. We now expect expenditure in respect of mixed credits to be £90 million against a budget of £87 million. This comprises:

	£m
(1) Actual expenditure to date	63.3
(2) Further expenditure on projects already in progress	10.1
(3) Projects already accepted in principle	14.0
(4) Offers outstanding	<u>2.4</u>
	<u>89.8</u>

12. Since last month's Report our forecast of ATP expenditure under mixed credits has fallen by £7 million. Outturn expenditure under item (3) and (4) still remains uncertain. Nevertheless our best estimate is that we shall overspend the ATP budget for mixed credits. We also expect at this stage to fully spend the £3m earmarked for soft loans.

13. For 1987/88 from our existing commitments, including offers outstanding, we expect to spend £54.5 million of ATP on mixed credit cases, against the allocations for such cases of £66 million. A further potential commitment of £7.3 million in respect of soft loans exists against the £10 million earmarked for that purpose. Commitments of this order are normal for this time of the year if we are to fully spend the budget next financial year.

ATP PROPOSALS UNDER CONSIDERATION ON 1 OCTOBER 1986

Country	Project	Company	UK Export value (£m)	ATP Support (£m)	HMG Subsidy element (%)	Date of Application	Date of Approval/Comments
China	Factory 519 Shanghai	STC	25.3	Soft Loan	32.1	9 Sept	See Note 1.
China	Luoyang Tractor Factory	Lucas CAV	12.0	Soft Loan	c32	12 May	See Note 2.
China	System X Shenda	GEC	4.475	1.23	25.1	18 Sept	Approved 29 October.
Cyprus	Dhekelia Power Station	Foster Wheeler/GEC/NEI	7.25	1.88	30	14 July	See Note 3.
India	Automated Dairy	APV International	23.4	5.88	32	31 July	Application withdrawn.
India	Combined Cycle Power Stations	HSPE/Babcocks	167.0	Soft Loan	33	31 July	See Note 4.
India	Unchahar Power Station	NEI Parsons	55.0	Soft Loan	33.5	4 Sept	Approved 31 October.
Indonesia	Scattered Diesels	GEC (Rustins)	7.0	Soft Loan	55	31 July	) Three of eight projects) agreed in principle) under recent £140m) soft loan to Indonesia.) Projects have been appraised) by ODA staff in Indonesia.
Indonesia	Rural Electrification	NEI Projects Ltd	40.0	Soft Loan	55	17 March	
Indonesia	Radio and TV	Pye TVT	16.62	Soft Loan	55	19 June	
Pakistan	Switchgear	NEI Reyrolle	17.0	4.267	29.8	1 Sept	See Note 5.
Rwanda	Dairy	APV Hall International	6.8	1.7	33	25 June	See Note 6.
Turkey	Human Vaccine Facility	Stearns Catalytic/ Wellcome Foundation	17.7	4.44	25.1	8 Sept	See Note 7.
TOTALS			399.5	19.397 (mixed credits)			

Footnote: There are three projects on which no decision is required at present.

• Jordan Shidiya Phosphate Project - French feasibility study being carried out.

• Malaysia Peninsular Gas Project - No aid agreement in place.

• Ankara Natural Gas Project - UK feasibility and design study partly funded under ATP to go ahead.

NOTES ON ATP PROPOSALS UNDER CONSIDERATION ON 1 OCTOBER

1. China: Factory 519, Shanghai (Time elapsed since application: seven weeks)

STC are bidding to supply equipment for the manufacture of digital transmission equipment. The project was appraised during the recent mission to China but there is at present disagreement as to whether a further equipment element should be supplied by STC which may conflict with COCOM rules. This under consideration by DTI.

2. China: Luoyang Tractor Factory (Time elapsed since application five months)

Lucas CAV are seeking contracts for the transfer of diesel fuel injection technology including the licensing of Lucas CAV products. ECGD are at present looking into the inter-relationship of the commercial contracts involved and a meeting to resolve this is to be held on 7 November.

3. Cyprus: Dhekelia Power Station - turbine and boiler contracts (Time elapsed since application: 14 weeks)

Mr Raison approved ATP support on 4 August subject to Treasury agreement. Following discussions between the Minister of State for Trade and Industry and the Chief Secretary a conditional matching offer was issued, but the Post did not pass it to the Cypriots, because in its view it would be unacceptable. We had hoped to achieve a no-aid agreement for the boiler contract but the Austrians notified a late aid offer and we therefore made a matching offer on 21 October. DTI decided that as the Austrian bid for the turbines was not competitive we should not make a matching offer of concessionary finance for that contract.

4. India: Combined Cycle Power Station (Time elapsed since application: three months)

HSPE/Babcocks are seeking to secure a contract for the design, manufacture and construction of three gas based combined cycle power stations. However the post have advised, and the World Bank has confirmed, that the Indians intend to invite international tenders under World Bank finance, although there may be scope for ATP cofinancing with the World Bank if British firms were competitive.

5. Pakistan: Switchgear (Time elapsed since application: two months)

The project involves the design, manufacture, complete installation and commissioning of two sub-stations, but it is possible that the Government of Pakistan may not have sufficient funds for the project. The Post have also advised that one substation is being financing by the Germans. Further advise and revised figures are awaited from the DTI.

6. Rwanda: Dairy Project (Time elapsed since application: four months)

ODA's Animal Health Adviser supports the project in principle. The company agreed to provide additional information following a visit to Rwanda. On their return they informed DTI that the project had been radically redesigned and the new project will be discussed at a meeting with the firm in early November.

7. Turkey: Human Vaccines Facility (Time elapsed since application: seven weeks)

The applicants are Stearns Catalytic International Limited in consortium with the Wellcome Foundation who are seeking a contract for the construction of a plant for the production of human vaccines and sera, both for domestic consumption and for export. DTI are seeking confirmation that the business to be supported under ATP will consist entirely of goods and services originating in the UK. However the

American parent company of Stearns has just been taken over for the second time recently and this has slowed down progress with the company.

NEW ATP PROPOSALS RECEIVED DURING OCTOBER

ANNEX II

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Application</u>	<u>Date of Approval/Comments</u>
China	Shindongkou Power Station	Lodge-Cottrell	11.2	2.811	37.1	6 Oct	Under consideration
Indonesia	Scattered Diesels	HSPE	7	Soft Loan	47.4	7 Oct	Under consideration
Indonesia	Surabaya Shipyard	Cunlogan	60	18	38.2	17 Oct	See Footnote
Malaysia	Switchgear	GEL Switchgear	3.25	0.8	28.87	27 Oct	Under consideration
Indonesia	Cigading/Serpong Railway Rehabilitation	Davy British Rail International	33.0	Soft Loan	44.3	29 Oct	) Considered by) recent appraisal) mission
Indonesia	Citajam and Cibinong/ Nambo Railway	Foster Wheeler World Services	23	Soft Loan	44	29 Oct	) to) Indonesia
TOTALS			137.45	21.611 (mixed credits)			

FOOTNOTE: Surabaya Shipyard

This project was identified as a potential difficulty in the bi-monthly reports on problems cases in August and October. An inter-departmentally agreed official note will be submitted to Ministers shortly.

PROJECTS ON WHICH OFFERS WERE STILL OUTSTANDING ON 31 OCTOBER

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>UK Export value (£m)</u>	<u>ATP Support (£m)</u>	<u>HMG Subsidy element (%)</u>	<u>Date of Offer</u>
Algeria	Bellara Steelworks	Atkins	14.75	3.7	c 30	September 1985
Bangladesh	Barisal Power Station	HSPE	5.6	1.41	31	December 1985
Belize	Trucks	British Leyland	0.463	0.116	37	#
Burma	Gas Turbines	JBE	12.2	3.54	32	March 1986
Burma	Marine Engines	Sykes Marine	5.0	1.6	44.11	August 1986
Burma	Railway Rehabilitation	HSPE	27.7	Soft Loan	33	June 1986
Cameroon	Agricultural Mechanisation	NYK	2.0	0.52	29	July 1983
Cameroon	3 Railbus	BREL/Leyland	8.570	2.152	30.7	January 1986
Cameroon	Domestic Water Supply	unknown	6.4	1.6	31	April 1985
China	System X Shenda	GEC	4.475	1.23	25.1	October 1986
Colombia	System X	Plessey	10.4	Soft Loan	39	April 1986
Cyprus	Larnaca	UK Airport Group	19.0	4.76	33	January 1986
Cyprus	Southern Conveyor	SPP/Weir	4.0	1.0	33	July 1986
Cyprus	Dhekelia Power Station	Foster Wheeler/GEC/NEI	6.2	1.556	29.7	October 1986
Egypt	3NW Electrification	Not Yet Known	5.95	2.132	41.1	February 1985
India	Ammonia Plant	Humphreys & Glasgow	5.0	3.765	31	May 1986
India	HBJ Pipeline	Ingersoll	10.0	2.510	40	May 1986
India	UAE Submarine Cable	STC	24.45	6.14	37	April 1986

			UK Export value (£M)	ATP Support (£m)	HMG Subsidy element (%)	Date of Offer
India	Coach Factory	BREL	35.0	Soft Loan	37	June 1986
India	VSP Data Acquisition	Principia Mechanica	0.7	0.176	c 35	August 1986
India	Bombay & Delhi Airports	UK Airports Group	42.0	13.02	31	*
India	Optical Fibres	STC	40.55	Soft Loan	47.30	May 1986
India	Gas Turbines/STM Bassein	Rustons	4.5	1.17	43.5	October 1986
Indonesia	Pindad Forging Plant	Klockner Ina	6.233	1.691	30	August 1986
Indonesia	Ombelin coal Washery Plant	Birtley Eng	2.5	0.762	35.92	August 1986
Jordan	Aqaba Rail Workshop	Howard	2.06	0.51	33	April 1986
Jordan	Draglines	Ransom & Rapier	13.0	Soft Loan	41.8	September 1986
Kenya	System X	Plessey	14.9	3.74	37	September 1986
Malawi	UXD5/System X	GEC	5.4	1.98	40	March 1986
Malaysia	Digital Multiplex	STC	64.72	16.24	28	June 1986
Malaysia	Submarine Cable	Balfour Beatty	15.83	3.97	29	October 1985
Malaysia	Railbus	BREL	4.4	1.1	30	February 1985
Malaysia	Transmission Switchgear	GEC	1.93	0.48	37	July 1986
Malaysia	Airport Equipment	Racal	1.5	0.363	26	July 1986

			UK Export value (£m)	ATP Support £m)	HMG Subsidy element (%)	Date of Offer
Mozambique	Trucks	Leyland	2.6	0.66	32	August 1986
Pakistan	VHF Communications	IAL	6.04	1.62	32	June 1986
Syria	Sweideh Power Station	JBE	33.4	8.4	30	March 1986
Thailand	Telecommunications	Balfour Kilpatrick/BT	74.5	18.7	c 34	∅
Thailand	Mae Moh Chimneys	Tileman	2.0	0.502	34	March 1986
Thailand	Mae Moh Transmission	NEI Peebles	9.0	2.26	34	August 1986
Tunisia	Polypropylene Plant	Extrusions	0.188	0.047	30	April 1986
Tunisia	Phosphate Plant	Tagmal	12.0	3.048	34	December 1985
Tunisia	Off Highway Trucks	Terex	2.6	0.664	35	March 1986
Turkey	Circuit Breakers	GEC Switchgear	6.45	1.62	27.82	October 1986
Totals			570.559	119.044	(mixed credits)	

* DTI have delayed formal offer for tactical reasons.

Offer to be made when financial arrangements agreed for this financial year.

∅ Formal offer to be made with presentation of consortium's proposals around December/January.

ATP OFFERS ACCEPTED IN PRINCIPLE BY RECIPIENT COUNTRY AS AT 31 OCTOBER 1986

ANNEX IV

<u>Country</u>	<u>Project</u>	<u>Company</u>	<u>British Export value (£m)</u>	<u>HMG ATP Support (£m)</u>	<u>Subsidy element (%)</u>	<u>Date Offered</u>	<u>Date Accepted</u>
Cameroon	NW Electrification	Balfour Beatty	5.428	1.362	33	June 1984	November 1985
Economic Commission for West African States	Telecommunications	Balfour Beatty/GEC	16.0	5.750	35	October 1985	November 1985
Egypt	Pyramid Road Hospital	Higgs and Hill	4.25	1.2	c 32	August 1981	November 1983
Egypt	El Omoum Drain	Sulzer	3.672	0.922	37	December 1983	March 1984
Egypt	Brake Block Foundry	Davy McKee	2.749	0.884	c 40	February 1985	June 1985
Malaysia	Cross Braced Bogies	BREL	7.083	1.850	28	August 1985	December 1985
Malawi	Power Transmission	Balfour Beatty/HSPE	8.08	2.59	33	October 1985	August 1986
Sri Lanka	Samanala Wewa	Balfour Beatty	57.2	16.570	36	March 1986	April 1986
Thailand	Railbus	BREL	7.966	2.0	36	June 1985	April 1986
Total			112.428	33.128			

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Foreign and Commonwealth Office

KPC

London SW1A 2AH

3 November 1986

Dear Timothy

CJP
JK

Aid and Trade Provision: Bi-Monthly Report of Problem Cases

I attach the latest bi-monthly report.

The Foreign Secretary has noted that an agreed officials' note on the Surabaya Shipyard Project in Indonesia will be submitted to Ministers shortly. On the Rural Electrification project in Indonesia he awaits a submission setting out the issues. The Foreign Secretary will write to colleagues once he has considered both cases.

I am copying this letter to Mark Addison (No 10) and Jill Rutter (HM Treasury).

Yours ever

(R N Culshaw)
Private Secretary

Timothy Walker Esq
Department of Trade and Industry

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AID AND TRADE PROVISION

BI-MONTHLY REPORT OF POTENTIAL PROBLEM CASES

OCTOBER 1986

CURRENT PROBLEM CASESIndonesia : Surabaya Shipyard Project

1. This project was noted as a potential problem case in the August bi-monthly report. Cunlogan, in association with Appledore, have applied for ATP support for a contract they are seeking to equip the Surabaya Shipyard in Indonesia (UK export value of about £70-80 million). The proposal raises important industrial and economic issues which Ministers have not yet been asked to consider, and ODA's initial assessment suggested that the proposed investment is not sound.
2. In circulating the August report Mr Raison, in the Foreign Secretary's absence, suggested that officials should agree a note inter-departmentally which the Foreign Secretary might consider with colleagues on his return. The Prime Minister agreed that this should be done.
3. In August an officials' note was agreed but it was decided not to submit it to Ministers until the DTI confirmed that it wished to support the Cunlogan bid with ATP. The DTI have now done so, and the agreed note will be submitted to Ministers shortly.

/Indonesia ---



Indonesia : Rural Electrification Project

4. This project is one of eight projects jointly identified by Indonesia and the UK as being eligible for support from the £140 million soft loan agreement. In 1985 NEI Projects Ltd were asked by the Ministry of Cooperation to assist with its rural electrification programme. The company identified a £50 million package of works in Sumatra with a UK content of £40 million. The project involves the construction of a 4 x 2MW coal-fired power station in Lampung Province and two 1MW diesel stations in Aceh Province, which is more remote.
5. ODA has appraised the project during a visit to Indonesia. The appraisal report concludes:
- (i) Lampung: It is inappropriate to construct a relatively small, isolated, coal-fired power station only 11 Km from a town which already has a power station operated by the State Electricity Utility (PLN), and to serve an area through which it is understood that the PLN also has plans to construct a transmission line from the large Bukit Asam power station. Power from either of these alternatives would be cheaper.
 - (ii) Aceh: There is no cheaper way of providing electricity to the widely scattered populations in Aceh, but the cost of doing so would be much higher than the revenue received. It would involve very substantial subsidies over the life of the project.
6. Rural electrification may often involve subsidies, but the proposal for Lampung does not represent an efficient way of providing electricity to the area. The Minister for Overseas Development is presently considering the conclusions of the appraisal mission report. The Foreign Secretary has already asked for a report on the project, which will be submitted separately.

/THE FOLLOWING



THE FOLLOWING CASE APPEARED IN THE LAST REPORT, AND HAS BEEN RESOLVED

Cyprus : Dhekelia B Power Station

7. In June 1985 EX Committee, as part of its review of the management of ATP, agreed that ATP should be used only exceptionally in countries with an income per head of over \$3000.

8. In July 1986 the DTI proposed to initiate a mixed credit offer in support of British tenders for turbines and boilers for the Dhekelia Power Station in Cyprus (income per head \$3900). The Treasury objected on the grounds that this would be the third initiation of ATP in Cyprus and that it was contrary to what EX Committee had agreed.

9. The Minister of State for Trade discussed the matter with the Chief Secretary on 31 July. The Chief Secretary said that he was prepared to agree to an offer of ATP in this case on condition that ATP was offered only if there was firm evidence of offers of assistance from competitors and that the Minister of State for Trade accepted that the Chief Secretary would not accept any further cases in Cyprus in the foreseeable future.

10. As a result, a conditional matching offer of ATP was proposed. But we were advised that an offer in this form was not acceptable to the Cypriot authorities: they required firm financing proposals to be submitted with the tenders, the calls for which closed during August. It was subsequently learned that the Austrians had made a concessional financing offer, and the Cypriot authorities indicated that a matching

/offer



offer from us would, after all, be acceptable. During October it was decided to make a matching offer in respect of the boiler contract where the Austrian bid was competitive, but not in respect of the turbines where the Austrians were way down the list, and our main competitors were the Japanese who had not offered concessional financing.

11. The DTI are still considering the application by Biwaters for ATP support for a Water Treatment Plant in Limassol. The French Government have indicated that the project would be eligible for financing under an existing aid protocol.

Aid Policy Department
October 1986

03. XII 1986



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10 DOWNING STREET

From the Private Secretary

19 August 1986

Thank you for your letter of 18 August with which you enclosed a bi-monthly report on aid and trade provision. The Prime Minister was grateful for this and shares Mr Raison's view that the Indonesian shipyard project should be discussed by colleagues when the Foreign Secretary is able to do so.

I am copying this letter to Timothy Walker (Department of Trade and Industry) and Alex Allan (HM Treasury).

Tim Flesher

Colin Budd Esq
Foreign and Commonwealth Office

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Foreign and Commonwealth Office

London SW1A 2AH

18 August 1986

MB

Pre Minute

To note

Dear Tim,

Aid and Trade Provision: Bi-monthly Report 19/1
on potential problem cases

I attach the latest bi-monthly report.

In view of the Indonesian shipyard project identified in the report as a potential problem case, Mr Raison has asked that the report be circulated in the Foreign Secretary's absence. He has suggested that officials should set out the issues more fully for Ministers in an inter-departmentally agreed note. He believes the Foreign Secretary may wish to consider this with colleagues on his return.

I am copying this letter and the report to the Private Secretaries to the Secretary of State for Trade and the Chancellor of the Exchequer.

*Yours Sincerely,
Colin Budd*

(C R Budd)
Private Secretary

T Flesher Esq
No 10 Downing Street

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AID AND TRADE PROVISION

BI MONTHLY REPORT OF POTENTIAL PROBLEM CASES AUGUST 1986

CURRENT PROBLEM CASES

Indonesia: Surabaya Shipyard Project

1. Cunlogan, in association with Appledore, have applied for ATP support for a contract they are seeking to equip the Surabaya Shipyard in Indonesia (UK export value of about £70-80m). The proposal raises important industrial and economic issues which Ministers have not yet been asked to consider.

2. Because the immediate objective is to build replacement vessels for Indonesia's inter-island shipping fleet there should be no direct effect on British shipping interests. This project would add to the substantial surplus shipbuilding capacity in the world and help prolong the difficulties the industry is facing. ODA's initial assessment suggests that Indonesia could purchase replacement vessels more cheaply overseas for many years to come and that the shipyard would be unlikely to achieve productivity levels to match other yards in the Far East. But the Indonesians are likely to proceed with the project whether or not we provide aid despite the economic difficulties they at present face.

3. Cunlogan is a small company relative to the size of the contract. Officials would need to consider whether the company has the expertise and financial resources to undertake the contract successfully.



THE FOLLOWING PROBLEM AROSE IN LATE JULY BUT HAS NOW BEEN RESOLVED

Cyprus

4. In June 1985 EX Committee, as part of its review of the management of ATP, agreed that ATP should be used only exceptionally in countries with an income per head of over \$3000.

5. In July 1986 the DTI proposed to initiate a mixed credit offer in support of a British tender for turbines for the Dhekelia Power Station in Cyprus (income per head \$3900). The Treasury objected on the grounds that this would be the third initiation of ATP in Cyprus and that it was contrary to what EX Committee had agreed.

6. The Minister of State for Trade discussed the matter with the Chief Secretary on 31 July. The Chief Secretary said that he was prepared to agree to an offer of ATP in this case on condition that ATP was offered only if there was firm evidence of offers of assistance from competitors, and that the Minister of State for Trade accepted that the Chief Secretary would not accept any further cases in Cyprus in the foreseeable future.

7. As a result, a conditional matching offer of ATP was proposed. But an offer in this form was not acceptable to the Cypriot authorities. They require firm financing proposals to be submitted with the tender, the call for which closed on 1 August. It is now understood that our competitors have not offered aid and that the British company was second in price.

8. Tenders for a boiler contract under the Dhekelia Power Station project close on 12 September. We are seeking a no-aid agreement with other OECD governments.



9. The DTI are at present considering a further application by Biwaters for ATP support for a Limassol Water Treatment plant contract in Cyprus. Officials are investigating whether there is evidence of a possible French offer of aid for this project.

THE FOLLOWING CASE APPEARED IN PREVIOUS REPORTS BUT HAS NOW BEEN RESOLVED

Mauritius: Line of Mixed Credit (for up to £12.5 million of business)

10. The Mauritians have not used the line of mixed credit. They have made it clear that they want a fixed and generous grace period before having to repay the export credit component. This is not possible under OECD rules for export credits

11. Ministers have now agreed in principle that the line of mixed credit should be converted to a soft loan with a view to it being used to secure a contract for British Shipbuilders for the construction of an inter-island ferry.



*Subject as Ops
master*

PERSONAL



10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. *Pmb*

THE FOREIGN AND COMMONWEALTH SECRETARY

OVERSEAS AID

I continue to believe that we do not use our aid programme as effectively as our competitors to promote our commercial interests. I think that after the Elections we shall need to look very closely at the way in which we administer our aid programme and consider whether responsibilities could be allocated differently between the FCO and the DTI. You might like to give some thought to the politics and presentation of all this, together with Paul Channon. I would not want officials to be involved at this stage.

More immediately, I remain concerned by the length of time which it takes to clear individual ATP cases. We really must move quickly on these and it is for the Ministers directly concerned to ensure that there are not unnecessary, protracted, bureaucratic haggles. There have been cases recently where we have moved much too slowly, for example John Brown Engineering's bid for gas turbines in India and Hawker Siddeley's bid for rail modernisation in Burma.

I am copying this minute on a personal basis to the Secretary of State for Trade and Industry.

19 May 1986

Rogers

SE

PRIME MINISTER

Charles and I have discussed this at some length and believe that the approach below is the best way forward. The ATP money has recently been increased and a suggestion that more money should be diverted to this facility would simply lead to a PES bid for the aid budget. In any event, the rather far-reaching changes suggested by the DTI do not look a runner for this Parliament. If the DTI ideas are to be pursued, you might want to work a phrase into the Manifesto like "The aid budget will be used to give further support to British exports."

I think a copy of your minute should go to Mr. Channon.

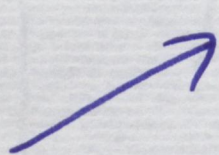
N.L.W

All on a personal basis
not

N. L. Wicks

15 May 1986

C.F.



I will give to

Geoffrey + Mr Channon

This letters personally.

Pl let me have the envelopes so I can give them to them this p.m. N.L.W.

DG2BBO



CONFIDENTIAL

PRIME MINISTER

OVERSEAS AID

Alan Clark has, I know, talked to you about his views on the role and effectiveness of the ODA. He has now set these views down in a minute which I attach.

2 I share Alan Clark's views. The bureaucratic wrangling between Departments blunts the cutting edge of our efforts to beat our competitors, most of whom recognise that "developmental" arguments are all too often specious and carried to extremes.

3 The present structure of inter-Departmental responsibilities is, at best, only a compromise. There are sometimes six voices - ODA, FCO, Treasury, DTI, ECGD and the Bank of England - involved in discussions. A rationalisation of Departmental responsibilities along the lines advocated by Alan Clark would certainly meet many of the criticisms I hear from industry.

4 The risk is that such a move would be portrayed falsely by our critics as an indication that the Government is uncaring and uninterested in developing countries. We could meet such criticism partly by increasing famine and disaster aid and partly by arguing that what we are looking for is the best national, as well as developmental benefits from our aid - achieving more for the same or the same for less. This is particularly important given the pressures from ODA's

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existing aid commitments. In short, what we should need to get across is the fundamental relevance of aid in securing business for our companies and employment for our people.

5 These minutes have, of course, not been seen by Geoffrey Howe or Tim Raison.

P.c.

PAUL CHANNON

13 May 1986

Encl

DEPARTMENT OF TRADE AND INDUSTRY

JF5BEW



SECRETARY OF STATE

From:

MINISTER FOR TRADE

13 May 1986

THE ADMINISTRATION OF OVERSEAS AID

Britain's overseas aid could be more efficiently administered and provide better value for money by abolishing the Overseas Development Administration and by transferring its functions to this Department.

2 Britain's overseas aid budget is at present administered principally by the ODA. However, responsibility for Britain's overseas aid budget is in practice damagingly split between different Departments. This Department sponsors British firms who benefit from overseas aid projects, and has delegated responsibility for proposing cases for the Aid and Trade



Provision (ATP). It also has general responsibility for bilateral commercial relations. The Treasury takes a close interest in all aid matters (and I welcome this). But the ODA actually disburses the aid and is answerable to Parliament for it.

3 One result of this divided responsibility is that all but the smallest ATP cases must be circulated to an interdepartmental committee, the Standing Committee on Aid and Trade (SCAT), before action can be taken. This leads to delays which can cost us overseas business. For example, ATP support for John Brown Engineering's bid for gas turbines in India, on which the Prime Minister intervened, was held up by ODA for over two months (a blow-by-blow description is attached). Similarly, Hawker Siddeley's bid for rail modernisation in Burma was submitted to ODA in early October 1985 yet there is still no decision, and ODA now propose a combined Hawker Siddeley/ODA mission to Burma this month. This has allowed the Japanese progressively to erode Hawker Siddeley's position.

4 We ourselves seem to take little account of commercial factors in our aid decisions. Departmental coordination is still very bureaucratic, with a resulting lack of focus. There have been occasions when the frustration of British



companies' objectives and their subsequent exclusion from important markets or market sectors has been damaging in the highest degree. In some cases, absurdly, we have paid more in grants than was necessary to secure the business. On the Balco power station in India, for example, we could probably have secured the project without the 100% bilateral aid grant (approximately £60 million) that was finally offered in addition to the £33 million in ATP already on offer. Because of this bias towards high or 100% grant elements, our competitors get better value for their resources.

Recommendation

5 The ODA could be abolished, with its functions transferred to the DTI. This could be presented as a general streamlining of aid policy, laying emphasis on efficiency and employment creation. For presentational and practical reasons it could be combined with

(a) an increase in famine and disaster aid (offset by reductions elsewhere, including lower administration costs), and

(b) more 'contracting out', by using charities etc as agents for disbursing aid.



SCAT would become redundant and could be abolished; DTI would operate under delegated authority from the Treasury.

6 These changes are long overdue in order to achieve closer economic and industrial cooperation with the third world, for mutuality of benefit (the Japanese are adept at putting this type of point across!).

7 The proposed changes will help secure exports and jobs and, if implemented during a reshuffle, could be presented as a sensible and practical measure without 'personality' overtones or implicit reversal of existing policies.

8 ODA has been continually - and in my view rightly - criticised by British industry for its unrealistic attitude to aid expenditure. Its desire to establish the developmental soundness of each and every proposal from a macroeconomic standpoint has led to unacceptable delays which have inhibited export business, especially as our competitors are clearly not under the same constraints. Nor are we getting the value for money that we could out of our aid programme. In India, the real cost of Japanese loans in 1984/85 (applying differential discount rates) is a net grant equivalent of 22.5%. Hence, for a real cost of some \$94 million, the Japanese are securing business of \$395 million. By comparison, the UK for a real



cost of some \$220 million in grant form acquires business for the same size. Had the UK form of concessionality been the same as the Japanese, we could have expected to secure business of some \$900 million for the same resource cost. Moreover in 1984/85, only 46.5% of our bilateral aid budget for India was used to purchase UK goods and services.

9 Combining the two Departments could result in a very substantial saving in administration costs. The ODA has one Permanent Secretary, one Deputy Secretary, eight Under Secretaries, approximately thirty-seven Assistant Secretaries or their equivalents, and approximately one hundred and fifteen principals, senior principals and their equivalents. In contrast, DTI deals with bilateral commercial relations, overseas projects and export promotion with one Deputy Secretary, five Under Secretaries and just fifteen Assistant Secretaries.

10 Many of ODA's functions could be taken over by DTI whilst achieving a net decrease in staff through the elimination of overlap. For example, central services such as economics, statistics, personnel and accounts could be absorbed into their DTI counterparts. ODA even has an Engineering Division, some of whose functions could be replaced by this Department's industry divisions.



11 There will certainly be another advantage in combining the Department's roles. In many cases, countries which pay for British exports are looking for offsetting benefits in the form of British aid, investment and technical cooperation. I would be in a stronger position when promoting British exports if I were able to use aid and technical help as bargaining counters - as my French and Japanese counterparts already do. For example, you visited North Yemen last December to promote British exports: Timothy Raison followed you in January to offer, among other things, technical cooperation. These two visits should surely have been combined into a single visit by a single Minister empowered both to promote exports and offer technical help.

12 Even in the field of famine and disaster relief, this Department could arguably at least as effectively be responsible since such aid involves the cost-effective procurement of commercial goods and services.

13 I recognise that there is a danger that these proposals might be portrayed as an attack on the present concept of aid, in particular humanitarian aid. What I am arguing for is the more efficient use of aid in order to achieve the same results for less cost. But to head off any suggestion that the Government is opposed to aid per se, I recommend that we



increase famine and disaster aid at the expense of other types of aid. The commercial benefits of aid will still be very substantially enhanced through using lower grant rates.

Conclusion

14 I believe that this Department would be able to administer the provision of £1.2 billion in taxpayers' money to maximise the advantage to industry and employment in the UK. And, by bringing together departmental responsibilities for aid and trade, bureaucracy will be reduced, decision-taking streamlined and the speed and flexibility of providing aid improved.

A handwritten mark consisting of a curved line starting from the left, curving upwards and then downwards to the right, ending in a small hook.

ALAN CLARK

DESU (Delhi Electricity Supply Undertaking)

- (1) 5 September 1984 - John Brown Engineering (JBE) submitted to PEP an application for ATP support for their bid for a gas turbine contract for Desu.
- (2) 21 September 1984 - PEP sought Mr Channon's agreement to secure SCAT approval for ATP on a conditional matching basis in support of bids by JBE and by GEC Rolls Royce (Power Generation) Ltd (GEC-RR).
- (3) 24 September 1984 - approval given by Mr Fletcher in Mr Channon's absence.
- (4) 27 September 1984 - PEP circulated a SCAT paper on this project seeking comments by 5 October to enable an early response to be made to the Indian Secretary of Power.
- (5) By 15 October 1984 - Treasury had given approval to an ATP offer but ODA argued case failed minimum test of developmental soundness because turbines were not cost effective and Desu would be better advised to constrain growth of demand through higher tariffs until additional thermal or hydro capacity was available.
- (6) 19 October 1984 - FCO questioned ODA's approach.
- (7) 23 October 1984 - British High Commission New Delhi questioned ODA's approach.
- (8) 5 November 1984 - Mr Channon indicated approval that the case should be fought with ODA at official level.
- (9) 6 November 1984 - Sir A Rawlinson wrote to Sir C Tickell (ODA) about ODA's attitude.
- (10) 9 November 1984 - Mr Channon spoke to Mr Raison about the case.
- (11) 9 November 1984 - Mr Channon wrote to Mr Raison.
- (12) 9 November 1984 - No 10 indicated Prime Minister wanted to be kept informed of developments.
- (13) 12 November 1984 - Sir C Tickell replied to Sir A Rawlinson without commitment.
- (14) 22 November 1984 - PS/SoS wrote to No 10 about the background to this case.
- (15) 27 November 1984 - Mr Raison replied to Mr Channon rejecting again the case on developmental grounds.
- (16) 28 November 1984 - Secretary of State for Scotland wrote to Mr Raison supporting the use of ATP.
- (17) 30 November 1984 - Mr Rees wrote to Mr Channon supporting Mr Raison.
- (18) 5 December 1984 - Mr Channon wrote to Mr Raison pressing the case again.
- (19) 12 December 1984 - Mr Raison replied to Mr Channon suggesting an EX meeting may be necessary.
- (20) 13 December 1984 - Mr Younger wrote again to Mr Raison supporting Mr Channon.
- (21) 14 December 1984 - minute from No 10 indicating Prime Minister's support for the use of ATP.
- (22) 21 December 1984 - ODA officials were refusing to clear the aid offer. Mr Raison intervened and instructed his officials to proceed.
- (23) 26 December 1984 - High Commission formally made the aid offer to the Indian Secretary of Power.

cc/c



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

23 April 1986

RESTRICTED

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
LONDON
SW1

CD 24/1

Dear Geoff

Thank you for your minute of 7 April on the question of using ATP for the Ayoun Moussa power project in Egypt.

Like you, I agree with the recommendations made by officials. As you point out, it is important that we keep in touch with the Japanese on this project and I know that recognition of this will be welcomed by the UK members of the consortium.

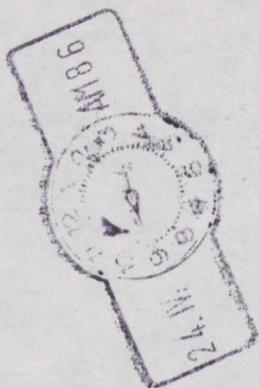
I am copying this letter to the Prime Minister and Nigel Lawson.

*Y
-
pd*

PAUL CHANNON

DW5ASD

Overseas Aid: Policy
AES





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3007-74.

FCS/86/094

SECRETARY OF STATE FOR TRADE & INDUSTRY

Aid and Trade Provision: Potential Problem Cases
Ayoun Moussa Power Station, Egypt

1. Our officials have agreed a paper on this project which has been proposed for joint UK-Japanese mixed credit financing. The cost is about £350 million, with a UK content of some £125 million.

2. There remain a number of uncertainties, notably the timing of a decision by the Japanese on their involvement and the availability of ECGD supported credit. In the light of these the paper recommends that:

a) no decisions be taken at this stage;

b) contact be maintained with the Japanese, without commitment, and the project considered again when the results of the engineering study are available (expected mid-1987).

3. These recommendations (which are also supported by Treasury and ECGD officials) seem right to me; in particular I think it important that there should be a clear-cut mechanism for staying in touch with the Japanese.

4. I should be glad to know whether you agree.

/I am

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4. I am copying this minute to the Prime Minister and to Nigel Lawson.

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

GEOFFREY HOWE

Foreign & Commonwealth Office
7 April 1986

CONFIDENTIAL

KJ → NIF

27 March.

Students + Benefits.

3166



CONFIDENTIAL

FCS/86/047

SECRETARY OF STATE FOR TRADE AND INDUSTRY

Tied Aid Financing : Further OECD Controls

You sent me a copy of your letter of 14 February to Nigel Lawson with a negotiating brief for achieving greater control over the use of tied aid financing.

Following the modest progress made at last year's OECD Ministerial Council meeting, we must press for greater international discipline in this area. But as you say, this should not be in a manner which would limit us more than our competitors : this would put our exporters at a disadvantage and add to demand for more public expenditure.

I support the line you propose. I agree that we should link the introduction of country specific discount rates for the calculation of grant elements to increases in the minimum grant elements that are permissible. There is a strong case for increasing the minimum grant element for the poorest countries and for banning tied aid financing in the richer countries. For the latter I think straightforward technical co-operation grants should continue to be permissible. If OECD donors wished to provide financial aid to such countries, then it would need to be untied.

For tied aid financing transactions which would continue to be permissible, I believe we should continue to press, within the Development Assistance

/Committee

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Committee, for further constraints on their use. It is in our wider economic interests to check the use of tied aid financing by all DAC donors which cannot be justified as sound investments for the recipient country. A key feature in the strategy for managing the debt problem is to encourage debtors to improve their economic policies and their investment decisions. It would make no sense for OECD countries to use official lending for purposes which could undermine these general policies.

I am copying this letter to other members of EX Committee and Robert Armstrong.

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

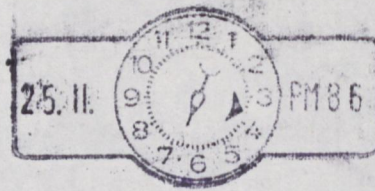
GEOFFREY HOWE

FOREIGN AND COMMONWEALTH OFFICE
25 February 1986

CONFIDENTIAL

OVERSEAS AID

Pony PTS



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Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6460.....
Switchboard 01-213 3000

EJP
2/2.

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
LONDON SW1

26 February 1986

John,

TIED AID FINANCING: FURTHER OECD CONTROLS

I have ^{at 11ap} seen Paul Channon's letter of 14 February and your response of 18 February.

I entirely agree that we must have international rules that are fair, and that we should stick to the line on differential discount rates. I remain doubtful whether we should give way on this point, since a discipline that gives the game to the Japanese cannot really be a discipline at all, or worth having.

I am copying this to colleagues on EX Committee, and to Sir Robert Armstrong.

*Paul
MacGregor*

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CONGRESS AID PTS

Policy.

PRIME MINISTER

THE AID BUDGET

You asked what would happen to the money at present in the Aid Budget for the Westlands deal with India if that is not completed before the end of the year.

ODA already have a limited arrangement with the Treasury for carrying forward money from one year to the next. ODA are likely to ask the Treasury to allow them to carry forward the £26 million for Westland helicopters if this is not spent.

They are also likely to ask the Treasury to allow them to carry forward £30 million for a project of Bowaters in Malaysia.

The problem for the Treasury is that money carried forward to next year becomes a claim on the Reserve. This is something the Chief Secretary will have to sort out.

DLV

mr

David Norgrove

19 February 1986

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

COP 18/2

18 February 1986

*Dear Paul,***TIED AID FINANCING:
FURTHER OECD CONTROLS**

Many thanks for your letter of 14 February addressed to Nigel Lawson.

As you know, officials will be discussing changes in the control of tied aid credits at the Policy Co-ordinating Group meeting in Brussels on Tuesday and Wednesday. I would be content that they should take the negotiating line that you propose at that meeting. But we may need to look at tactics again in the light of the outcome of the meeting before deciding how best to handle the subject at the March ECOFIN, at which the Committee's negotiating mandate for the OECD Consensus meetings will have to be finally settled.

Meanwhile I agree that we should seek to persuade the Americans of the advantages of pressing for the use of differential discount factors. If we fail in this we may find that the weight of opposition to differential discount factors is too great. I recognise that if we have finally to accept a different package of discipline measures, it may attract criticism from our exporters because of its effect on the new soft loan scheme. But as you will recall, better discipline was a prior commitment, as Leon Brittan's announcement of the soft loan arrangements made clear.

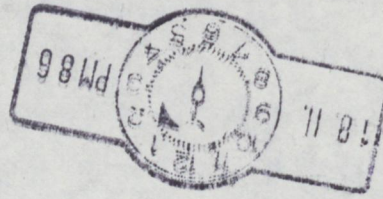
I am copying this letter to members of EX Committee, David Young and Sir Robert Armstrong.

*Yours ever,
JH*

JOHN MacGREGOR

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OVERSEAS AID: Policy: A.S.



ccf



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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(Switchboard) 01-215 7877

14 February 1986

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

Dear Nigel

*DA to see
NRM
CBP
14/2*

TIED AID FINANCING : FURTHER OECD CONTROLS

We have always recognised that, because of problems of definition and differences in national practices among aid donors, it was bound to be difficult to achieve a comprehensive and fair international system of control for trade-related soft financing.

Last year, we secured a notable advance in bringing all forms of trade-related aid into the net. This, for the first time, caught the Japanese (and Germans), whose soft loans are both large in volume and manifestly directed towards trade objectives.

This year, I propose that we should keep up the momentum by insisting that the OECD formula for calculating admissible levels of concessionality should be sorted out. We should be ready to accept changes in treatment of categories of countries only if this done.

The full rationale is set out in the attached paper. OECD apply a single arbitrary discount factor. This leads to anomalies whereby Japanese loans under the OECD formula have a 40-45 per cent concessionality, but in real terms cost them less than 25 per cent, whereas our corresponding mechanisms, which just exceed the OECD minimum of 25 per cent, actually cost us 30-35 per cent. If thresholds were raised without changing the basis of calculation, it would have virtually no effect on the Japanese (and other low-interest countries) but would cost us a lot.



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To get rid of this nonsense, we should require that as a precondition for any changes in minimum thresholds, the system should adopt Differential Discount Rates according to the ruling long-term interest rates for the currency and terms of the loan. This will mean that comparison of all aid measures will be on a real basis. Whilst unwelcome to the Japanese and Germans, there are signs that the Commission and several countries see the merits of this change. We should seek to get the Americans to accept the clear logic of this position.

Assuming this can be secured, and only if it can, we should be ready to accept an increase on minimum thresholds: from the standpoint of our own interest, a minimum figure of 35 per cent would, with differential interest rates, cost all about the same. On this basis, we could go along with an embargo on all aid to the NICs and most-advanced developing countries; and an increase to 50 per cent in minimum concessionality for the poorest (LLDCs); with an increase up to some 35 per cent for the remainder, though recognising that these are our most important markets for this type of activity. And we should not be prepared to drop our insistence on differential discount rates without reference back to Ministers.

In proposing this line, I am mindful that we have just announced a new ATP soft loan scheme to put our exporters on an even basis in such markets as China and Asean and to double the total benefit gained with ATP. To go along with an increase in minimum thresholds without a differential discount system would strengthen the relative capability of the Japanese and Germans, and we would be justly charged by our exporters of playing directly into their hands. The course I propose would enable us to argue that we should be putting greater pressure on these other countries.

I hope that you and colleagues will be able to endorse this approach and the negotiating brief in the attached paper. I am copying this letter to members of EX Committee, Lord Young and Sir Robert Armstrong.

Y
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pal

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PAUL CHANNON
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17
19 **86**
BOARD OF TRADE
BICENTENARY



TIED AID FINANCING: FURTHER OECD CONTROLS

Discussions within the Community and OECD are continuing to find a regime of more effective control over tied aid financing. Whilst there is still a wide array of attitudes, we need to be clear on the most useful outcome for our interests, and propose suitable guidance for officials for their preparatory talks within the Community on 18/19 February.

A Possible Community Proposal

2 After some preliminary exploration of national positions, it appears that the components of a Community proposal could comprise:

- (a) a ban (or a very high Minimum Grant Equivalent (MGE)) tied aid for the most advanced developing countries; and
- (b) a 50% Minimum Grant Equivalent) for the poorest developing countries, with intermediate countries varying between 25% and 35% MGE.

Relative Costs of Tied Aid Financing

3 The "sharp shock" of a shift to a 50% MGE is a general target which we and others have supported. But it is clear that this step on its own would have relatively limited effect on curbing the activities of one of the principal donors (Japan), and would be at a disproportionately high cost to other countries, including the UK. Consequently, general acceptance of such a single threshold is unrealistic.

4 The OECD use of a 10% standard discount factor for calculating Grant Equivalents (GEs) results in Japanese (and German) soft loans being accorded GEs of around 40% or more. Shifting to an MGE of 50% under current OECD conventions would be a relatively modest penalty for the Japanese, with little impact on the volume of their trade-related soft loans, which in any event they are planning to double over the next 5 years from a figure of some \$2.4 billion of bilateral aid in 1983.

5 By contrast, for the UK, whose GEs for ATP and soft loans are in the 25-30% range, we would have to double the average outlay on particular projects, and within the existing budgetary allocation the number of projects we could support would be halved. In practice, therefore, we would be playing straight into the hands of the Japanese - historically the major user of trade-related soft loans.



6 The root cause of this discrepancy lies in the OECD formula being based upon a standard discount rate, whereas the real cost is reflected most effectively by the ruling long-term interest rate for the currency in which such finance is provided.

7 Just to illustrate this, "Differential Discount Factors" - ie the discount rate appropriate to the currency of the loan, would require calculations of MGE for long-term yen loans to be undertaken at a discount rate of 6-7%; the current terms of yen loans would have an MGE of 20-25% instead of 40-45% using the standard OECD discount factor. The Japanese would therefore have at least to double the real cost per project to reach a 50% MGE. For the UK, the appropriate "Differential Discount" rate would be around 10%, so that the impact of going to a 50% MGE requirement would be still severe within existing resources, but not so sharp an increase as for the Japanese.

Negotiating Approach

(i) Differential Discount Rate

8 A move to "Differential Discount factors" as part of the OECD disciplines is, therefore, an essential prerequisite to ensuring a real basis of comparison between different national practices in providing soft finance. This has already been explored in Community and OECD discussions. The rational justification for such a change is strong, though, predicatably, countries with low interest rates are not enthusiastic. Nonetheless, it is an essential move if we are to have a realistic disciplinary system.

(ii) A ban on aid to better off countries

9 A per capita income threshold of \$3,000 would be consistent with our own practices. A lower threshold of \$2,000 would catch Korea (2010), clearly a NIC, but several other countries, including Mexico (2240) and Algeria (2400) as well. We would be ready to go along with this if everyone agrees.

(iii) Definition of "poorest" countries

10 The category of Least Less-Developed (LLDCs) would cover 36 countries. But these are not major recipients of aid with MGE below 50% so the new control would be of little significance, and the UK could accept.

(iv) Intermediate Category

11 This would cover over 60 countries, including, in rising



order of per capita income, India (260), China (290), Sri Lanka (350), Indonesia (560) and Egypt (700), on which donors, including the UK, tend to focus their mixed credit/soft loan support. It is in this category, therefore, that we would wish to have an equal opportunity to capture market opportunities with our mixed credit/soft loans.

12 The Commission propose two broad categories, the "poorer" for whom an MGE of 35% would apply, and "intermediate" where an MGE of 25% would operate. Our position would be to go along with a general agreement, providing the level of MGE does not exceed 35%.

Summary of UK position

13 In sum, our objectives should be :

- (a) On no account should we accept any upward movement in MGEs without the adoption of DDFs.
- (b) Subject to this, to accept a common agreement:
 - (i) to ban (or an effective deterrent) on tied aid to countries with per capita income above \$2/3000;
 - (ii) a 50% Minimum Grant Equivalent for the LLDCs;
 - (iii) for the intermediate category an MGE threshold up to 35%.



Handwritten text, possibly a date or address, is faintly visible in the center of the page.

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OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

CDP
17/1

From the Minister

17 January 1986

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

De Paul

INDONESIAN SOFT LOANS

Thank you for your letter of 8 January.

There seems little doubt that the Indonesians are determined to keep a tight control of their foreign debt position. This has been underlined by President Suharto's recent budget statement which indicated that no new project business is to be taken on for the present.

Nevertheless, I would agree that Indonesia remains a market of significant potential in the longer term and that we should continue to explore the possibility of providing a soft loan facility on a mutually acceptable basis. I am not optimistic that we shall make much progress, especially after the budget statement; but that should not deter us from taking every opportunity of demonstrating our interest in Indonesia's economic progress.

I very much agree that a key factor in the Indonesia situation is the dominant role of Japan as a provider of concessional resources. I think it would assist our appreciation of the difficulties we face if we were to consider the Japanese position a little further.

The terms set for aid by Presidential Decree No 8 were, of course, based on the terms offered by Indonesia's largest aid donor, namely Japan. Japan has a particular geo-political, as well as commercial, interest in its own region of the world. About one half of its net bilateral aid goes to countries in the Far East: India and China being by far its largest recipients. Because most of these countries are not among the poorer developing countries, Japan provides aid on loan terms. Its policy in this respect is the same as ours. In the case of Indonesia and China, whose per capita incomes are lower than other ASEAN countries, the terms of the loans are relatively generous, although, as you rightly point out, because the yen is a low interest rate currency, the degree of concessionality involved is less than in the case of a sterling loan on the same nominal terms. Moreover, the pressure within the OECD for further tightening of the discipline with respect to what can be allowed as tied aid credits, is unlikely to affect Japan's aid programme to Indonesia because of the already high concessionality of the loans. It is also striking that other European donors do not seem ready to meet Indonesia's terms any more than we.

/We must

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We must also recognise that Japan has recently announced a new aid target for 1991 which involves doubling in dollar terms its present level. Although it is increasing the level of grants it provides to poorer developing countries, and is increasing its share of multilateral programmes (18.7 per cent of IDA 7), part of the increase can be expected to benefit the countries in the Far Eastern region. The real problem for British exporters is both the size of the Japanese aid programme and the fact that much of it is in effect tied to Japanese procurement. Perhaps in the context of our wider discussions with Japan about its trade surplus we could press for a greater degree of genuine untying of their bilateral aid.

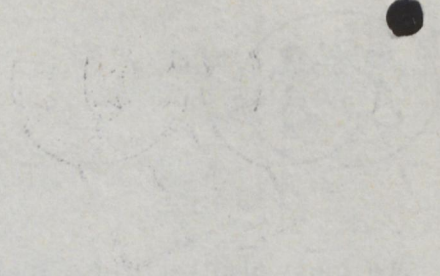
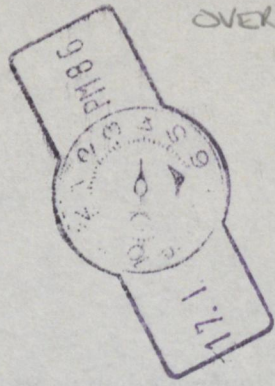
I am copying this letter to the Prime Minister, Geoffrey Howe and John MacGregor.

A handwritten signature in black ink, consisting of a stylized 'T' and 'R'.

TIMOTHY RAISON

CONFIDENTIAL

OVERSEAS AID: policy review: rts.



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Overseas
Aid
Policy

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CCPC



From the Minister for Trade

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

8 January 1986

Rt Hon Timothy Raison MP
Minister for Overseas Development
Overseas Development Administration
Eland House
Stag Place
LONDON
SW1E 5DH

CDP
oli

Dear Tim

INDONESIAN SOFT LOANS

Officials from our Departments have recently returned from 10 days of discussions in Jakarta to explore the potential for securing projects in Indonesia with ATP soft loans. It seems clear that the Government of Indonesia (GoI) remains determined to exert tight control on such business, and that the immediate prospects of their policy easing remain low given the impact of reduced oil prices.

In October last year, the GoI introduced a Presidential Instruction limiting the amount of new project business which could be undertaken. Beyond those projects on a core Priority List, new contracts could only be entered into on soft loan terms which, in sterling, imply particularly high concessionality. Indeed, although the Presidential Instruction represents a lesser hurdle for lower interest rate currency suppliers, it is becoming increasingly clear that the GoI's primary purpose is to put a brake on new projects rather than secure substantial amounts of attractive soft loans. Our European competitors - even, it seems, West Germany - do not appear to have met the Indonesians' terms, or succeeded in exacting concessions. The Japanese can meet the Indonesian terms: a reflection of lower Yen rates and the fact that they operate a large part of their aid programme on such soft loan, rather than 100 per cent grant terms.

As a result of our discussions, the GoI do seem to recognise the extent to which we have moved towards their soft loan requirements. The discussions were exploratory, but we could give them no reason

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Rt Hon Timothy Raison MP

January 1986

to believe that we would be able to offer them 25 year loans at a 3.5 per cent fixed interest rate in sterling. The Indonesians indicated their clear preference for sterling loans, but they might be prepared to consider offers from us in other currencies against one or two specific projects to which they attach particular priority.

Indonesia is a market with considerable potential, and which we should take every opportunity to try to exploit. Considerable goodwill exists following the Prime Minister's visit earlier this year, and we should continue to pursue the possibility of securing a mutually acceptable basis on which UK companies can secure project business in Indonesia. We should, therefore, continue to consider with the Indonesians the option of providing soft loans in low interest rate currencies, whilst confirming that we are not able to meet their demands in sterling. This should be done, in the first instance, through our Embassy in Jakarta with follow-up visits - as necessary - by officials from London.

I am copying this to the Prime Minister, Geoffrey Howe and John MacGregor.

Yms,
Paul

PAUL CHANNON

L02ADD

CONFIDENTIAL

2





Foreign and Commonwealth Office

London SW1A 2AH

5 December 1985

Dear Charles,

CDP
5/12

Malaysia: ATP for locomotives

You wrote to Michael Gilbertson on 24 September about the Prime Minister's response to Hawker Siddeley's request for increased ATP support for a bid by Brush Electrical (a Hawker Siddeley subsidiary) to supply locomotives to Malaysian Railways. The Prime Minister accepted the Trade and Industry Secretary's advice that we should not accede to Sir Arnold Hall's request for an ATP grant equivalent to 41 per cent of the contract value as against the 31.4 per cent we had already offered.

Since then the competitive position has changed. The French have improved their offer in a package which represents a 36.56 per cent grant element. The Department of Trade and Industry recommended that the ATP element in the wholly British bid should be improved from £7.693 million to £8.96 million in order to match the French offer. Ministers here agreed, and the Malaysian Government and Hawker Siddeley are being informed of the revised offer in support of Brush Electrical.

I am copying this letter to Michael Gilbertson (DTI) and Rachel Lomax (HM Treasury).

Yours,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

OVERSEAS AID: Policy Review: Pt 5



CC P



Foreign and Commonwealth Office

London SW1A 2AH

7 October 1985

Dear John,

NORM
CDP 712Aid and Trade Provision: Potential problem cases

I enclose the first of the series of reports on potential ATP problem cases which was agreed by Ministers at EX on 26 June. *on attached file part 4*

The only case which requires an early decision by Ministers is the Ayoun Moussa Power Station project in Egypt, which has already been the subject of correspondence between the Foreign Secretary and the Secretary of State for Trade and Industry prior to the Prime Minister's recent visit to Egypt.

The Foreign Secretary believes that early agreement is needed on the Government's attitude to this project. He suggests that officials should clarify what stage the project has reached within the Egyptian Government machinery, and whether they intend to proceed with the project in the near future. Officials should then agree inter-departmentally a note which sets out all the issues as the basis for a Ministerial discussion between the FCO, Department of Trade and Industry and the Treasury.

I am copying this letter to Charles Powell (No 10), Richard Broadbent (Chief Secretary's Office) and Martin Dinham (ODA).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

John Mogg Esq
PS/Secretary of State
Department of Trade and Industry
Victoria Street
LONDON SW1

BI MONTHLY REPORT OF POTENTIAL ATP PROBLEM CASES
SEPTEMBER 1985

1. Algeria : Bellara Steel Plant (ATP Grant £3.9m)

The British firm of Atkins is bidding for the management contract for the construction of this Steel Plant. A 25% ATP grant of nearly £4 million has been sought. The main project involves the construction of phase one of a steel plant to produce one million tonnes of steel each year together with the provision of associated infrastructure. It is suspected that Atkins' Canadian competitors have access to a Canadian line of credit with a concessional element. It is also possible that when tenders for the implementation contracts are invited British suppliers would seek further ATP support. The ODA is concerned about supporting new steelmaking capacity in the world and is conscious of the difficulties encountered in the Sicartsa Steel project in Mexico.

It was not possible to undertake an appraisal of the project before the deadline imposed by the tender closing date. We have indicated to Algeria our willingness to consider making an ATP grant available if others make concessionary finance available for the contract. Meanwhile ODA is attempting to appraise the project largely on the basis of data available to Atkins.

2. Malawi :

- i. Rural Telephone Exchange GEC (ATP Grant £1.7m)
- ii. Power Transmission Project (Balfour Beatty)(ATP Grant £2.03m)

These two ATP projects are competing for limited ECGD cover. At present ECGD cover is available on a first come, first served basis and subject to confirmation from the Malawi Government that these credits will not breach an IMF agreement. The

/ cover

cover available is not sufficient to cover both projects.

ODA has made an ATP offer for the Power Transmission project. But an ODA-funded appraisal mission has reported that few of the sites proposed for new digital rural telephone exchanges are economically sound. It is understood that there may be other sites which may offer better prospects. A meeting with GEC is being arranged to try and put together a more acceptable scheme.

3. Mauritius : Line of Credit (ATP Grant £3M)

The Mauritians have indicated their inability to accept the terms of the ECGD export credit component of the line of mixed credit because of IMF restrictions. It is not possible to reduce the rate of interest on the export credit below the prevailing "Consensus" rate. However, the IMF has recently permitted an increase in external borrowing to a limit of US\$20M for 5-12 years maturity. We hope to identify projects which may be included below this new ceiling.

If it proves to be impossible, officials will need to consider what our reactions should be. One solution might be to convert the line of mixed credit to soft loan using the new soft loan mechanisms agreed in principle by Ministers in June. A decision on this should await the finalisation of the details of the new soft loans mechanism.

4. Sri Lanka: Samanala Wewa Dam (ATP Grant £14.4m)

Ministers approved this project for ATP support at the meeting of EX on 16 July. Although the Japanese have not made a firm commitment, we understand that they are prepared to consider providing support; but that they may seek a more commercially attractive share of the project. We still await an indication of the French position; it is expected quite soon. It is possible that the Sri Lankans may seek more generous financing terms than presently offered. The basis on which the project is to proceed is therefore yet to be confirmed.

5. Malaysia ; rural Water Supplies (Biwaters)
(ATP Grant £59.46m)

Biwaters were very confident of obtaining the £500m plus contract (UK content £236m) for which a 25% grant has been offered; but the position has been complicated by a dispute between Rolls Royce and the Malaysians over another contract. The award of Aero-engine contracts to Pratt and Whitney rather than to Rolls Royce has led Rolls Royce to claim compensation under the terms of an earlier contract. The Malaysians want this dispute settled before awarding the Water Supply contract to Biwaters. Various exchanges are taking place to attempt to resolve the situation.

6. Ayoun Moussa Power Station (ATP Grant £37.9m)

The Ayoun Moussa Project is a proposed major addition to Egypt's power generating capacity. NEI International Construction Limited and Balfour Beatty, in partnership with two Japanese firms, are bidding for the project. ECGD cover is expected to be available for this project, although this may exhaust the cover available for Egypt.

ODA has expressed reservations about the viability of the project: if the Egyptians charged realistic tariff levels, present generating capacity is expected to be sufficient to meet demand into the 1990s. ODA would not wish to undermine World Bank efforts to encourage the Egyptians to put the power sector on an economic footing involving the substantial removal of subsidies. The Egyptians have recently increased tariffs which is a welcome step, but this presents political problems in Egypt.

The Secretary of State for Trade and Industry and the Foreign Secretary corresponded on this issue prior to the Prime Minister's recent visit to Egypt. It is understood that the Egyptians did not raise the project with the Prime Minister during her visit.

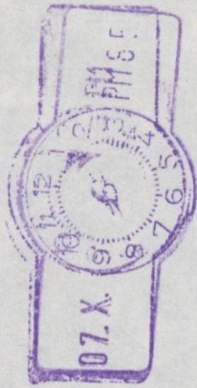
/DTI

RESTRICTED

DTI oppose the no-aid agreement proposed by the Canadians as it is felt that without aid the project would not be implemented, in which case the proposed Anglo-Japanese collaboration would be endangered. Moreover, it is thought by DTI that other countries may not support, or adhere to, a no-aid agreement in this case.

RESTRICTED

OVERSEAS AID
POLICY REVIEW
PT 5



Arnold Hall F.R.S., F.Eng.

Chairman

Hawker Siddeley Group PLC
18 St. James's Square,
London, SW1Y 4LJ
Tel: 01-930 6177

7th October, 1985.

Charles Powell, Esq.,
Private Secretary to The Prime Minister,
10 Downing Street,
London. SW1

CM
9/K

Dear Sir,

In Sir Arnold's absence abroad, I am acknowledging the Prime Minister's letter of the 24th September about supplying locomotives to Malaysia.

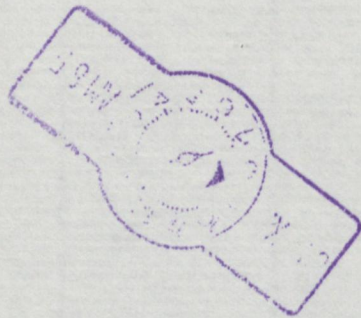
I will, of course, show this to Sir Arnold as soon as he returns to the office.

Yours faithfully,

Mrs. J.M. Midgley,
Secretary to Sir Arnold Hall.

OVERSEAS AID
POLICY REVIEW
PT 5

St. Andrew's Hall, 188, 189



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FILE

CANNAAT

G.R.S.

O/f - to
keep

10 DOWNING STREET

24 September, 1985

From the Private Secretary

The Prime Minister has considered the Trade and Industry Secretary's minute of 20 September about Hawker Siddeley's request for increased ATP support for their bid to supply locomotives to Malaysian Railways.

The Prime Minister has written to Sir Arnold Hall explaining why we are unable to give increased ATP support. At the same time, she is very disturbed to hear of the way in which this contract is being handled within the Malaysian Government and thinks that we should intervene at a political level. The Prime Minister recalls that she herself discussed projects in the railway sector with the Malaysian Government during her visit in April, and received a rather favourable reaction. She would be prepared now to write to Dr. Mahathir, if Mr. Brittan thinks this would help, to express our astonishment that the British bid was not accepted and at the decision to cancel the tender and issue new specifications. Alternatively it may be better for Brittan himself or another Minister to write to the Malaysian Minister of Transport.

I should be grateful for prompt advice.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office) and Rachel Lomax (HM Treasury).

(C.D. Powell)

M. Gilbertson, Esq.,
Department of Trade and Industry.

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✓



cc DTI

ea

10 DOWNING STREET

THE PRIME MINISTER

24 September 1985

Dear Sir Arnold.

Thank you for your letter of 13 September about Brush's bid to supply twenty six locomotives to Malaysia. I am sorry that my absence in the Middle East has delayed a reply.

The way in which this contract has developed is intensely frustrating, and I fully understand your anxiety about the Japanese competition in particular. I am afraid, however, that after careful consideration I have concluded that the Government cannot agree to offer an increase on our previous level of ATP assistance which is of course already very high. To do so could jeopardise other commercial prospects being pursued in Malaysia by UK companies at lower ATP grant levels than that which is already available to you. Furthermore, there seems no prospect that any future orders by the Malaysian railways could then be secured on significantly more commercial terms.

I hope that it will be possible for you to extend the option of yen financing, and to persuade the Malaysians of the true comparison with a sterling credit. I understand that the previous ATP offer does, in fact, compare favourably with the Japanese finance offer in discounted terms. Certainly our High Commission in Kuala Lumpur will also continue to give every possible assistance locally in an effort to win this business for the UK.

Officials in the Department of Trade and Industry will

ea

keep in close touch with your team about updating our previous ATP offer. I can assure you that I share your concern that this contract should be settled in our favour. But whilst we cannot agree to your most recent request, I hope that this combined effort of UK industry with Government support will finally win through.

Yours sincerely

Raymond Thelton

Sir Arnold Hall, F.R.S.

PRIME MINISTER

RAILWAY ENGINES FOR MALAYSIA

Arnold Hall of Hawker Siddeley is trying to sell railway engines to Malaysia. The order is worth £25 million and he is getting £7.25 million ATP.

Hawker Siddeley's bid was lowest. But there has been dirty work at the cross-roads, the original tender has been cancelled and the specifications rewritten to make them more favourable to French and Japanese bids.

Arnold Hall is seeking an increase of ATP to £10 million to defeat this move. Trade and Industry Secretary is against:

- (a) it would take up too much of the ATP budget;
- (b) more importantly, it would encourage the Malaysians to seek similar, grossly uncommercial terms for other orders, thus compounding our difficulties; and
- (c) there is no serious prospect of follow-up orders on commercial terms.

These seem strong reasons, particularly (b) and (c). Agree to sign the attached letter?

C.D.P.

CHARLES POWELL
23 September 1985

*Surely we can write
to Thatcher?*

MEA

CPR



COMMERCIAL IN CONFIDENCE

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PRIME MINISTER

attached Sir Arnold Hall, Chairman of Hawker Siddeley, wrote to you on 13 September seeking increased ATP support for a £25m bid to supply locomotives to Malayan Railways.

Brush, a Hawker subsidiary, and GEC submitted ATP-supported bids for this order a year ago. The competition narrowed to Brush (UK), Alsthom (France) and Mitsubishi (Japan). Brush appeared to be well-placed, being lowest on price.

You will recall promoting British railway interests in your discussions with Dr Mahathir in April this year. Following your visit to Malaysia we increased ATP support for the Brush bid up to £7.25m (31.4% grant) to match a subsequent improvement in the French offer. This level of support also enabled Brush to put forward a sterling/yen package which was better in discounted terms than the competing Japanese financing offer.

Despite the attractions of the Brush bid, different factions within the Malaysian Administration favoured the French and Japanese bids. These internal conflicts, together with intensive lobbying behind the scenes resulted in the cancellation of the



original tender, and the re-issue of a new one with a specification more favourable to the Japanese. The UK's chances of winning are consequently much reduced, but Brush and GEC are bidding again.

To have a chance of winning, Brush now judge that they have to match the Japanese terms in an all-sterling offer, requiring a further increase in ATP to £10m (40.8% grant). Such exceptional support would make a disproportionate demand on the ATP budget, and reduce prospects for follow-on business on commercial terms. Moreover, an aid and ECGD interest make-up package of such magnitude would encourage the Malaysians and others, (notably the Indonesians with whom we will shortly open negotiations on soft loans), to drive a harder bargain on future British project bids. We do not think therefore that the amount of ATP sought by Brush would be justified, particularly when even that level of support offers no guarantee that we will secure the business.

We do, however, think that we ought to maintain the degree of support offered on the previous tender. This enables the UK firms to match the Japanese loan offered last time with a sterling/yen package, to match the French financing offer on the first tender, and prevents the Malaysians from rejecting UK bids as inferior to the earlier tender. A paper proposing this has been circulated to Departments: it needs to be agreed this week.



The new tender, issued at the beginning of this month, calls for bids by 26 September, which means that UK firms need to finalise their bids by Monday 23 September. Time is therefore very short indeed.

I am enclosing a draft reply for you to send to Sir Arnold.

I am copying this minute to Geoffrey Howe and Nigel Lawson.

L. B.

L B

20 September 1985

Department of Trade & Industry

109.1

Please type find

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO

Sir Arnold Hall
Chairman
Hawker Siddeley Group plc
18 St James' Square
London SW1Y 4LJ

Thank you for your letter of 13 September about Brush's bid to supply twenty six locomotives to Malaysia. *I am sorry that my absence in the Middle East has delayed a reply.*

~~Clearly this is an important order, and one which was raised during my visit to Malaysia earlier this year. The way in which this contract has developed is intensely frustrating, and I fully understand your anxiety about the Japanese competition in particular.~~

After careful consideration I have concluded that
I am afraid, however, that the Government cannot agree to offer an increase on our previous level of ATP assistance. To do so could jeopardise other *commercial prospects* ~~project opportunities~~ being pursued in Malaysia by UK companies at ~~even~~ lower ATP grant levels than that *which has already been available to you* reached during the last year's negotiations for this locomotive order. Furthermore, there seems no prospect that any future orders by the Malaysian railways could then be secured on significantly more commercial terms.

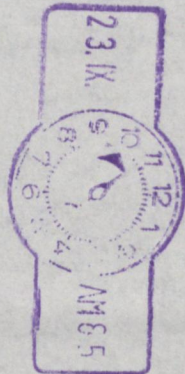
2/ I hope that it will be possible for you to extend the option of yen financing, and to persuade the Malaysians of the true comparison with a sterling credit. I understand that the previous ATP offer does, in fact, compare favourably with the Japanese finance offer in discounted terms. Certainly our High Commission in Kuala Lumpur will also continue to give every possible assistance locally in an effort to win this business for the UK.

3/ Officials in the Department of Trade and Industry will keep in close touch with your team about updating our previous ATP offer. I can assure you that I do share your concern that this contract should be settled in our favour. ~~and indeed spoke in favour of it~~ But whilst we cannot agree to your most recent request, I hope that this combined effort of UK industry with Government support will finally win through.

AOG

I hope that this will be a step towards a more
of a permanent, and to provide the necessary
comparison with other countries. It is important that the
of your country, in fact, compare favourably with the
to these changes in the international scene, certainly on the
Commission to find means of increasing output to give every
greater assistance locally in an effort to win this business for
the UK.

I should like the Department of Trade and Industry will see in
close touch with your representatives looking out for our interests all over
I can assure you that I would be glad to have your cooperation in this context
of a general nature, but while we cannot agree to
your most recent address, I hope that this commission will be of
assistance with Government support will finally win through.





10 DOWNING STREET

From the Private Secretary

13 September 1985

I enclose a copy of a letter to the Prime Minister from Sir Arnold Hall about Hawker Siddeley's bid for railway transport equipment in Malaysia. Sir Arnold requests an increase in the level of UK grant aid for the project, and seeks a very early reply.

As you know the Prime Minister will be away in the Middle East next week. But I am sure that she would want very rapid consideration given to this request. You will recall that she herself supported Hawker Siddeley's bid during her visit to Malaysia last Easter. If a decision agreed by all interested departments can be reached rapidly, I should be grateful if it could be conveyed to Sir Arnold before the Prime Minister's return - though she would also, I think, like to write herself in due course.

I am copying this letter and enclosure to Peter Ricketts (Foreign and Commonwealth Office) and Richard Broadbent (H.M. Treasury).

(Charles Powell)

John Mogg, Esq.,
Department of Trade and Industry.

ECU



10 DOWNING STREET

From the Private Secretary

13 September 1985

I am writing on behalf of the Prime Minister to thank you for your letter of 13 September about your company's bid for locomotives in Malaysia. As the Prime Minister will be in the Middle East next week I have asked the departments concerned to deal with your request as rapidly as possible, so that she may reply upon her return.

(Charles Powell)

Sir Arnold Hall

EC

Sir Arnold Hall F.R.S., F.Eng.

Chairman

Hawker Siddeley Group PLC
18 St. James's Square,
London, SW1Y 4LJ
Tel: 01-930 6177

The Rt Hon Margaret Thatcher, F.R.S.,
Prime Minister
10 Downing Street
London S.W.1.

13th September 1985

Dear Prime Minister,

You were good enough to write to me on your return from Kuala Lumpur to say that during your discussions with Prime Minister Mahatir, railway transport equipment had been identified as an area where there was possibility for trade with U.K. I thought I should advise you of a significant development.

The enquiry for locomotives on which we have been working for so long, has been cancelled by the Malaysians, and reissued. New tenders are required in Kuala Lumpur by 26th September and full financial offers are demanded at that time, including the Government to Government financial arrangements.

The decision to reissue the tender apparently arose from Malaysian readiness to accede to Japanese pressure of a sort that we are seeing in many areas of the world in different types of business where the Japanese appear to be trying to crush all opposition with attractive finance and maximum political support. I feel that this contract presents an opportunity for Her Majesty's Government and Hawker Siddeley/Brush to prevent the Japanese from achieving their objectives and to test the motivation of Malaysian attitudes.

From our side, we aim to respond to this situation by maintaining our base price advantage over the Japanese competition which pertained at the original tender opening despite subsequent adverse movements of exchange rates. Our original offer, together with Brush locomotives' exemplary performance prior to the 'look east' policy, had secured us the technical recommendation of the Malayan Railways before the cancellation. We submitted financial packages with 31.4% of grant aid and 68.6% of sterling credit, plus alternative 16 and 21 year yen loans. Taking the alternative of grant plus yen credit, our offer was competitive with the Japanese offer which was supported by Overseas Economic Corporation Fund of Japan terms.

cont'd....

For our new bid we are again seeking the long term yen credit but there are two dangerous aspects of this:

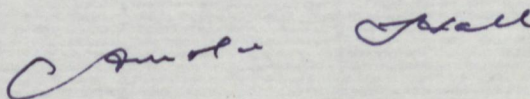
- (i) the Japanese banks may now be influenced not to offer the facility;
- (ii) the Malaysians may choose not to consider the yen alternative as a means of rejecting our most competitive bid.

On the date set by the Malaysians for the new bid there is no time to test these dangers so we are forced back to the position of the 31.4% U.K. grant plus sterling credit which, as it stands, we know will not be competitive with mainstream O.E.C.F. finance supporting the Japanese offer.

In anticipation of these circumstances, I am writing to ask if you would be prepared to support an increase in the level of U.K. grant aid for which we have already applied to P.E.P. This, when combined with the normal sterling credit, would neutralise the Japanese financial advantage.

Regrettably, time is not on our side. The Standing Committee on Aid and Trade (SCAT) procedures require the approval of four different ministries and, in view of the rather high concessionality of this support, the consideration time may tend to be longer than normal. 26th September is, however, the deadline set by the Malaysians and I write to seek your support in the approval process and in meeting the tight timescale that they have set us.

Yours sincerely,



A.A.HALL.

FDR. POL: SE Asia Trip: Pt 3.

8/11/44



CS



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2. NBP 7 pa
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FCS/85/240

CHIEF SECRETARY TO THE TREASURY

Aid and Trade Provision: Future Funding

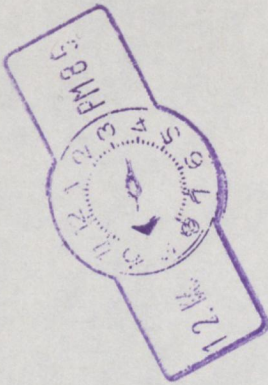
1. I am replying to Peter Rees' letter of 26 July. I have seen the comments made by Tom King in his letter of 6 August and by Leon Brittan in his letter of 5 September.
2. As you know from our own exchanges about my Public Expenditure programmes I am under extreme pressure and can see no way at present of finding savings elsewhere within the programme in order to increase the Aid Trade Provision. I would be ready, as suggested by Leon, to carry further our EX discussions with yourself, Leon and David Young before this year's Public Expenditure decisions are made.
3. Copies of this minute go to the Prime Minister, Leon Brittan and David Young.

(GEOFFREY HOWE)

[Approved by Sir Geoffrey Howe
and signed in his absence]

Foreign and Commonwealth Office
11 September 1985

Melberts and Policy
P.T.S.



CAD



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

DW505

Secretary of State for Trade and Industry

5 September 1985

John MacGregor Esq OBE MP
Chief Secretary to the Treasury
HM Treasury
Great George Street
LONDON
SW1

1, ~~GPP~~
2 file, NBPM, S/a.

2 John,

Peter Rees sent Norman Tebbit a copy of his letter of 26 July to Geoffrey Howe about the financing of an increase in ATP funds.

In my view it is unrealistic to expect any suggestions for savings when I do not know what my Departmental programme will be in the forward years. We could return to any such possibility after the bilaterals.

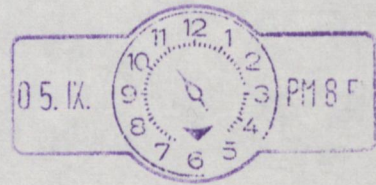
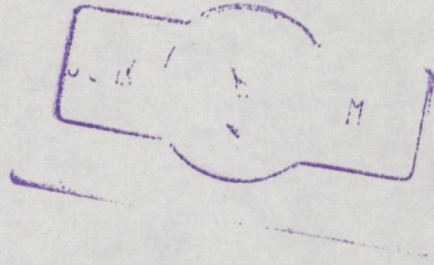
Copies of this letter go to the Prime Minister, Geoffrey Howe and David Young.

*Law.
Leon*

LEON BRITTAN

Overseas Air

175 Billy Lawren



CCWJ



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460

Switchboard 01-213 3000

NBPm

The Rt Hon Peter Rees QC MP
 Chief Secretary
 HM Treasury
 Great George Street
 London SW1

6 August 1985

AID AND TRADE PROVISION: FUTURE FUNDING

Thank you for copying me your letter of 26 July to Geoffrey Howe.

As you know, I enter the bilaterals with a number of additional bids on the table. Some represent unavoidable demand-led increases; others, in my view, justify the strongest priority, in support of the government's employment objectives. (We have recently endorsed, as an addition to the list, the Chancellor's proposal to expand enterprise allowance by some £20-£30 million a year). Demand-led changes aside, we have been unable to identify sufficient savings in any survey year to cover these bids of our own. It follows that I simply have no basis on which, in effect, to "ring fence" an area of saving for ATP; the absence of an agreed methodology for evaluating ATP's cost-effectiveness in creating jobs reinforces this. We could, however, return to the question during bilaterals, taking into account any further conclusions by officials on what additional ATP spending might be required and justified.

Copies of this letter go to the Prime Minister, Norman Tebbit and Geoffrey Howe.

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CCND



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State
Foreign and Commonwealth Office
King Chalres Street
London
SW1A 2AL

26 July 1985

Alan Geoffrey

AID AND TRADE PROVISION: FUTURE FUNDING

I am writing separately to you, Tom King and Norman Tebbit setting out my proposals for our bilateral meetings in this year's Public Expenditure Survey. Those letters do not take account of our recent discussions in EX about the future level of funding for the Aid and Trade Provision (ATP) which we agreed at EX to settle in the Survey.

Our officials are working on the practicalities of the soft loan mechanisms we agreed in principle, but until they have completed their study it will be difficult to judge what, if any, additional funds will be required. I understand that, on certain assumptions, Norman Tebbit's aim of doubling the business won with ATP to £500 million a year within three years would require additional public expenditure of

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>£m</u> <u>(1990-91)</u>
ATP	16	41	57	(65)

There would be associated costs on fixed rate export credit of

FREF	0	1	6	(10)
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CONFIDENTIAL

As was made clear in the recent Cabinet discussions, I shall be unable to meet additional bids in the Survey for anything which is not completely unavoidable. If extra funds for ATP are to be provided it can only be, as the Prime Minister indicated in her summing up at EX, by diverting small sums from the industrial, employment and overseas programmes.

I should be grateful if you, Norman and Tom could let me have, as quickly as possible your suggestions for the savings each of you could make in your respective programmes to allow an increase in ATP so that I can judge how these fit into the overall PES picture.

copies of this letter go to the Prime Minister, Tom King, and Norman Tebbit.

Norman Tebbit *PKW*

PETER REES

CONFIDENTIAL

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cc pg

Prime Minister



You will want to be aware of the existence of this, but need not read it. We will get a line for questions on 16 July.

Foreign and Commonwealth Office

London SW1A 2AH

11 July, 1985

Dear Charles,

C.D.P.
11/7.

I enclose for your information a Proof Copy of a White Paper incorporating the Government's observations on the recent Report of the Foreign Affairs Committee on Famine in Africa (published in April as HC56).

The White Paper will be published at 3.30 pm on Monday 15 July as Cmnd 9566 and the proof should be regarded as Confidential until then. Confidential Final Revise copies will be distributed from 9.30 am on Monday 15 July.

The Chairman and some members of the FAC will be in Moscow until 18 July. Arrangements are being made for the Embassy to give them copies on Friday afternoon, 12 July.

The FAC's Report attracted a lot of attention, particularly the criticisms that the Government failed to act sufficiently promptly and that extra funds over and above the normal aid programme should have been provided. These points are addressed in Sections VI and XXXII of the White Paper.

I am sending copies of this letter to the Private Secretaries of all other members of Cabinet, the Chief Whip, Paymaster General and Sir Robert Armstrong.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

PART 4 ends:-

Ex (85) 4th 26.6.85

PART 5 begins:-

FCO to CDP 11.7.85.

Grey Scale #13



A 1 2 3 4 5 6 **M** 8 9 10 11 12 13 14 15 **B** 17 18 19



Inches 1 2 3

Centimetres 1 2 3 4 5 6 7 8

Colour Chart #13

Blue Cyan Green Yellow

