

SAfrica

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PRIME MINISTER

ECGD Credit for South Africa
(OD(79) 37)

BACKGROUND

In his paper the Secretary of State for Trade reports a South African request for improved credit terms. Apart from making a request for a "macro-credit line" (which all are agreed should be refused at this stage), Senator Horwood dangled the prospect of contracts totalling over \$1 billion, over the next three years, for which the United Kingdom chances would be greatly improved if we were to offer 8½-year credit rather than continue to follow the line informally agreed with other western countries of limiting credit to South Africa to five years. ECGD consider 8½ years reasonable by normal commercial criteria, and Mr. Nott would like to be able to confirm this to Senator Horwood fairly soon. An immediate decision is needed on the credit terms for a large power station contract on which GEC are in competition with a German company.

2. The Treasury and Bank of England do not necessarily oppose an 8½ year credit for this contract, but have some worries about our total credit exposure in South Africa. The Foreign and Commonwealth Secretary is very concerned that nothing should rock the black African boat at this crucial stage of negotiations over Rhodesia.

HANDLING

3. You may wish to concentrate discussion on the immediate issue of credit terms for the Tutuka contract, first asking the Secretary of State for Trade to introduce his paper and then asking the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Industry for their comments.

4. The discussion will need to cover the following points:-

- (a) Does South Africa primarily want the political benefit of breaking down the present consensus limiting credit to them?

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- (b) How much publicity and opposition might we attract by offering 8½-year credit for the Tutuka contract?
- (c) How much risk is there that we should get the opprobium but still not get the contract because the German company matched our terms and was more competitive (the Treasury has voiced this fear at official level)?
- (d) Is there any way in which we might ensure with the South Africans that an improvement in our credit terms would enable GEC to get the contract?
- (e) How important is it to GEC to get this contract? Has the Secretary of State for Industry anything to add to paragraph 12?

CONCLUSION

5. Subject to the points made in discussion, particularly by the Foreign and Commonwealth Secretary both on substance and timing, the conclusion might be to confirm that we should not offer South Africa the proposed macro-credits, but to agree that we should be prepared to consider ECGD cover up to 8½ years if this will give us a real chance to secure these orders for GEC. The Secretary of State for Trade should be guided by the Foreign and Commonwealth Secretary in any public presentation of the decision.

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(Robert Armstrong)

2nd November 1979

