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OD(80) 4th Meeting

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 12 FEBRUARY 1980 at 10.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Nott MP
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

Sir Ian Percival QC MP
Solicitor General

Mr Neil Marten MP
Minister of State
Foreign and Commonwealth Office
and Minister for Overseas
Development

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery
Mr R M Hastie-Smith

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1. THE KHARG: FURTHER DEVELOPMENTS
Previous Reference: OD(80) 3rd Meeting Item 3

The Committee considered a note by the Secretaries (OD(80) 9) reporting how the problem presented by the fleet replenishment ship Kharg, which was being built for the Iranian Navy, had developed since the Committee discussed the subject on 29 January.

THE PRIME MINISTER, summing up a brief discussion, said that in spite of some uncertainties the Iranians seemed disposed to accept a postponement in the delivery date of the ship from 28 February to 31 March. Meanwhile, the position on the release of the United States hostages in Teheran was still obscure. As things stood, other Western suppliers were contriving to postpone delivering defence equipment to Iran, and it was important that Britain should do the same. Unless the situation had by then been resolved the Committee would wish to resume consideration of the Kharg case in the middle of March.

The Committee -

Took note, with approval of the Prime Minister's summing up of their discussion.

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2. OVERSEAS AID

The Committee had before them memoranda by the Secretary of State for Foreign and Commonwealth Affairs covering an aid policy review by officials (OD(80) 8) and a draft Parliamentary statement on overseas aid (OD(80) 10); and a note by the Secretaries (OD(80) 7) covering a letter from the Secretary of State for Trade and a note by the Department of Trade on Aid and Trade.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he was in general agreement with the conclusions of the review by officials. Its principal recommendations which he supported, were that political, commercial and industrial objectives should receive an enhanced emphasis; and that the Government should seek to restrain the growth of multilateral aid commitments. A significant change in the structure of the aid programme could take place only gradually, because of constraints imposed by existing commitments and by the Government's decision to reduce the total aid programme in real terms over the next three years. Because of multilateral agreements already entered into, the bulk of the planned reduction would have to fall on bilateral country programmes, which would probably have to be cut by 45 per cent in 1980-81. But it was bilateral aid which offered the best scope for advancing the Government's political and commercial aims.

In discussion there was general support for increasing the emphasis to be placed on the political, commercial and industrial objectives of overseas aid, and the following points were made -

- a. The United Kingdom did not get a fair share of total procurement from the European Community's multilateral aid programmes. The Germans and particularly the French did very much better, and the United Kingdom should seek to increase her share.
- b. Since bilateral aid served British political and commercial interests better than multilateral aid, ways of reducing the latter's share of the total programme should be urgently examined. Other members of the European Community might also welcome a reduction in the amount of their aid which had to be disbursed multilaterally.

c. There were good political reasons for expanding the Aid Contingency Reserve as proposed, in order to meet likely new commitments in relation to eg Rhodesia and Turkey.

d. The Aid and Trade Provision (ATP) represented only a small proportion of the total aid programme but was of great value to British commercial interests; it should at least be maintained at its 1979 level in real terms, which would imply a revalued figure of just over £41 million for 1980-81.

e. The proposal in the 1980-81 programme to offer £42 million as a voluntary contribution to certain United Nations agencies was open to question. It was important to scrutinise this and any other non-obligatory contributions to multilateral funds in order to ensure that they satisfied the necessary commercial or political criteria.

f. It was not clear that aid really served the developmental objectives which were claimed for it. The review appeared to dismiss too lightly the views expressed on this point by Professor Bauer and others.

g. The current management review of the Overseas Development Administration should critically examine the need for it to have geographical departments parallel to those in the rest of the Foreign and Commonwealth Office.

h. The recommendations on mixed credit in the Department of Trade's note on Aid and Trade should not be carried out in a manner which created open-ended commitments or cut across efforts to moderate the practices of the Japanese and others in this field.

i. The tone of the proposed Parliamentary statement reflected a wish to please potential aid recipients. In recasting more emphasis should be given to the Government's determination to support British political, commercial and industrial interests. This new policy should be made clear to British industry, as it already had been to posts overseas.

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THE PRIME MINISTER, summing up the discussion, said that current economic circumstances made it essential that the overseas aid programme should play its full part in helping British industry to compete internationally. Others such as the West Germans organised their aid programmes so as to enhance their overseas trade. Britain must move in the same direction. The proposed ATP should if possible be increased. While Britain's immediate freedom of manoeuvre might be limited, maximum efforts should be made to give aid bilaterally rather than multilaterally, and to ensure that where multilateral aid programmes were unavoidable they provided a better rate of commercial return. The proposed Parliamentary statement should be amended to take account of the Committee's discussion.

The Committee -

1. Approved the recommendations of the aid policy review attached to OD(80) 8, subject to the points made in discussion.
2. Invited the Foreign and Commonwealth Secretary to consider how to increase as soon as possible the proportion of the aid programme devoted to bilateral aid rather than multilateral aid.
3. Invited the Foreign and Commonwealth Secretary to consider in consultation with the Secretary of State for Trade how to improve the rate of commercial return to Britain from multilateral aid contributions which could not be terminated.
4. Invited the Foreign and Commonwealth Secretary to consider in consultation with the Secretary of State for Trade whether the ATP for 1980-81 could be increased as proposed in discussion.
5. Invited the Foreign and Commonwealth Secretary to consider whether there was a continuing need for separate geographical departments in the Overseas Development Administration.
6. Approved the recommendations on aid and trade in the Department of Trade's note attached to OD(80) 7, subject to the reservations about mixed credit expressed in discussion.
7. Invited the Foreign and Commonwealth Secretary to revise the draft Parliamentary statement attached to OD(80) 10, in order to bring out the paramount importance of political, commercial and industrial considerations and to take into account comments on points of detail which would be proposed in correspondence by the Chancellor of the Exchequer and the Secretaries of State for Industry and for Trade.

Cabinet Office

13 February 1980

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