

W. B.
C
PRIME MINISTER

Top copy filed on Defence (May 79)
'Future of UK Defence'
Cab 1

2. CUBA

When you saw the record of the meeting which officials had with Mr. Aaron when he visited this country last month, you asked a number of questions. You have seen the answers to most of these, and we now have the attached replies to your two outstanding points.

(1) Credits for Cuba

We provide no aid to Cuba. There is a ECGD cover for British exports, running at just under £30 million. This is based on a normal commercial assessment of the risks involved. The current assessment would allow ECGD's exposure to rise to £75 million or more. Successive Governments have maintained that ECGD Section I activities must remain apolitical. There are no Section II national interest commitments at present.

There are also bank credits of about \$480 million for banks based in the UK. It would be difficult to prevent private sector financing in Cuba, and any attempt would almost certainly become public.

All this means that it will not be easy to meet the Americans who are pressing their allies to discourage official and commercial credits for Cuba. We are, however, still considering what to say to them. More details are in the FCO's letter at Flag A.

(2) Joint Action in Various Defence Fields

The Americans have a number of ideas in mind. All are already under discussion, but prospects for a positive UK response are not good in most cases. There are three sub-headings:

/(i) Standardisation

(i) Standardisation and "interoperability"

- greater UK participation in anti-tank programmes
- deployment of Rapier missiles in defence of US bases in the UK
- UK to abandon Nimrod and join in the procurement of NATO AWACS instead
- joint procurement of the Harrier AV8B aircraft (probably the most attractive under this sub-heading)

(ii) Closer Co-operation in Defence of NATO Central Region

- use of UK storage facilities in Germany for US ammunition (we have no surplus)
- use of the American advanced IFF system (we prefer to think in terms of a new system to be developed within NATO)

(iii) Worldwide Co-operation

- protection of sea lines of communications (we are ready to join the US and France in talks)
- security co-operation in the Caribbean (possible but to be approached with circumspection)

More detailed explanations on these points are at Flag B.

There is no need for any further action on your part on these proposals, which are all now under consideration, unless there are particular items which you would like to pursue.

HW

22 November 1979



Foreign and Commonwealth Office

London SW1A 2AH

19 November 1979

Dear Michael,

Credits for Cuba

The Prime Minister enquired about our policy over credits for Cuba after her talk with Mr Aaron on 18 October.

The United States are consulting a number of OECD countries to discourage official and commercial guarantees and credits for Cuba. They would also welcome public statements which would help to impair Cuban credit-worthiness. The Americans want to restrain Cuba's potential for trouble-making overseas, or at least to increase its cost to Moscow, by reducing Western financing of Cuba.

A paper left with Mr Ridley by Ambassador Kingman Brewster is attached. As Mr Ridley told him, we have much sympathy with the American purpose. However, there are considerable practical difficulties. Our preliminary thinking is set out at Annex A.

Following the US initiative, the Japanese and Canadian missions in London approached us to compare notes. The US proposals evidently caused them difficulties which were being studied by their Trade Ministers. Canada is Cuba's main trading partner. The French have told Mr Ridley that they not only saw difficulty in implementing such a scheme, but thought that the isolation of Cuba would merely increase its glamour in the Caribbean.

There is no British aid to Cuba. The British involvement in credit is solely in the form of ECGD cover for British exports to Cuba, which were £27.6 million in 1978, and may rise to somewhat over £30 million this year. ECGD credit-insures British exports to Cuba, as to other countries, on the basis of a normal commercial assessment of the risks involved in so doing. Under Section 1 of the Department's powers its Advisory Council of prominent City bankers and businessmen, which is appointed by the Secretary of State for Trade, is prepared to see ECGD's exposure (now standing at £25 million overall) rise to £75 million or more, keeping pace with the growth in British exports to Cuba. Appropriate premiums are charged for this insurance. A member of ECGD is in Cuba this week on a periodic review of the economy, and to consider premium levels.

Successive Governments have maintained that ECGD's commercial activities must remain apolitical and appropriate assurances have been given to Parliament.

/Treasury

See
Wade-Grey
to Hunt
805832
18.10.79
Defence (May 79)
'Future of UK
Deterrent'
Cabinet.

CONFIDENTIAL



Treasury and other interested Departments decide the fate of applications under Section 2 of ECGD's powers, where the case for covering larger and riskier propositions in Britain's national interest is carefully considered. This procedure enables any special political factors to be taken fully into account. ECGD has no commitments to Cuba under this Section at present, though if any proposals arose it would be possible to refuse them.

As for banking credits, American figures show gross outstanding claims on Cuba of US\$481 million for banks domiciled in the UK (not all of them British banks) out of an estimated Cuban total debt to Western financial institutions of US\$1.8 billion. (The UK exposure on Cuba compares with our estimated exposure on CMEA countries as a whole of US\$11,891 million). To dissuade the private sector from financing Cuba would require direct intervention by the Government, which would probably become public knowledge.

The Bank of England are preparing a considered view of the American proposal. Lord Carrington considers that while the idea of exploiting Cuba's economic shortcomings to curtail its overseas activities has apparent attractions, there are serious difficulties of a financial, commercial and political nature, some of which are set out in the Annex A. We shall need to consider carefully our response to the Americans.

yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

CONFIDENTIAL