



PRIME MINISTER  
SHIPS FOR PAKISTAN

If Industry wishes to go ahead with this - it must come from Industry budget. It has nothing to do with Aid. It is a straight-forward subsidy to shipbuilding.

PRIME MINISTER  
E(CEA) have concluded that an aid-supported ships for Pakistan deal should go ahead. But Mr Marten reserved had Carrington's right to appeal further to you. Do you endorse E(CEA) decision?  
MAD 3/11/88

On Tuesday, the sub-Committee endeavoured to resolve an issue on which Adam Butler and Neil Marten had been unable to agree. The Government of Pakistan recently accepted the provisional terms proposed earlier this year by the previous Government for financing the construction of three ships by the Austin and Pickersgill yard of British Shipbuilders. The terms would require a grant from the aid programme of some £9 million to supplement the maximum that the EEC Commission would allow us to provide from the Intervention Fund. Adam Butler argued that this order was crucially important just now to provide work for our most modern and efficient shipyard - one which above all others we could ill afford to close. He pointed out that when we decided - and you endorsed - a few weeks ago a policy of severe contraction in the industry, we had undertaken to help British Shipbuilders as best we could to secure orders. In this context we had particularly in mind that part of the aid programme - the Aid/Trade Contingency Provision (ATCP) - which is set aside specifically for projects where the developmental justification is weak but the need to help our industries great.

Neil Marten argued that, following the recent public expenditure cuts, the aid programme could not afford to contribute to a project the main justification of which was to help an ailing domestic industry, and that the ATCP was over-committed for the present financial year. Moreover, not only was the developmental justification extremely weak, but there were foreign policy objections - notably Pakistan's



nuclear weapon ambitions - to helping her in this way at the present time.

The weight of opinion in the sub-Committee was clearly in favour of confirming the terms which had provisionally been offered to the Pakistan Government and had now been accepted by them.

Several of us were however concerned that we would be seen by our supporters to be adopting a policy which we had in Opposition criticised strongly in relation to shipping orders from Poland, India and Vietnam. But we were persuaded that we could present a decision to accept the terms for this order as a commitment inherited from the previous administration; and as Jim Prior pointed out, the situation of the shipbuilding industry had deteriorated substantially in recent months. He warned us that the levels of unemployment in those areas where inevitably there would shortly be yard closures were becoming an increasingly sensitive issue and he spoke strongly in favour of the proposal. Norman Tebbit, representing John Nott, said that, although his Department was concerned that our own shipping interests would be adversely affected by any increase in world tonnage, he too was able to accept this project - albeit reluctantly - as it involved only the replacement of existing ships.

We were all anxious to ease the burden that would fall on the aid programme and John Biffen suggested that, within the limitation imposed by the Commission on the total contribution from the Intervention Fund, it might nevertheless be possible to phase the incidence of its payments so as to reduce the loading on the ATCP in the early years. Adam Butler and Neil Marten have been able to agree arrangements which, as far as practicable, will help to

/achieve ...



achieve this and which will be acceptable to the Chief Secretary.

Our conclusions were therefore that we should tell British Ship-builders that we are prepared to confirm the provisional offer made to the Pakistan Government, involving contributions from both the Intervention Fund and the Aid/Trade Contingency Provision of the aid programme.

Neil Marten did however say that Peter Carrington might wish to take the matter further with you, notwithstanding the decision by the sub-Committee. We need however to resolve this question quickly now. With every week that passes, the risks increase that the matter will be taken out of our hands by Pakistan's placing the order elsewhere. They have already placed orders for sixteen out of the twenty-one new ships for which they invited quotations. Our negotiations with them have been the most protracted and I do not doubt that they would very easily be able to find takers elsewhere who would be prepared to match our terms.

I am copying this minute to members of the sub-Committee, to the Minister of State, Foreign and Commonwealth Office, and to Sir John Hunt.

K J

3 August 1979

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