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OD(81) 16th Meeting

COPY NO

46

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on FRIDAY
18 SEPTEMBER 1981 at 10.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

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
Lord President of the Council

The Rt Hon Humphrey Atkins MP
Lord Privy Seal

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
(Items 2 & 3)

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
(Item 2)

The Rt Hon Neil Marten MP
Minister of State, Foreign and
Commonwealth Office and
Minister for Overseas Development
(Item 2)

Mr Peter Rees QC MP
Minister of State, Department of Trade
(Items 2 & 3)

The Rt Hon Alick Buchanan-Smith MP
Minister of State, Ministry of
Agriculture, Fisheries and Food
(Item 3)

The Hon Anthony Berry MP
Vice-Chamberlain of the Household
(Item 1)

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery
Mr R L L Facer

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1. BRITISH BROADCASTING CORPORATION EXTERNAL SERVICES

Previous Reference: OD(81) 10th Meeting, Item 1

The Committee considered memoranda by the Foreign and Commonwealth Secretary (OD(81) 42) and the Chief Secretary to the Treasury (OD(81) 45) about the policy to be adopted in the face of Parliamentary resistance to the Government's proposal that limited reductions should be made in the current expenditure of the External Services of the British Broadcasting Corporation (BBC) in return for a substantial increase in their capital expenditure. They also had before them a letter on the subject from the Home Secretary to the Prime Minister dated 15 September.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Government were in no doubt about their aims. A capital programme to improve the External Services' inadequate audibility was clearly the top priority. But the BBC had manoeuvred skilfully for Parliamentary support for their view that in addition the proposed cuts in certain vernacular services and the transcription service subsidy should be abandoned. The Government had already been defeated in the House of Lords, and would face a real danger of defeat in the House of Commons as well. His memorandum OD(81) 42 suggested a way forward. He would be grateful for the Committee's advice. He noted that the Chief Secretary to the Treasury favoured going straight to the third tactic he had suggested, viz that the capital programme be reduced to offset any current expenditure reductions not acceptable to Parliament. But this would clearly produce the least satisfactory result from the Government's point of view, because it would involve serious delay in improving audibility. The BBC had compounded their difficulties by an excessive pay award; but there was no way in which the Government could help mitigate the consequences of this. It was encouraging that the Director General of the BBC, Sir Ian Trethowan, had indicated informally that he did not expect the BBC to secure all their objectives and would like to discuss some possible compromise.

THE CHIEF SECRETARY TO THE TREASURY said that it was necessary to be realistic about the Parliamentary situation. But the proposed cuts in current expenditure were much smaller than the proposed increase in the capital programme. The Government had made clear and should maintain their position that the two taken together represented the maximum possible allocation of public funds. It would be very foolish of the BBC and their Parliamentary supporters to prefer to avoid current expenditure cuts and thereby to force the Government to cut the capital programme; but, if they insisted in so doing, the Government would be able to show future critics where the fault lay.

In discussion the following points were made -

a. The essential problem would be to reach agreement with the Government's supporters in the House of Commons. Once this was done, the Government would be in a strong position to override criticism in the House of Lords and from the BBC. The Lord Privy Seal would be well placed to explore the possibilities of reaching such an agreement.

b. The newly-appointed Financial Secretary to the Treasury, Mr Ridley, had as Minister of State in the Foreign and Commonwealth Office conducted a skilful and persuasive campaign to bring home the true facts of the situation to the Government's supporters in the House of Commons. It would be sensible if, despite his new appointment he could continue these efforts, in support of the Lord Privy Seal.

c. There was still considerable ignorance, in Parliament and elsewhere, about the real nature of the Government's proposals. It was too little appreciated that these represented a large net increase in expenditure on the External Services in real terms.

THE PRIME MINISTER, summing up the discussion, said that in order to provide a firm basis for dealing with future criticism the position should be made quite clear to the BBC and to the Government's supporters in Parliament. The package of small current expenditure cuts and a large increase in the

capital programme represented the maximum of public money which could be made available. To the extent that current cuts proved unacceptable to Parliament the capital programme would have to suffer. But every effort should be made to bring home to all concerned the folly of giving a higher priority to maintaining marginal services than to ensuring audibility.

The Committee -

Invited the Lord Privy Seal, in consultation with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and with the support of the Financial Secretary to the Treasury, to discuss the position with the Government's supporters in Parliament on the lines indicated by the Prime Minister in her summing up, so as to provide a basis on which the Foreign and Commonwealth Secretary might subsequently reach agreement with the Director General of the British Broadcasting Corporation.

2. RELATIONS WITH DEVELOPING COUNTRIES

The Committee considered a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (OD(81) 43), which reviewed recent developments in preparation for the forthcoming Commonwealth Heads of Government meeting in Melbourne and the North-South summit meeting at Cancun in Mexico in October. The Committee also had before them a note by the Secretaries (OD(81) 44) covering a minute from the Secretary of the Cabinet to the Prime Minister dated 14 July, to which was annexed a report by officials containing a background brief for Cancun and suggestions for the objectives to be pursued at that meeting and in the preparation for it.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he wished the Committee to be aware of the pressures which the Prime Minister and he would face, at ~~the~~ Melbourne and Cancun, to adopt more generous policies towards the developing countries. Domestic pressures on the Government, especially from Church leaders, were also increasing. The subject would be a major theme of the Commonwealth Heads of Government Conference. The Prime Minister of Australia, Mr Fraser, was hoping that Heads of Government would sign a declaration designed to demonstrate their concern for the problems of the developing countries. The preparatory meeting of Foreign Ministers at Cancun in August had agreed that that summit should be informal and that no substantive decisions would be taken; but the world press would be represented in force. The developing countries would regard progress on the Global Negotiations as a touchstone of ~~the~~ Cancun's success. It was important therefore to strike the right note in expressing sympathy for the problems of the developing countries while avoiding commitments which would be difficult for the Government to fulfil. The United Kingdom had a good record in many areas of particular concern to developing countries, such as the proportion of aid allocated to the poorest countries and support for an open trading system; but the aid programme was declining in real terms while the aid programmes of the other principal industrialised countries were planned to increase. The only decision which he was asking the Committee to take at this stage was that Britain should support the proposal for an Energy Affiliate of the International Bank for Reconstruction and Development (IBRD). Although the Americans had declared their opposition to this proposal and the Saudis appeared sceptical, British support would be helpful both in our relations with

developing countries and in encouraging members of the Organisation of Petroleum Exporting Countries (OPEC) to provide funds for the exploration of energy sources and energy substitutes.

In discussion there was general support for the proposal to create an IBRD Energy Affiliate. It was possible that the attitudes of the United States and Saudi Arabia was changing: French sources had suggested that Americans were now neutral and the Saudi in favour. The Saudi Government's public attitude was, however, influenced by their disagreement with the United Kingdom's opposition to giving the Palestine Liberation Organisation observer status in international bodies. An Energy Affiliate would usefully enable greater voting rights to be given to the OPEC countries, in order to encourage greater aid flows from them, without calling in question existing voting rights in the IBRD and the International Monetary Fund.

The point was also made that the size and scope of the United Kingdom's aid programme were not sufficiently appreciated. Planned increases in the aid budgets of other western countries were not always achieved: there were indications that pressures on public expenditure might, for instance, cause the United States Administration to slow down their contribution to the Sixth Replenishment of the International Development Agency. The contribution which was made by the private sector should be fully recognised; but care needed to be taken in the use made of aggregate figures of private capital flows from the United Kingdom since the abolition of exchange control, because a significant proportion consisted of investment in developed countries which attracted criticism in some quarters. The flow of private capital to developing countries might be assisted by the wider use of International Protection and Promotion Agreements, in accordance with German practice, although the durability of such Agreements was always uncertain. The Report of the Brandt Commission had exaggerated the problems facing the developing countries, but the ^{initial} ~~initial~~ acclaim which the Report had received had raised unrealistic expectations of increased help from the industrialised nations. The Government's initial response had been to stress the difficulties, and for this and other reasons the United Kingdom, together with the United States, was regarded as unsympathetic to the problems of the developing countries. Whatever the substance of British policies, it would be important for the Government to avoid suggesting by the tone of their statements that their underlying approach was negative rather than positive.

THE PRIME MINISTER, summing up the discussion, said that the United Kingdom's record on North/South issues was a good one, which it was important to present positively on the lines suggested in annex D of the Report by Officials. No change was needed at present in the Government's aid policies. The idea of an IBRD Energy Affiliate could be supported although it should be left to others to make the running.

The Committee -

1. Agreed that in forthcoming international discussions Britain should support the proposal to create an IBRD Energy Affiliate, without taking a lead on the subject.
2. Invited the Foreign and Commonwealth Secretary to be guided by the points made in discussion and in the Prime Minister's summing up in presenting the United Kingdom's aid policies and performance both internationally and domestically.

3. ECONOMIC AID FOR POLAND

Previous Reference: OD(81) 9th Meeting.

The Committee considered a minute to the Prime Minister from the Foreign and Commonwealth Secretary dated 16 September and a letter of the same date from the Minister of Agriculture to the Chancellor of the Exchequer, proposing that the United Kingdom should take part in a third operation to provide European Community (EC) food supplies to Poland at reduced prices and on special credit terms.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the current Polish request for food aid came at a bad time. Latest indications suggested that under Soviet pressure the Polish Government were contemplating a major clamp down on the Solidarity free trades union movement. Looking further ahead, it was now clear that even if a political crisis were averted the Poles' economic situation in 1982 would be even more serious than earlier foreseen and might lead them to seek Western economic aid on a larger scale than it would be possible to meet. The longer-term problem might be eased if Poland joined the International Monetary Fund; but it seemed unlikely that she would feel able to do so, at least in the foreseeable future. Meanwhile the political case for helping the Poles economically, and in particular with the present food aid package, was very strong. Political liberalisation in Poland was one of the most significant international developments since the Second World War, and its success or failure could have a major effect on the future of the world. It would be highly damaging if British policy were thought to have done anything to weaken the liberalisation movement. In the present case the EC budget was in a position to finance the proposed 15 per cent discount on world prices. Britain would need to provide ^{£15 million} ~~£5 million~~ worth of credit if the package included 150,000 tons of British barley as proposed. It could not be argued that such a sum would by itself be crucial to Poland's future; but, since it would be small by comparison with the contributions of Britain's major European partners, and with what the United States were doing under their separate food aid programme, a British refusal to participate would be extremely invidious.

THE MINISTER OF STATE, MINISTRY OF AGRICULTURE (Mr Buchanan-Smith) said that Britain had the barley available and by providing it would save perhaps £1.2 million in intervention storage costs. Shipments would begin in the near future and probably continue into the first quarter of 1982. Other barley producers would certainly seize the opening to step in if Britain declined to help.

In discussion the following points were made -

- a. Contrary to earlier indications there was enough credit for Poland left, out of what the Committee had already authorised, to enable the Export Credits Guarantee Department (ECGD) to cover the full £15 million which the proposed export of barley would require. This residue had hitherto been earmarked for the support of industrial rather than agricultural exports to Poland, and the British chemical industry in particular was known to be interested in the prospects. But it was not clear how much of the credit would in fact be taken up if the previous earmarking were maintained, and it was therefore difficult to argue that the present agricultural opportunity should be forgone.
- b. It was arguable that Poland's food problem could be overcome by better distribution rather than by more imports, and that industrial equipment would provide more lasting economic benefits than barley. But conditions were now so chaotic that such judgements could not be made with any confidence; and it was clear that food was what the Poles themselves saw as their most urgent need from the West.
- c. Very difficult decisions would be required later in the autumn when the Committee came to consider Poland's economic needs in 1982. It was not at all clear how these could be met. Among Britain's partners, the French seemed ready to contemplate the provision of almost unlimited assistance; but the Germans were likely to take a more balanced and realistic view.

THE PRIME MINISTER, summing up the discussion, said that in the Committee's view the proposed export of barley should go forward. No further ECGD credit could be provided beyond what had already been authorised. Credit previously earmarked for industrial exports would therefore have to be used. The shipment of barley and the provision of credit should of course be urgently reviewed if serious internal repression were to develop in Poland.

The Committee -

1. Invited the Foreign and Commonwealth Secretary, in consultation with the Minister of Agriculture, to arrange for Britain to contribute 150,000 tons of barley to the proposed package of European Community food aid for Poland.
2. Invited the Secretary of State for Trade to arrange for the Export Credits Guarantee Department to provide export credit cover for this contribution from within their existing authorisation for credit for Poland.

Cabinet Office
21 September 1981