CALL BY THE GOVERNOR OF RHODESIA ON THE CHANCELLOR OF THE EXCHEQUER AT NO.11 DOWNING STREET AT 11.30 A.M. ON WEDNESDAY 19TH MARCH, 1980

Present:

Chancellor of the Exchequer
Lord President of the Council and
Governor of Rhodesia
Foreign and Commonwealth Secretary
Minister of State for Trade
Financial Secretary to the Treasury
Mr. Day (FCO)
Mr. Lynch (ODA)
Mr. Barratt)
Mr. Widdup) HM Treasury
Mr. Slater)
Mr. M.A. Hall)

Lord Soames said that it was essential to reinforce the successful conduct of the Rhodesian Election by responding to the country's financial needs with imagination and style. It was of the utmost strategic importance to seize this opportunity to influence the course of events in Africa. The present allocation of £40 million spread over the financial years 1980-81 to 1982-83 was insufficient. Zimbabwe needed $R700 (about £500)million over the three years. Britain must give enough to encourage other countries to contribute adequately. In his view, we should contribute one-seventh of this total - say £75 million over the three years. Additionally, he would like to be able to tell Mr. Mugabe on his return that evening to Rhodesia that $R10 million of the UK contribution would be available immediately. He did not expect an immediate decision on the £75 million.

2. The Chancellor said he recognised the force of Lord Soames' arguments. But he was obliged to look at this substantial proposal in the light of the extremely tight financial position. The Central Contingency Reserve (as distinct from the Contingency Reserve within planned expenditure on the Aid programme) for 1980-81 was already looking inadequate before the year had started. Demands by

the nationalised industries alone could absorb it with ease. He and the Foreign Secretary had just attended a meeting of OD, which had deferred a decision on aid to Turkey - another substantial claimant, so that the two countries could be considered side by side.

3. The Foreign and Commonwealth Secretary said that he understood that if the UK offered no more to Turkey than had already been allocated, an extra £10 million for Zimbabwe might be found in 1980-81 from the Aid Programme Contingencies Reserve. But there was a strong political case for doing more for Turkey, and he did not wish to pre-empt this possibility by committing this additional amount to Zimbabwe. Mr. Lynch commented that in terms of actual disbursement possibilities, considerably less might be needed for Zimbabwe during 1980-81. Moreover, in practice the disbursement total would probably be spread over some 4 to 5 years. Lord Soames doubted this; he thought the Zimbabwe administration, which was relatively efficient, would have no difficulty in spending the whole amount during the years in question. The Foreign and Commonwealth Secretary remarked on the tiresome effects on planning the aid programme of sizeable roll-overs from one year to another. Mr. Barratt suggested that the amount of aid should be related to established need. Most of these would in time to met by credit from commercial banks. Government help was required for pump-priming. There was at present no clear feel in Whitehall for what Rhodesia's needs really were. This needed to be carefully studied, and it might be better to concentrate on what Lord Soames could say immediately on his return to Salisbury. Mr. Day confirmed that no figure for British Government aid had been given to the Rhodesians, but that the £40 million allocation had leaked to the press. Lord Soames said that the Rhodesian administration had already done some work on the country's requirements. An independent Zimbabwe would face the massive costs of post-war reconstruction and development of the economy.

4. It was agreed that Lord Soames should feel free to tell Mr. Mugabe on his return to Salisbury that $R10 million would be provided

immediately, subject to suitable assurances about the purposes to which it would be put. On the £75 million over future years, as sought by Lord Soames, there remained a gap of £35 million over the £40 million which had already been allocated. The Chancellor's view remained that if this was to be found it must come from the Aid Programme Contingencies Reserve. He did, however, have considerable sympathy for Lord Soames' case, and did not rule out some extra provision from the Central Contingency Reserve. Officials of the Treasury, FCO and ODA should discuss this further, and the Foreign and Commonwealth Secretary would put the detailed case to him.

Rhodesian debts and export credit

5. The Chancellor said that a necessary pre-condition to making ECGD credit available to Zimbabwe was a formal commitment by Mr. Mugabe to honour pre-UDI Rhodesian Government debt. There were substantial outstanding obligations both to HMG and to private bondholders. A failure to give such an undertaking would seriously damage Zimbabwe's creditworthiness. Lord Soames said that Mr. Mugabe had already made a public statement indicating readiness to meet existing obligations, though he himself hoped that the debts to the British Government would be dealt with generously by HMG. Treasury officials said that it could not be expected that these debts be settled in very short order; there would have to be fairly complicated negotiations on the timing of repayments. But this would in no way inhibit a commitment in principle by Mr. Mugabe.

6. Mr. Parkinson said that ECGD would be willing initially to extend medium term credits of up to £30 million in total, consisting of separate credits of not more than £5 million, to individual enterprises. The risk would thus be well spread. Lord Soames said that there were three large projects in the offing - Wankie II, development of the railways, and of the telecommunications network. The total cost would be some $R200 million over the next two years, of which, provided suitable credit arrangements

obtained, British industry might obtain some $R60 million. Much the most promising from the British point of view was the railway project. Mr. Parkinson said that major projects would be looked at individually on their merits, outside the £30 million.

7. It was agreed that officials would provide Lord Soames with a formula on outstanding debt which he would put to Mr. Mugabe. Subject to suitable undertakings from Mr. Mugabe, ECGD credit on the scale outlined by Mr. Parkinson would be immediately in place. The ceiling on credit for Zimbabwe should however in no circumstances be revealed to the Zimbabwe Government.

Pensions

8. It was agreed that Lord Soames' proposals for guaranteeing the remittability of pensions for white public servants in Zimbabwe would need further study. Lord Soames said he had made it quite clear to Mr. Mugabe that there could be no question of HMG assuming the liability for continued payments of pensions to Rhodesian Government pensioners.

Mozambique

9. Lord Soames said that he had been invited to see President Machel. The Mozambique Government were making great efforts to emancipate themselves from Soviet influence. The only aid Mozambique was now receiving from the USSR was military. Strategically, this change of front was of great importance to the West, coupled as it was with developments in Zimbabwe. He would like to be both friendly and helpful. Two major projects in Mozambique would be of considerable benefit to Zimbabwe - the proposed Maputo-Salisbury railway, and the development of Beira port. It was noted that European Development Fund money should be available for the latter, and we were pressing Monsieur Cheysson on this.

M.A. HALL

21 March 1980