NOTE OF A MEETING HELD AT NO.11, DOWNING STREET AT 3 P.M. ON 3RD JUNE, 1980

Present:

Chancellor of the Exchequer
Secretary of State for Foreign and Commonwealth Affairs
Lord President of the Council
Mr. Lynch (ODA)
Mr. Barlow (FCO)
Mr. Chaplin (Private Secretary to the Lord President of the Council)
Mr. Mountfield
Mr. Mathews

ZIMBABWE DEBTS

The meeting was held to determine the negotiating position of British officials in their forthcoming meeting with a Zimbabwe Government delegation. The Chancellor's letter of 27 May to Lord Carrington and the latter's reply of 29 May formed a basis for discussion. Also relevant was the Secretary of State for Defence's letter of 30 May.

2. Opening the discussion, the Foreign and Commonwealth Secretary said he saw no case for the FCO bearing the cost of writing off the £800,000 owed in respect of Hunter aircraft. Ministers agreed that it would be inappropriate to set up the complex arrangements implied by the Defence Secretary's letter, particularly since it had never been expected that this particular debt would be repaid. The Chancellor would write to the Defence Secretary accordingly.

3. The Foreign and Commonwealth Secretary said that, quite apart from the question of debts, he was concerned about several developments

First, Mr. Mugabe had offended the South Africans, who had cut off financial assistance. Second, there was a problem over pensions of former Rhodesian civil servants; we had not foisted the present arrangements on Mr. Mugabe, who had taken over a scheme devised when Bishop Muzorewa was Prime Minister, though we had in the Zimbabwe constitution guaranteed remittability; and thirdly, rightly or wrongly, it would come as a shock to the Zimbabwe Government that only £7 million out of our bilateral aid of £75 million would be in grant form, even though the interest rate on the rest was to be as low as 2 per cent..

4. Mr. Mugabe was already exercised about these matters, and if the debt negotiations went wrong he would be under pressure to begin amending the constitution in order to escape the obligation to remit pensions. Once he began amending the constitution, whites would be frightened away from Zimbabwe and the ultimate cost to the UK would be greater than if we had done our best to be helpful at this stage.

5. Lord Carrington therefore proposed that we should adopt a magnaminous approach in the forthcoming debt negotiations. The Rhodesians had some £33 million earmarked for debt repayment. Lord Carrington proposed that we should write off their remaining debt beyond this amount. He also suggested that we should supply the foreign exchange required to honour the pledge of remittability of pensions out of the £75 million bilateral aid; but that the Zimbabwe Government should commit itself to spending the counterpart in Zimbabwe dollars on domestic projects.

6. The Chancellor said there seemed to be little between the Treasury and FCO positions. He was content to allow the UK negotiators to concede the writing-off of £12.1m CAPCO loans paid from the ODA vote, £4.2 million CD & W Act loans, and £3.1 million ECGD Section 3 loan. This left a total of £34.2 million of loans paid from the consolidated fund. This was not far different from

the £33 million the Zimbabwe Government had already earmarked. Mr. Mountfield explained that legislation would be needed to write off loans made from the consolidated fund. This was why he had recommended that the UK delegation offer at the end of the day to write off all outstanding loans except those made from the consolidated fund.

7. Mr. Lynch said there was a risk in writing off loans made under the Kariba arrangements, which the Chancellor's proposal entailed. Care had been taken when the arrangements were made that the risk should be carried equally between Southern Rhodesia and Zambia. If the debts of the successor to the Southern Rhodesia Government were to be written off, the British Government would be under severe pressure from Zambia for similar treatment.

8. There was some discussion of the arguments for and against legislating to write off debts. On the whole, it was agreed that this would be preferable to accepting the risk of Zambian pressure for equal treatment. It was noted that special legislation was not required, and that, provided the accounts were duly noted, the necessary clauses could be appended to a Miscellaneous Provisions Bill in due course. This would be a preferable vehicle to a Finance Bill.

9. On general tactics, Lord Carrington said that we should need to gauge the frame of mind in which the Zimbabwe delegation approached the forthcoming negotiations. We should certainly not deploy all at once the concessions we had agreed we would be prepared to make. He thanked the Chancellor for his accommodating reply on the request for extra resources for military aid to Zimbabwe.

10. Mr. Barlow raised the problem of civil service pensions. Treasury officials undertook to study the problem and advise the Chancellor urgently.

11. Mr. Mountfield asked Ministers for instructions on the length of the grace period and the rate of interest. The Chancellor said that if concessions were made here, they would constitute a precedent for negotiations with other African countries. Mr. Mathews pointed out that negotiations were currently under way with Zaire, Sierra Leone and Guinea; a two-year grace period was usual. Lord Carrington doubted whether concessions in the exceptional case of Zimbabwe would really constitute a damaging precedent. Other African countries could hardly deny Zimbabwe's unique circumstances. It was agreed that as a fall-back, Mr. Mountfield should be authorised to concede a three-year grace period, a total repayment period of 10 years, and a rate of interest of 10 per cent. But the three-year grace period was to be very much a final fall-back position. Interest, though not of course Capital Repayments, would normally be payable throughout the grace period at the rate negotiated, but he should have discretion to concede this point too if necessary.

12. Mr. Mountfield said that the Council of Foreign Bondholders, whose chairman was Lord Trevelyan, were being very difficult. Mr. Barlow thought they were being positively greedy. Their argument that settlement should be based on market expectations was self-evidently specious. Mr. Mathews noted that the market price had recently fallen significantly, despite efforts by large holders of Rhodesian bonds to keep it up. Lord Soames undertook to speak to Lord Trevelyan, and urge moderation upon him.

M.A. HALL
4 June 1980

Distribution:

Those present
Chief Secretary
Financial Secretary
Sir Douglas Wass
Sir Kenneth Couzens (o/r)
Mr. Barratt
Mr. St. Clair
Mr. Cardona

PS/Prime Minister
PS/ S of S Defence