

The important thing CONFIDENTIAL

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in that we stand with the U.S. Prime Minister.

and that we discuss our approach

I have asked that no action be taken on para 2 (ii) - Confirmation of our commitment to the

PM/81/3 to meet issues together.

Sixth Replenishment of ISA - until the Americans have decided their policy & you have been to Washington.

I think there would be considerable value in

selecting one of your seminars (Lord Lamington + two or three officials) to Development Policy before you go to Washington. May I arrange?

The U.S.C. is going to get very difficult this year and we shall need a sheet anchor with the U.S.

Development Policy

Yes.

And 5/2

You will recall the exchanges of view on this subject that began with the Chancellor's letter and paper of 2 September. Geoffrey Howe's further letter of 21 January provided the focus for a meeting which I held on 26 January with him, John Biffen, Cecil Parkinson, Kenneth Baker and FCO Ministers.

FLAGA

FLAG 'B'

2. I believe the meeting was very useful in helping to determine our approach as we prepare for the various international meetings this year, in particular the Ottawa and North/South Summits. Sir Robert Armstrong has now sent you the paper that has been prepared by officials and which is intended to serve as the British contribution to the aid study being prepared for consideration by Heads of Government at Ottawa. That paper reflects the consensus which has emerged from the recent exchanges on our attitude to aid and development. At my meeting this week we also agreed on the following main points:

- (i) We should continue to underline the responsibility of oil surplus countries to do more to alleviate the economic difficulties brought about by the increases in oil prices. Non-oil developing countries should be encouraged to do more to keep up the pressure on them. In the multilateral field finance was needed from oil producers to swell the funds available to the IMF, and some variant of the proposed IBRD Energy Affiliate

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could well be a useful magnet for OPEC funds. To ensure such support from oil producers to an Energy Affiliate we should have to be ready to cede a greater degree of control to them over its operation and probably to make some contribution to the Affiliate ourselves.

(ii) We should confirm our commitment to participate in the General Capital Increase of the IBRD and to the Sixth Replenishment of IDA. It would however not be appropriate, at this early stage of the Reagan Administration, for us to put bilateral pressure on the Americans to carry out their own commitments to the General Capital Increase and the Sixth Replenishment of IDA but at some stage we shall probably wish to draw their attention to the damage that would be caused if they failed to do so, given our common objective of supporting these institutions against developing country proposals for radical change.

(iii) Although the question of IMF quotas had no significance for public expenditure, (in contrast to the issue of contributions to IBRD/IDA) and the link between IMF quotas and IBRD shares was complicated, we should be prepared to see a reduction in both to a level more consistent with our relative economic strength.

(iv) There was a need to put aid in the wider perspective of total financial flows to developing countries: private investment and financial flows had an important and growing contribution to development and this should be recognised.

(v)



- (v) There should be further discussion among Departments of ways in which private flows could be further facilitated. The Department of Trade had some proposals to make, foreshadowed in Mr Nott's letter of 27 October, and the Chancellor undertook to consider the effects of Advance Corporation Tax on outward investment.
- (vi) Although we had interests to protect in international negotiations we should be careful to avoid getting too far out in front. This was largely a question of style. While the substance of our response to Brandt remained right we had to be careful to avoid risking disadvantages in trade terms as a result of our public stance.
- (vii) Particular care will be needed in presenting our 1980 performance in respect of our aid as a proportion of GNP. While the 0.7% "aid target" is not relevant in itself it attracts attention at home and abroad. We can expect criticism this year because our 1980 aid/GNP figure will be substantially below that for 1979, partly but not wholly a reflection of technical factors which worked to our advantage in 1979. Work is now being put in hand on how best to explain the change. In the eventual presentation we should make as much as we can of the increasing flows of private finance.

3. We did not go into detail on the issue of multilateral aid. We all recognise the desirability of putting less emphasis on multilateral aid and Ministers stressed the relative advantages of bilateral aid as a flexible and effective means of achieving the multiple objectives

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served by our aid programme - developmental, political, commercial and industrial - but it is plain that there is in practice little room for manoeuvre over this over the next few years. But it remains the case that each multilateral commitment must be examined critically in the light of its cost and possible benefits (eg extra OPEC money).

4. We believe that we should be as constructive as we can at the Summit meetings this year, by concentrating attention on a package of specific measures which are within the constraints of available finance. This would include implementing the IBRD General Capital Increase, and IDA VI replenishment and making progress on the Energy Affiliate or some other arrangement having the same effect in attracting OPEC funds. It would also be useful to see whether we can come up with other ideas to be put forward either independently or in concert with other OECD countries, and there should be further official study of this.

5. I should finally take this opportunity of recording the outcome of a separate exchange of views on the question of the Soviet Union and aid, following discussions at Venice last year. Agreement has now been reached among Departments that we should openly criticise the Russians for their poor aid performance, and urge them to improve it. We do not think that this runs any real risk of causing them to increase their aid on countries where they would not otherwise be active and we may gain some - not very great - political advantage by highlighting their deficiencies. It would also be right to urge them to make a more effective contribution to the UN agencies

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of which they are members (not IMF or IBRD), especially by contributing in convertible currencies.

6. I am copying this to members of OD, to Sir Keith Joseph and to Sir Robert Armstrong.

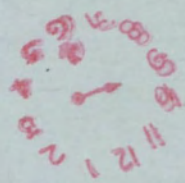
A handwritten signature in blue ink, consisting of a stylized 'C' followed by a horizontal line.

(CARRINGTON)

Foreign and Commonwealth Office

4 February 1981

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