



FCS/81/61

SECRETARY OF STATE FOR INDUSTRY

Aid and Trade Provision: Financial Position for
1981/82

1. Thank you for your letter of 20 March which was concerned in part with the provision of additional funds for the ATP this year, bearing in mind the impact of the Philippines SimChem project on the ATP budget. George Younger wrote in similar terms in his letter of 2 April and Patrick Jenkin also sought an expansion of ATP when he wrote on April 15. *will request if required*
2. I have delayed my reply because I was anxious to take full account of three factors. The first was the budget outturn for 1980/81 and the effect of slippage of spending of ATP contracts from last year to this; the second was whether a UK firm was likely to win the Bangladesh power project with the help of ATP funds; the third was the result of the efforts of our officials to create more room for manoeuvre by pruning deadwood from the list of projects already approved. We now know that some £5 million of spending from existing firm commitments slipped from 1980/81 to 1981/82 and that it is almost certain that a British firm has won the Bangladesh contract.
3. The outcome is that against the revised Framework allocation for this year of £53 million, estimated ATP spending arising from firm contacts amounts to £40.46 million. This leaves just over £12 million and this, with the application of the agreed over-commitment formula, is just sufficient to cover the value of the proposals
- /that



that we have already approved and that remain outstanding, if account is taken of the savings from the Indonesian Bunyu project that can now be eliminated from the list.

4. There is therefore no room for manoeuvre and it is clear that the present difficulties over the ATP budget arise from the potential impact of the large SimChem project. The fact is that if the British Company wins the contract I shall be compelled to set aside at least £9 million of the Aid Programme's small Contingency reserve to meet expenditure arising from all the firm commitments and to cover possible spending from any of the other outstanding offers that may be taken up.

5. In these circumstances - and bearing in mind that we are only at the start of the financial year and there are already a number of claims on the Contingency reserve - I cannot accept any further degree of risk by accepting new proposals for consideration that require expenditure in 1981/82. I appreciate the points you and others have made and the importance you attach to the ATP. But the Aid Programme is generally under severe strain, as you will know, and I am sure you will see that there are obvious limits to the commitments that can be taken on. I attach a note by my officials on the essential facts of the ATP in 1981/82 which you may find helpful.

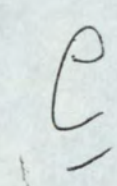
6. There is one final aspect of the ATP where a helpful change could be introduced, and that is to make all new offers of ATP funds on a grant basis (instead of on the basis of interest-free loans which normally apply

/in



in respect of ATP proposals in all but the poorest countries). This would enable the necessary grant element in a mixed credit offer to be attained with a smaller injection of aid money and thus enable these scarce resources to go further in future. I myself favour this move and hope that it would be acceptable to you and particularly Geoffrey Howe, whose views I should welcome. If accepted its principal benefits will not arise until 1982/83.

7. I am copying this to the recipients of yours, and to George Younger and Patrick Jenkin.


(CARRINGTON)

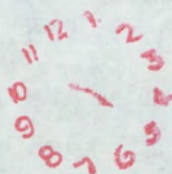
Foreign and Commonwealth Office

27 May 1981

ESSENTIAL FACTS ON THE ATP 1981/82: NOTE BY OFFICIALS

1. Framework = £53 million
 Firm Commitments = £40.46 million including £5 million slippage from 1980/81 and £4.0 million in respect of Bangladesh power project.
 Uncommitted funds = £12.54 million
2. Value of offers outstanding should theoretically amount to £12.54 million $\times \frac{5}{2} = \underline{\underline{£31.35 \text{ million}}}$. Offers outstanding in practice = £34.86 million. There is therefore an excess over-commitment of some £3 million.
3. The only firm candidate for exclusion from the existing list of offers outstanding is the Bunyu Methanol project. Savings in 1981/82 amount to £3 million, all of which are needed to eradicate the excess over-commitment described above.
4. If SimChem win contract firm commitments in 1981/82=£54.46m. Framework therefore exceeded by £1.46 million. To cover remaining offers outstanding of £20.86 million (ie, £34.86 million less £14 million for SimChem) an additional £8.34 million would have to be earmarked from the Contingency reserve to cover possible expenditure on the basis of the 5 : 2 over-commitment formula. The total claim on the Contingency reserve would thus amount to at least £9.8 million, and more if a greater proportion than we are at present assuming of the offers outstanding were to be taken up.
5. Slippage of some spending from this year to 1982/83 may occur but it has to be remembered that the £53 million ATP Framework allocation is already part of total aid allocations which over-commit the total Aid Programme by 10% as against the cash limit available for spending. There therefore has to be some slippage if cash limits are not to be exceeded.
6. If SimChem bid not successful then £14 million would be automatically released for new offers. Some of proposals now in pipeline could then be considered.

27 MAY 1987





*Overman
A...*

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

3 June 1981

The Rt. Hon. Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

NBPA

Th...

Dear Peter

AID & TRADE PROVISION - FINANCING POSITION FOR 1981-82

You asked for my views on points raised in your minute of 27 May to Keith Joseph.

As far as this year's programme is concerned, I agree that departments must leave it to you as the Minister responsible for the financial control of the programme to decide how many offers can safely be made without danger of overspend.

As far as changing the terms of ATP offers are concerned, I see the attractions of your proposal to make all offers on grant terms. This could, as you say, make the money go further. However there are considerations on the other side - we do not want, for example, to encourage countries whose aid is on variant 1 terms to press for grant terms, and the ultimate loss to the Government from loan repayments is not negligible. I should prefer, before giving agreement, that your proposal should be worked out in detail and discussed among officials. Meanwhile the Treasury remains ready to look at individual proposals for varying the term as they arise.

I am sending copies of this letter to the recipients of the earlier correspondence.

[Handwritten signature]

GEOFFREY HOWE

3 JUN 1981

0 11 12 1 2 3
9 8 7 6 5 4

80-81 960 gross
spending figure.

1037 : Gross Cast figure
for 1981-82 includes revaluation

Net: 1980 calendar : 759

Gross includes: repayments
from soft loans.

RESTRICTED

Rapid spending in first quarter 1981.

5211 - 1

GPS 310
RESTRICTED

IDA Promissory Note not realised.

Overseas
A.S.

FM FCO 131430Z APR 81
TO ROUTINE CERTAIN MISSIONS
GUIDANCE TELEGRAM NUMBER 39 OF 13 APRIL 1981

UK AID PERFORMANCE

1. DETAILS OF BRITAIN'S 1980 AID PERFORMANCE WILL BE GIVEN TODAY (13 APRIL) BY MR NEIL MARTEN IN ANSWER TO A PARLIAMENTARY QUESTION.
2. NET OFFICIAL DEVELOPMENT ASSISTANCE (ODA) TOTALLED POUNDS STERLING 759 MILLION, PROVISIONALLY ESTIMATED AS EQUAL TO 0.34 PER CENT OF GNP. THIS COMPARES WITH POUNDS STERLING 974 MILLION OR 0.51 PER CENT IN 1979.

LINE TO TAKE (IF QUESTIONED)

3. TECHNICAL FACTORS (SEE GUIDANCE TEL 28 PARA 6) IN LARGE MEASURE EXPLAIN THE FALL IN THE 1980 FIGURES. FOR INSTANCE HAD THE IDA SIX PROMISSORY NOTE BEEN DEPOSITED IN FULL, THE DDA/GNP RATIO WOULD HAVE BEEN 0.42 PER CENT. THESE CONSIDERATIONS HIGHLIGHT THE ARTIFICIALITY OF SUCH TARGETS.
4. THE GOVERNMENT ACCEPTS IN PRINCIPLE THE UN 0.7 PER CENT OF GNP AID TARGET BUT IS NOT COMMITTED TO ANY TIMETABLE FOR ACHIEVING IT. PROGRESS MUST DEPEND ON OUR FINANCIAL AND ECONOMIC CIRCUMSTANCES AND OTHER CALLS ON RESOURCES. THE GOVERNMENT IS NOT PREPARED TO FORECAST THE IMPACT OF PLANNED REDUCTIONS ON AID PERFORMANCE IN THIS OR FUTURE YEARS. (THE WORLD BANK ADMITTED LAST YEAR THAT ITS OWN PROJECTIONS OF UK AID PERFORMANCE TO 1985 WERE WRONG AND HAS WITHDRAWN THEM). THE REDUCTIONS MUST BE SEEN IN THE CONTEXT OF THE OVERALL STRATEGY FOR BRINGING INFLATION UNDER CONTROL.

/5.

1

RESTRICTED

RESTRICTED

6211 - 1

5. BRITAIN'S AID, IN TERMS OF OUR RELATIVE ECONOMIC STRENGTH, REMAINS SUBSTANTIAL. CASH AVAILABLE IN 1981-82 EXCEEDS POUNDS STERLING ONE BILLION, SIGNIFICANT BY ANY RECKONING.

BACKGROUND

6. THE 1980 PERCENTAGE, WHICH HAS BEEN CALCULATED ON THE REVISED METHOD OF RECORDING DEPOSITS MADE TO CERTAIN MULTILATERAL AGENCIES RATHER THAN ENCASHMENTS, IS THE LOWEST ON RECORD FOR THE UK. COMPARATIVE 1980 FIGURES FOR OTHER DONORS ARE NOT YET AVAILABLE.

CARRINGTON

BY TELEGRAPH

ANKARA	UKDIS GENEVA	DACCA
BONN	DUBLIN	COLOMBO
BRUSSELS	UKMIS NEW YORK	DAR-ES-SALAAM
UKREP EC BRUSSELS	WASHINGTON	NAIROBI
COPENHAGEN	CAIRO	NAIROBI (DEVDIV)
THE HAGUE	KHARTOUM	LUSAKA
LUXEMBOURG	BANGKOK (DEVDIV)	LILONGWE
UKDEL OECD PARIS	ISLAMABAD	LILONGWE (DEVDIV)
ROME	NEW DELHI	BRIDGETOWN (DEVDIV)

[ROUTINE]

AND SAVING TO CERTAIN OTHER POSTS

FCO/WHITEHALL
INFORMATION DEPT

ADDITIONAL DISTRIBUTION
GUIDANCE

2

RESTRICTED

Oxeseas Aid



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

B/F with FLO reply.

Paul

The Rt Hon Lord Carrington PC KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign & Commonwealth Office
Whitehall
LONDON SW1

2 April 1981

Dear Peter,

AID AND TRADE PROVISION (ATP)

will request if required

I see from Keith's letter of 20 March that we are running into the same difficulty as occurred in 1979 in that the pressure of demand from industry for recourse to ATP funds is exceeding the allocation for 1981/82 of £53 million.

I am in agreement in general with the force of his arguments. I feel that we should be prepared to accept potential liabilities in excess of the current allocation especially as some of the offers already made may not be taken up. In our present difficult industrial circumstances I think it is particularly important to keep the Scheme open to consider fresh and possibly attractive projects for British companies. Many projects do take time to mature and it would be inappropriate to deprive ourselves of close contact with the market place by calling a halt to applications. Markets are by their nature constantly changing and in the present highly competitive circumstances any interruption would put at risk valuable business for the future.

In Scotland, one of the companies which has benefited significantly in the past from ATP is John Brown Engineering Ltd, Clydebank, and indeed has expectations of doing so again in 1981/82 for the supply of gas turbines to Bangladesh worth some £20 million and involving £5 million ATP; and in Burma turbines worth about £10 million with £3 million ATP. I am told that the timing of all these projects is likely to fall within the next financial year and whilst there is no similar type of business on the horizon at present, the very nature of the power generation business is such that overseas customers could emerge at short notice with a requirement for developmentally sound projects. It would be a retrograde step for us not to be in a position to at least examine the possibility of assistance.

It follows that I would support an immediate review by officials to determine what deadwood, if any, can be identified amongst those offers already within the £53 million allocation which look like being non-starters to make more room for those schemes likely to reach fruition.

If, as seems likely, the allocation will be over-committed, I would favour recourse to the unallocated reserve within the Aid programme or a specific allocation as Keith suggests. In the face of fierce competition from our international competitors whose industrial base is at present much stronger than our own and who have access to very generous schemes of aid support, our industry certainly requires to have the support of ATP funds if it is to capture the business available. If markets are lost, it is always more difficult in the future to regain a foothold.

I am copying this letter to the Prime Minister, Geoffrey Howe, Keith Joseph and John Biffen.

Yours very,

George.



3 APR 1901
S. S. R. 2
S. S. R. 2



*Overseas
Aid*

NRPA

Part 2/3

From the Secretary of State

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

2 March 1981

Dear Peter,

*will report
if required*

AID FRAMEWORK: UNALLOCATED RESERVE 1981/82

Thank you for your minute FCS/81/16. I am sorry that you do not feel able to make a larger allocation to the Aid and Trade Provision at this stage. It seems to me that the flexibility inherent in the ATP and its capacity to respond quickly to identified needs which have already been worked up into viable propositions by firms and Governments makes it a particularly good vehicle for the sensible deployment of additional resources when time is, as you recognise, rather short for the development of more traditional aid programmes; but I note what you say about our coming back for more later on in the year. This is already beginning to look increasingly necessary, because of possible slippage from this year's allocation and the volume of business coming forward for next year. I also note that there will be further discussions among our officials about my proposals relating to Mexico, Nigeria and Korea.

More generally I remain concerned that the trend of decisions within the aid programme does not appear to be bringing us any nearer to realising the policy you announced a year ago. I appreciate that some of the criticism of our aid policy in the media comes from those who would like to see more spent on aid, but I am more exposed to those who, like the recent Working Party of the Overseas Projects Board, feel that not enough is being done to make the most of our aid in the rough and tumble of international competition for developmentally sound business. The French, in particular, and the Germans are cited as being very much more capable than us of devising internationally

2 MAR 1981

10 11 12 1 2 3 4 5 6 7 8 9



From the Secretary of State

respectable developmental policies that are also extremely effective in winning substantial export orders in excess of their aid inputs. This is a point of view which reflects an important body of opinion in the party and among our supporters in the country at large, and I am a little concerned that unless we can be seen to be applying our new policy in a thorough going way to any new commitments we make, we shall lose their confidence and support. This must be particularly so while the proportion of our aid going to bilateral programmes is falling, since they will be concerned to ensure that what little new money there is is spent to the best possible effect commercially and industrially as well as developmentally.

This brings me back to what you say about our proposals for Zimbabwe, Cameroon and the Ivory Coast. I accept that they do not affect the unallocated reserve for 1981/82, so I will not press them further in this context, but I do attach importance to extracting a good commercial return for the aid commitments envisaged in these cases, and if there are difficulties which cannot be resolved at official level, I hope that Ministers will be given adequate time to consider them. I appreciate that some of the techniques which our Departments have developed together for the administration of the ATP may not be appropriate to every part of the regular bilateral aid programme, but they should not be dismissed simply because they are ATP techniques. Our commitment to give more emphasis to commercial and industrial factors in the aid programme is not confined to the ATP alone and I am sure that a flexible approach involving mixed credits and double tying has a part to play on the wider scene. This must be particularly so in a country like Cameroon where mixed credits have been the norm for French aid, but it applies or could apply to a greater or less extent in many other countries too.

I am copying this letter to Geoffrey Howe and Keith Joseph and also to the Prime Minister as Chairman of EX Committee.

JOHN BIFFEN