



DEPARTMENT OF INDUSTRY
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Secretary of State for Industry

12 February 1982

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
SW1

N. B. P. R.

M 15/2

Dear Geoffrey,

AID TRADE PROGRAMME

I would like to support John Biffen's call in his letter of 21 January to Peter Carrington for an increase in the Aid Trade Provision. This part of the aid programme has demonstrated its worth as the most effective in neutralising the practices of other countries on a selective basis, and so enabling our competitive companies to win important new business that they would not otherwise have obtained.

2 I recognise full well present constraints and the very tight scope for manoeuvre. But we must look to exports to achieve significant industrial growth, and the use of some limited extra resources to negate the distortions practised by our competitors would be entirely consistent with our policies to enhance industrial competitiveness. It would frustrate our achievement if our companies, despite the tough steps that they have taken to improve their competitiveness, were to be denied the advantages of this by other countries deploying soft finance in bidding for new investment projects overseas, as is commonplace in the developing world.

3 The recession here and in other developed countries means that the investment programmes of developing countries provide the major opportunities for establishing new technologies in the capital products industry here in the UK. ATP cases have been shown to have an important part to play in securing these opportunities for UK companies. But, equally important, success in winning contracts through ATP leads to early orders - the bulk within six months of contract - to take up industrial capacity and sustain employment among our better companies.



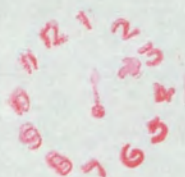
4 John Biffen's point about ATP being self-selecting in supporting those companies which are sufficiently competitive and aggressive to get to the winning post is a very strong one.

5 The position of the ATP budget is, I am told, one where the next two years are effectively already committed. Since this facility so closely complements our other policies for improving industry's competitiveness, establishes companies and products in new markets, is an early generator of orders and carries considerable benefits in bilateral relations, my own view is that we should be aiming for a rather larger addition to the budget than John Biffen suggests. We do not want to get into a situation where we cannot support worthwhile cases arising over the next two years.

6 I am copying this to the other recipients of John Biffen's earlier letter.

Your ever
Patel

115 FEB 1982





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10 DOWNING STREET

Overseas Aid

From the Private Secretary

27 January 1982

Aid Programme: Use of the Unallocated Resources
for 1982/83

The Prime Minister has seen the minute of 7 January by the Foreign and Commonwealth Secretary and the minute of 21 January by the Secretary of State for Trade on the above subject. She has commented that she is in general agreement with Mr. Biffen's arguments as set out in the latter minute.

I am sending a copy of this letter to John Kerr (H.M. Treasury), John Rhodes (Department of Trade), Jonathan Spencer (Department of Industry) and Barnaby Shaw (Department of Employment).

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

Ful



Prime Minister
You will wish to see this correspondence
but I do not think you need intervene.
A.F.C. 26/1

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

I agree with Secretary of Trade 21

21 January 1982

Dear Peter,

AID PROGRAMME: USE OF THE UNALLOCATED RESOURCES FOR 1982/83

copy requested attached

Thank you for sending me a copy of your minute of 7 January to Geoffrey Howe on the above.

Although I accept that there was a large measure of agreement on the proposals your officials put forward to the Joint Aid Policy Committee last December, I cannot disguise my very deep concern, which I know Patrick Jenkin shares, about the proposals for the aid and trade provision. Since a growing proportion of the total programme will still be committed to multilateral aid for some years to come, (despite our publicly stated commitment to look critically at this expenditure), I think it essential that we should focus clearly our bilateral aid in order to maximise the associated benefits for trade and employment in this country.

My principal concern, of course, is the aid and trade provision. When I wrote to you last February, I noted that the provision could justifiably be of the order of £70-80m. I fear, therefore, that your proposals do not meet our real needs. The ATP for 1981/82 was effectively exhausted before the end of the year, that for 1982/83 is now almost all committed, and deep in-roads are being made into 1983/84. It is, I fear, a particularly short-sighted solution to hold back from entering into further commitments for future years if that means British firms are denied assistance on new contracts



From the Secretary of State

that they might win for this country in the meantime. By virtue of reaching the later stages of international competition, these companies are likely to be among our more efficient as well as having the necessary international credibility and local market commitment to gain the customers' confidence. It is therefore not easy to explain to such companies why, out of an aid programme of nearly £1,000m, we still cannot find more than about £50m to help them tackle aid-assisted competition. I think the ATP has already proved itself as a successful instrument of aid, as well as providing a valuable and relatively quick-acting multiplier benefit for British industry. The most recent statistics I have seen show that some £174m of ATP aid finance is likely to produce about £760m of export business (and jobs) for the United Kingdom. The Aid and Trade Working Party Report (79)11 estimated that the same amount of normal bilateral aid finance might on average result in no more than £104m worth of business. I am sure that I also do not need to remind you that there have been in recent months encouraging signs of an up-turn in the economy led by an improved export performance - it would be tragic for the nation and for the Party if major export orders were lost to our international competitors because the United Kingdom was unwilling to give comparable amounts of aid and trade assistance.

I therefore have the deepest reservations about your proposals. My officials have already agreed to drop claims for over £10m of specific items put forward, in recognition of the undoubted public expenditure constraints we all face. If the whole of the £6m proposed were to be applied to the Aid and Trade Provision alone, we could just about claim to industry that we had given effect to the Government's commitment to maintain the ATP in real terms. It is with the greatest reluctance that I accept for 1982/83 your proposal to allocate a further £6m for the Department's claims - the exact division of which we will determine - on the understanding of course that the contingency reserve is available for ATP as it



From the Secretary of State

is for other elements in the aid programme. I note that you are not prepared to give any assurance about the position in 1983/84. I think this merely underlines the importance of collective consideration of the establishment of a significantly larger ATP within our general aid framework. I believe that this would be more in line for the calls now being made upon it by British industry, and meet our public commitment to give greater weight to commercial and industrial considerations in our aid programme as a whole.

In view of the wider consideration I have noted above, I am copying this letter to the Prime Minister as well as to Geoffrey Howe and Patrick Jenkin.

True
John Biffen

JOHN BIFFEN

22 JAN 1982



CDH



- ✓ PS
- PS/LPS
- PS/Mr Markes
- PS/Mr Howard
- PS/Mr Luck
- PS/PCS
- Lord Bridges
- Mr Butler
- Mr Day
- Sir Graham
- Mr Banning
- Mr Peter
- Mr Aniscom
- Mr Burt
- Mr Harrell
- Mr Lynch
- Mr Manning
- Mr Conill
- Mr Malby

FCS/82/4

CHANCELLOR OF THE EXCHEQUER

Aid Programme: Use of the Unallocated Resources for 1982-83

As you will know, our officials have been considering the use of aid programme resources for 1982-83 which still remain to be allocated. This has been undertaken in the light of the recent public expenditure decisions which reduced the aid programme for 1982-83 by a further 2%. I am glad to know that there was a large measure of agreement on the proposals my officials put forward to the Joint Aid Policy Committee on 17 December. I am writing now to tell you how I propose to tackle the remaining points outstanding.

In the light of the very tight overall position I understand that Treasury, Trade and Industry officials felt that some reductions were possible in the previously agreed allocations to multilateral and "functional" items additional to those proposed by the FCO. We have looked at this further and although the successive cuts in these programmes have left very little room for manoeuvre, I am prepared to reduce multilateral allocations by a further £5.8m and "functional" allocations by a further £0.5m. I attach a table showing the make-up of these additional reductions.

I think we should use part of this saving to increase the previously agreed allocation next year for volunteers by £850,000 instead of the £560,000 proposed to the JAPC. The volunteer societies have put forward proposals for considerably increased activity, reflecting their ability to recruit good-quality volunteers at a time of high unemployment. It is by far the cheapest element of our man-power aid in cost per head, and our response to the volunteer societies' bids will be seen

/by many



by many well-disposed people (including our own supporters) as a touchstone of our commitment to the Third World. The £4.225m this allows us to make available next year falls well short of what the societies would like, but we could reasonably expect it to be seen as a substantial offer at a time when the overall aid programme is falling.

I have considered very carefully the proposals from the Departments of Trade and Industry for an increase in the Aid Trade Provision, for extra training money for Latin America and for a capital aid programme in the Ivory Coast. I said in Parliament in February 1980 that in order to maintain the value of this provision in real terms its share of the bilateral aid programme would be increased. In fact, as I indicated in my minute to you of 6 January, I was able to do much better than that in 1981-82 by increasing the provision by £10m to £53m. I also indicated in that minute that increases of £6m in 1982-83 and 1983-84 would be needed to maintain the real 1979-80 value in those years, but added that the size of such additions would have to be reviewed in detail when we considered the Aid Framework as a whole.

Since then of course I have had to accept a cut in the Aid Programme, and I have therefore reviewed how far the £6m offer can stand when weighed against the other pressures on aid resources. My officials have also recalculated the figures required to maintain in real terms the provision made for 1979-80 - to the extent that it is any longer appropriate to take into account such commitments now that public expenditure planning is in cash. The figures are:

/£ million

CONFIDENTIAL



£ million

	Existing agreed Framework allocation	1979-80 allocation adjusted by Public Expenditure Revaluation factor	1979-80 allocation adjusted by Export Price Index'
1979-80			
% change	35.8	35.8 (18.3%)	35.8 (9.8%)
1980-81			
% change	41.0	42.4 (11.0%)	39.3 (10.8%)
1981-82			
% change	53.0	47.0 (9.0%)	43.5 (13.5%)
1982-83	46.0	51.2	49.4

As the export price index is the most logical one to apply to goods supplied under the ATP I consider we could therefore adequately defend ourselves against any criticism that amounts of ATP fell short of our public commitments by an addition of £3.4m to the existing Framework figure of £46m. That would take the ATP provision up to 10.3% of bilateral aid allocated by country, compared to the ATP's 6.2% share in the 1979-80 Framework and would amply fulfil our commitment to increasing its proportionate share of the bilateral programme. We are also, of course, expecting to provide £26m or so of aid funds next year for the special mixed credit operation for the Indian steel plant and that this is additional to the ATP allocation.

Against this background I propose to set aside £6m in total for 1982-83 to deal with the further claims to which the Departments of Trade and Industry have given highest priority. I would be content to see the whole of this go to the ATP or to provide say £0.5m of it for training of people from selected Latin America countries and the balance for ATP. I am not prepared to go beyond £6m in view of the other pressures on reduced aid funds, nor can I, given the recent cuts, give any assurances about the position in 1983-84 until we have looked at the Framework as a whole in their light. I do not consider, in the light of the recent cuts and of our reiterated public

/commitment



commitment to concentrate aid on the poorest countries, that it would be opportune to embark on a capital aid programme to the Ivory Coast - a country for which use of the ATP, which can be most easily directed to our commercial benefit, seems more appropriate.

I am also willing to accept Norman Tebbit's proposal in his letter of 7 December to Neil Marten (copy attached) that we should continue next year to provide a small grant to the TUC to finance their activities to assist Trade Unions in developing countries. I would propose to make £50,000 available for 1982-83: but I would wish to review whether any further grants should be made.

It is desirable from all points of view to have an early resolution of the outstanding questions affecting 1982-83 aid allocations. If therefore you or other recipients of this minute see overriding difficulties about the line I propose to take I suggest we have an early meeting to discuss them. But in view of the general meeting of minds at official level I hope this will not be necessary.

I am copying this minute and enclosures to the Secretaries of State for Trade, for Industry and for Employment.

(CARRINGTON)

Foreign and Commonwealth Office

7 January 1982

MAKE-UP OF REDUCTIONS ADDITIONAL TO THOSE PROPOSED TO THE JOINT AID POLICY COMMITTEE

Multilateral

£ million, cash

UN Voluntary Programmes

2.0

Provision of food aid (already budgeted for) rather than aid in cash for £1m of our payments to each of UNRWA, UNHCR and the Afghan refugees [£1m of this £3m saving had already been taken account of in the proposals made to JAPC]

International Development Association

1.7

Adjustment to planned provision for bringing our payments up to date

Common Fund

1.6

Reduce allocation to zero in expectation that necessary ratifications will not be received in time to permit payment in 1982/83

EC National Actions Food Aid

0.5

Additional delay in carrying out commitments

Bilateral

Functional Programmes

0.5

A further cut of £0.3m in Research and £0.2m in Education programmes

6.3