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FROM: CHIEF SECRETARY
DATE: 16 August 1990

PRIME MINISTER

THE GULF CRISIS: JORDAN

The FCO have sent me an advance copy of the paper which William Waldegrave is submitting to you tonight about Jordan.

2. I recognise the importance of keeping the King's support for the sanctions policy. I recognise, too, the damage which this is likely to do to his already-precarious economy. It is not clear that such assistance will be enough to win his support. But I agree that we have little option but to try.

3. However, the costs must be kept within bounds. First, we need to distinguish between Jordan's financial position before the crisis (very largely the result of mismanagement and failure to agree an earlier programme with the IMF, or keep it on track once it was agreed) and the additional costs imposed by the sanctions policy. Our help should be confined to the latter; at a later stage, it will be necessary, in conjunction with the IMF and the IBRD, to tackle the underlying economic mess. We should also distinguish, as the paper does, between the gross costs of imposing sanctions, and the cost to Jordan of the crisis itself. (Many other countries are going to be damaged by the crisis; some, like Turkey and Egypt, by the imposition of sanctions).

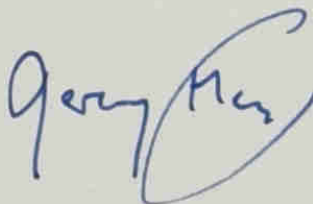
4. Second, as the FCO paper proposes, we must do everything possible to broaden the base of such support. I entirely agree that we must look to the Japanese Government for a very large part of the cost, particularly given their inability to contribute to the military effort. We must also look to Saudi Arabia and, if possible, to the former Kuwaiti regime. The latter has very large

SECRET

assets in Britain, some part of which it should be persuaded to release for this purpose. Beyond the contributions from these sources the costs must be shared between the United States, the European Community (collectively or severally - I prefer the latter course) and the other major states involved in the imposition of sanctions.

5. I note that the FCO paper cannot, at this stage, put a figure on the costs. I suppose that, illustratively, they could easily fall in the range of £20 - £50 million for the UK. I do not for one moment suggest that these costs should not be incurred, if you judge that this is necessary in order to secure the King's support. But I shall be bound to seek offsetting savings, elsewhere in Douglas Hurd's programmes, and possibly by looking further afield. As John Major said at the initial Ministerial meeting about the crisis, its very nature makes it more, not less, necessary that we should continue with our own policies of restraint at home. And that must mean keeping public expenditure within its existing limits.

6. I am sending copies of this letter to William Waldegrave and to Sir Robin Butler.



NORMAN LAMONT
(Approved by the Chief Secretary and signed in his absence)

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