



PM/83/58

PRIME MINISTER

Aid/Trade Provision: Medellin Metro Colombia

I have seen Cecil Parkinson's minute and subsequent correspondence about the Medellin mass transit project in Colombia. (I understand that the attempt to reach agreement on excluding any aid contribution to this project from any of the countries involved has failed because of a French mixed credit offer.) I understand that EX is meeting to discuss this tomorrow. It may therefore be helpful to colleagues to have my views on the proposal, including Nigel Lawson's minute of 21 July.

I was, incidentally, sorry that this issue came to you before Tim Raison, as the Minister primarily responsible for the aid programme, or I, had had the chance to look at it ourselves and discuss it with DTI colleagues. Cecil Parkinson and I had a word about this in the House last week and we both agree that it is better if at all possible for us and DTI to keep in close step on these issues.

We have now had an opportunity to look further into the economic and financial viability of the project. I am bound to say that I have reservations about it, partly in view of the inadequate nature of some of the preparatory work, although I am pleased to see that British consultants have been retained to carry out the detailed design. In any mass transit system—however, there are necessarily uncertainties, particularly about the number of passengers it will attract. Overall, the judgement of our experts is that the project may be marginally viable in economic terms. But the finances of the project will depend largely on whether the Medellin authorities are successful in their attempts to regulate the existing bus system and to reduce the level of subsidy which it provides to the bus companies.



The project does of course involve substantial foreign borrowing at a time when Colombia's requirements for external commercial finance are causing some concern. Nevertheless, Colombia has managed its finances with reasonable prudence in the past and I understand ECGD are ready to underwrite the export credit involved. There is no question about the Colombian Government's commitment to the project. The country is stable politically and our bilateral political relations are both close and active. Demonstrating HMG's support for a contract of this size could be an important element in strengthening both our bilateral relations and our positions more generally in South America. I recognise also the industrial and commercial case advanced by Cecil Parkinson, although at the same time it has to be realised that if we allocate resources to this project, there will be correspondingly less for other projects.

The GEC bid will involve an ATP contribution of £66m over 3 years. It is clearly a major decision to give this degree of priority to a single contract. We should all be clear that if the case goes ahead and is successful it will pre-empt about one third of planned ATP spending in the period 1985/86-1987/88. I shall not be able to allocate further funds to ATP from existing resources to offset this major commitment. Provided none of us have any doubts on this score, I am prepared to agree to an offer of up to £66m of ATP on the basis proposed by Cecil Parkinson.

I am copying this minute to other members of EX.

A handwritten signature in dark ink, appearing to be 'J. S.', located in the lower right quadrant of the page.

Foreign and Commonwealth Office

26 July 1983



From the
Minister for Trade

DEPARTMENT OF TRADE & INDUSTRY
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

John Coles Esq
Private Secretary to
the Prime Minister
10 Downing Street
London SW1

26th July 1983

Dear John,

AID AND TRADE PROVISION (ATP): COLOMBIA
MEDELLIN MASS TRANSIT RAILWAY

Further to my letter of 21 July, members of EX Committee should be aware that as a result of the Canadian initiative the French have now informed us that they intend to make mixed credit available to the Colombians for the Medellin mass transit scheme and will shortly be formally notifying this to the OECD consensus. We do not yet have details of the terms of the French mixed credit but these are expected to be within the normal consensus guidelines, ie 20 - 25% aid input.

Unless the French could be persuaded to withdraw from this position and, both because of the limited time available and the current French attitude to the consensus, this seems extremely unlikely, we believe it necessary to offer ATP if our companies are to remain competitive. Other consensus members whilst ready to join a common line have also indicated that they would be prepared to match mixed credits from others and will therefore presumably now do so. The Canadians in particular when initiating the present round of consultations said that they were intending to match mixed credit offers unless others denied that they were intending to extend concessional terms.

The timescale is now very tight. Tomorrow is the latest point at which a decision can be taken if the companies are to be able to finalise their bids in Colombia and our Ambassador in Bogota is to have an opportunity to inform the Colombian authorities of an aid offer.

I am copying this minute to Private Secretaries to members of EX Committee and to Sir Robert Armstrong.

Yours sincerely,

Jonathan Rees

JONATHAN REES
Private Secretary to the
Minister for Trade (PAUL CHANNON)

CONFIDENTIAL

P.01079

PRIME MINISTER

Aid and Trade Provision (ATP):
Colombia: Medellin Mass Transit
Railway.

The Colombian Government intends to construct a 30 kilometre light rail mass transit system in the city of Medellin. The total value of the order is assessed at about £450 million. Companies from several countries are competing for the order, including France, Japan, Italy, West Germany and Canada. Two United Kingdom companies are interested:

(i) The General Electric Company (GEC) is bidding as head of an international consortium with Stirling International (UK-based but Italian-owned) and Linke Hoffman Busche (West Germany). Several other UK firms, including Metro Camell and Vickers are involved as sub-contractors. The UK element is assessed at £250 million.

(ii) Hawker Siddeley (HS) are members of a consortium led by Hawker Siddeley (Canada). The UK element is assessed at about £150 million.

2. Mass transit systems based on light railways are regarded as a market with good prospects. The Secretary of State for Trade and Industry argues in his minute to you (undated, but despatched in the week beginning 11 July) that to secure the Medellin contract would give this country a chance to establish itself in the field; and that there are therefore strong industrial arguments for backing our contenders.

3. Both GEC and HS say that they are convinced that soft finance will have to be offered. There is said to be a 'reasonable indication' that other countries are prepared to offer aid. Because the Colombian law on public tendering forbids any amendment to

FLAG A

a tender after it has been opened, if soft finance is to be offered it must be offered at the outset. It is apparently not possible to see whether any other bids offer soft finance and then match this ex post facto. The Secretary of State for Trade and Industry therefore seeks approval for an offer of assistance from the Aid and Trade Provision. The cost would be as follows, spread over the years 1985-86 to 1987-88:

GEC Bid

(i) If UK content only is supported: £54 million.

(ii) If UK and other EC content is supported: £63.5 million.

(It is apparently not intended to cover local costs, which would increase the cost to £73 million).

HS Bid

£ 37 million.

FLAG B

4. The Canadian Government is reported (letter of 21 July from Mr Channon's Private Secretary to yours) to be trying to organise an understanding among the competing countries that they will not offer aid or soft credit. All Ministers are agreed that we should back this initiative. But the Secretary of State for Trade and Industry apparently doubts whether it will be successful. He therefore maintains his request for authority to offer up to rather more than £60 million support and to notify this assistance to the Organisation for Economic Cooperation and Development (OECD).

FLAG C

5. We understand that FCO Ministers, with some reluctance, are willing to accept that such assistance should be offered. Treasury Ministers, however, oppose it (minute of 21 July from the Chancellor of the Exchequer), mainly on the grounds that it will pre-empt too large a part of the ATP, which is already the subject of a bid for additional resources in the Public Expenditure Survey.

MAIN ISSUES

6. There is no doubt that the best outcome would be for the Canadian initiative to be successful: then no one would need to

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offer soft finance. The essential issue before the Committee is therefore:

- (i) if the initiative is unsuccessful, should the UK offer assistance on the scale proposed?

If the Committee answers that question in the affirmative, two further questions will arise:

- (ii) should the same type of assistance be offered to GEC and HS?

- (iii) Should we notify our offer to the OECD as an 'initiation' (paragraph 5 of the minute from the Secretary of State for Trade and Industry)?

Case for assistance

7. Most of the relevant arguments are clearly set out in the papers; and it is unnecessary to repeat them here. There are, however, two points that you may wish to explore.

8. First, no doubt securing the Medellin contract would give British firms a useful entrée to the market. But how serious a set-back would failure to secure it be? The note by officials suggests that there is a large number of potential future orders (several in countries rather more credit-worthy than Colombia) as well as a large number of firms interested in the market. It is not obvious that failure to secure an early foothold will jeopardise prospects for later contracts.

9. Secondly, there is the sheer size of the commitment. The ATP runs at about £60 million a year. Support at the maximum level proposed would therefore take up about one-third of the available resources for each of three years. There is no lack of candidates for support from the ATP. Is the present one meritorious enough to take such a high proportion of the available money?

GEC and HS

10. The Secretary of State for Trade and Industry tacitly assumes that if assistance is agreed for GEC it must also be offered on the

same terms to HS. This is presumably because it could be regarded as objectionable to discriminate between two UK firms. In the HS case the UK content will be less and the Canadians will be in the lead. Is the Committee nevertheless content to offer assistance to HS?

Notification

11. It is usual for a country initiating an offer of credit on terms more favourable than normal for export deals to notify the OECD to that effect. But the Committee may wish to consider whether the UK should volunteer to do so in this case. We are supporting the Canadian initiative to avoid soft credit; if that initiative fails, it will presumably be because some other country has refused to cooperate. It seems more natural to expect that country to notify the OECD. Alternatively, might it be possible to wait until the contract has been awarded, and leave the successful bidder or bidders to notify?

HANDLING

12. You will wish the Secretary of State for Trade and Industry to open the discussion and to report on the current situation, particularly with regard to the Canadian initiative. All members of the Committee will wish to contribute thereafter.

CONCLUSIONS

13. You will wish the Committee to reach conclusions on the following:

(i) If the Canadian initiative is unsuccessful, should the Secretary of State for Trade and Industry be authorised to offer assistance from the ATP -

(a) to the extent of about £60 million to GEC; and

(b) to the extent of about £37 million to HS (assuming that the Canadian Government will support the bid of the Canadian led consortium of which HS is a member)?

(ii) If such assistance is authorised, should it be notified to the OECD as an initiation?

PLG

P L GREGSON

26 July 1983

MR. SCHOLAR

MLD 26/7

ATP: COLUMBIAN MASS TRANSIT RAILWAY

I have suggested recently in various minutes that one route to reducing government expenditure would be to phase out industrial subsidies of various kinds. I believe that these subsidies:

- i. are inconsistent with the market philosophy of the Government;
- ii. tend to cushion companies from the (necessary) pressures exerted on them by the Government's macro policy, and hence weaken its impact;
- iii. distort decision-making in damaging ways, since officials preferences and judgements are allowed to override those of managers and risk-takers;
- iv. are politically marginal in the sense that £100m lopped off education or health is far more damaging than a reduction of £100m on subsidies to industry, exports, agriculture.

ATP support for capital projects is among the most generous; it offers a tiny percentage of manufacturing activity a subsidy which is typically equal to 30% of gross output (as much as 65% in some cases). The Medellin project could no doubt open doors to other, similar projects for GEC (projects which are likely to be supported in their turn to the tune of 30%). If the long term implications of this contract are sufficiently important to GEC, surely the company itself, with its long purse of £1400m, can afford to play a long game, and secure contracts such as this without ATP support? If GEC is not so prepared, why should the Government be? This programme is therefore a prime candidate for economies. A commitment to aid this project, on no firm evidence that other countries are proposing to offer aid, would exhaust the ATP provision over the next two years, and put pressure on its expansion, as more developmentally worthy candidates emerge.

/Columbia is presented

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Columbia is presented in the correspondence as the least bad South American prospect. This is not to say it is a good one. The IMF is observing Columbia's debt position with increasing concern. The Columbiangovernment is currently seeking \$1 billion in foreign loans to balance its budget. Its problem in this regard will increase if this dubious project proceeds.

N.O.
NICHOLAS OWEN
26 July 1983

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JH 133



PRIME MINISTER

Prime Minister (1)

Subject to comment
from colleagues.
Yes not

cc No
£60m for Colombia and
GEC? Agree the proposal
in para 9?

AID AND TRADE PROVISION (ATP): COLOMBIA: MEDELLIN MASS TRANSIT RAILWAY (M)

Tenders for the construction and equipment of a mass transit railway in the city of Medellin in Colombia must be submitted by 31 July. Officials in the Standing Committee on Aid and Trade (SCAT) have considered the matter but have not found it possible to reach agreement on whether ATP support should be given. 18/7

2 There are two British contractors who are fighting for this job: GEC as UK leader of a group, and Hawker Siddeley as partner in a Canadian consortium. Clearly in the latter case, aid support would only be available if the Canadian Government agreed to offer broadly comparable terms to the Canadian partners. The details of the project and its importance to the companies and their dependent suppliers and contractors are outlined in the attached note prepared by my officials.

3 I believe the important points are:

a) The project represents the first opportunity for the United Kingdom to secure or be a major participant in a complete turn-key package for a light rail mass transit system. The light rail system - as distinct from heavy underground systems (such as that sold to Hong Kong, and the London Transport system) - is an advanced sector of technology for which there is rapidly growing world demand.



If successful, this will be a tremendous boost to the railway equipment industry in the UK.

b) Colombia is the only really economically stable country in South America at present. In spite of being a comparatively small market, a conspicuous success here would greatly enhance the UK's commercial prospects in South America as a whole. Politically Colombia was helpful to the UK over the Falklands, and our help in this case would be well appreciated.

4 The Colombian Authorities have requested attractive and competitive financial terms and there is a reasonable indication that other countries (principally, Japan, France, West Germany and Canada) are prepared to offer aid or mixed credit.

5 The Colombian law on tendering does not permit any bid to be amended after the date of opening. This means that we cannot match competitors' offers of mixed credits, but will be forced to make our own offer and be prepared to notify it to OECD as an initiation.

6 The ODA have, I understand, concluded that the project does not meet their standards of developmental soundness. I would indeed be surprised if there were not other and perhaps more pressing social and economic priorities for investment in



Colombia. There is, however, no doubt about the Colombian Government's intention to proceed. The scheme has been carefully prepared by one of our leading firms of consultants and checked by another UNDP funded consultant. Nor do our competitors appear to have any doubts. This is a case, therefore, where industrial and commercial considerations must surely take precedence.

7 ECGD credit is available to cover that part of any UK offer not subject to aid. The terms can be settled by officials against the general objective that they should be no less competitive than those likely to be advanced by other credit insurers.

8 There has been a low level Canadian initiative to have an informal understanding on financial terms for the project with OECD partners. Unless this is pursued further I do not think we dare assume that others will not offer aid and mixed credit terms. Should anything come of the Canadian initiative I would of course inform colleagues.

9 The Colombians may decide to spread the work among a number of consortia; or, they may award the contract on an exclusive turn-key basis. In the latter case, the projected call on ATP resources would be heavy - £60 + M in the case of GEC over the 3



years 1985/86, 1986/87 and 1987/88. It would be possible to spread the aid over a longer period were resources available in 1983/84 and 1984/85. As it is, the unavoidable concentration of aid into the three later years will put pressure on our ability to support other projects during that period and especially in 1985/86. However, the sums can be accommodated in the way proposed and I consider that this project is of sufficient priority to warrant the commitment.

10 This case is urgent. Companies must know by the middle of the month what the position is so that they can finalise bid documents. The timing of aid offered to the Colombians will be determined in consultation with our Embassy in Bogata.

11 I would not put this case forward if I were not convinced that in spite of the large sums of money involved this is a good project on trading grounds and also politically. I therefore invite colleagues' agreement that I be authorised to offer ATP support to GEC as outlined in para 9, and to Hawker Siddeley if Canadian Government support is forthcoming.

12 I am copying this minute to Members of EX and Sir Robert Armstrong.


C P

July 1983

DEPARTMENT OF TRADE AND INDUSTRY

Aid and Trade Provision (ATP): Colombia: Medellin Mass Transit Railway

Note by Projects and Export Policy Division (PEP)

Background

Two UK consortia, one led by GEC and the other including Hawker Siddeley (HS) are bidding for a project involving the design, construction, supply of equipment, financing and commissioning of a 30km metro system in the industrial city of Medellin in Colombia.

GEC's bid will be led by GEC Traction for the UK in consortium with Stirling International, a UK based but wholly Italian owned contractor, and Linke Hoffman Busche, a German manufacturer of rail vehicles. Further members of the GEC organisation (GEC General Signal, GEC Telecommunications, GEC Transport Projects Ltd) and other UK companies, Metro Cammell, Balfour Beatty Power Construction and Vickers will be involved as sub-contractors.

The Hawker Siddeley bid will be led for Canada by Hawker Siddeley (Canada) who manufacture rail vehicles and for HS (UK) by Westinghouse Brake and Signal Co. The group includes Balfour Beatty Construction, other members of the HS (UK) group, Bush Electrical Machines, HS Power Engineering, HS Revenue Controls, HS Rail Projects Ltd, the Foundation Company of Canada and Electrak Incorporated (a BICC US subsidiary).

The potential contracts are substantial with a total value of the order of £450m (\$628m). In the case of GEC the offshore content would be £270m (\$405m) of which £252m (\$334m) would represent the UK element.

The value of the UK element of the HS bid would be £148m (\$231m) and the value of the Canadian content £120m (\$256m).

ECGD cover

ECGD have agreed, without commitment, that support will be available. Their terms, at present, are 11.35% for 10 years from commissioning for 85% of the UK element only.

However the financial terms the Medellin MTA require for this contract include capitalisation of pre-commissioning interest without which bids will be non-compliant. ECGD are therefore to seek Treasury agreement to their offering interest capitalisation as well. Given intra-EEC credit agreements it seems unlikely, if GEC's partners are unable to persuade their respective credit agencies to offer support, that ECGD will be able to avoid offering support for the EEC content also. They intend however with the aim of limiting their market exposure to avoid covering EEC costs if at all possible. Although the companies will argue strongly for support for local costs, that would not be possible without a substantial increase in the market limit for Colombia, which is probably not justified at present.

Need for ATP support

Both groups have asked for ATP to support their bids because they are convinced that, to comply with the stated wishes of the client on the financing of the Medellin mass transit authority, the successful tenderer will need to offer soft finance. Although we have no direct evidence at present there is reasonable indication that the French and Canadians are considering aid support for the contract.

Under Colombian tendering rules bidders are required to submit their final technical and financial proposals at the time of tender. Because there is no opportunity for

subsequent amendment of finance packages a matching offer of aid is precluded and an initiation is therefore necessary.

The ATP inputs will vary according to the credit options included as the table illustrates:-

	Credit package	Aid needed (subsidy)			
		GEC		Hawker Siddeley	
		£m	%	£m	%
1	UK content only	£54	(31.2)	£37	(27.91)
2	UK and EEC content	£63.5	(31.7)	£37	(27.91)
3	UK and EEC content plus capitalisation of pre-commissioning interest	£63.5	(32.5)	£37	(27.96)
4	UK and EEC content plus local cost support (the inclusion of capitilisation does not affect aid but increases subsidy by 1%)	£73	(36.4)	£40	(30.9)

Aid would be drawn in 1985/86 and the two following financial years with (in the maximum case) just over £20m needed in each of the three years. Although a substantial sum of ATP, these amounts could nevertheless be accommodated at present.

Industrial case for support

This contract is one of the few major mass transit projects to be undertaken in the world this year and will therefore be fiercely contested. Some twelve groups have prequalified among whom the strongest competition is likely to come from the French, Japanese, Italians, Germans and Canadians.

The UK's main expertise in the past has been in "heavy" underground systems (London Transport) for which there is a limited world market. However because of the huge costs involved in constructing heavy systems countries are likely to turn, where this is appropriate, increasingly to the sort of light rail system proposed in Medellin. The UK is however deficient in light rail technology, the nearest to it being Tyne and Wear, a medium weight system.

Medellin would therefore give the UK the chance to establish itself in the light rail vehicle field. It would also be of particular assistance to Metro Cammell in helping to bridge their current serious production gap pending a resumption of London Transport ordering.

The contracts would also represent a valuable addition to the workload of both the GEC and HS companies involved, most of whom are suffering from a serious shortage of work in areas such as traction equipment, signalling and braking.

It is difficult to assess accurately the number of light rail development likely to take place in the world over the next few years but cities such as Perth, Seattle, San Jose, Casablanca, Tuen Mun (HK), Kuala Lumpur and Abuja (Nigeria) are all actively looking at such systems. In the longer term cities such as Tripoli, Kuwait, Quito, Brisbane and Valencia (Venezuela) are potential customers.

Commercial case

Although Colombia, in common with her neighbour, is facing economic problems she appears to be in a far better position than any other to contain these. ECGD

therefore currently regard Colombia as a creditworthy market.

Reserves and foreign debt are at acceptable levels and the debt service ratio is 13%.

We therefore see Colombia, with whom our bilateral relations are good, as the priority market in South America at present and the Medellin MTR as the only major project likely to be let there for some time. Our share of the Colombia market is only 2% which compares very unfavourably with, for example West Germany's 6% and Japan's 11%.

Conclusion

This project represents a high priority for Government support. An ATP contribution is likely to be needed to match the terms of the finance packages that we believe will be offered by competitors. In order to complete the preparation of their bids the companies will need an indication by 15 July of the terms on which HMG is prepared to make finance available.

PEP1C
Department of Trade and Industry

July 1983



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

ATP: COLOMBIA: MEDELLIN MASS TRANSIT SYSTEM

I have seen Cecil Parkinson's minute on this case.

*with Mrs
(dated 21/7)*

Geoffrey Howe will no doubt be commenting, but my understanding is that the project does not pass the economic tests usually required before UK Aid funds can be offered. Although I agree that it is often right to give precedence to industrial and commercial considerations in ATP cases, I think we would leave ourselves open to serious criticism if we agreed to offer such a large amount of ATP for a project which is likely to be of no economic benefit to the recipient country and which could even worsen its financial situation.

2. This apart, the amounts of ATP proposed (up to the equivalent of one whole year's total allocation if GEC's bid succeeds) would leave little room for supporting future cases within the present provision for ATP. I know that Geoffrey Howe has made an additional bid in PES to increase that provision, but I do not at present see how this could be agreed, given the many other pressures on public expenditure, and I am sure that agreement certainly cannot be assumed in advance.

3. I was interested to learn from paragraph 8 of Cecil's minute that the Canadians have suggested that OECD partners should reach an informal understanding on the financial terms for this project (which would, I understand, exclude Aid offers). Today's letter from Paul Channon's office confirms that this initiative is very much alive, and I entirely agree that it deserves our full support. Understandings

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of this kind are one of the few practicable ways by which we can attempt to limit the present self-defeating competition in offering mixed credits and other export subsidies and make a reality of our Williamsburg commitment to reverse the tide of protectionism.

4. I conclude that it would be a mistake to offer ATP in support of this project, and that we ought instead to give the Canadian proposal our very strong backing.

5. I am copying this minute to Cecil Parkinson, Geoffrey Howe, and Sir Robert Armstrong.

N.L.

21 July 1983

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Received

23.00 hrs.

21/7



COMPTROLLER





From the
Minister for Trade

DEPARTMENT OF TRADE & INDUSTRY
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

21st July 1983

Dear John,

AID & TRADE PROVISION (ATP): COLOMBIA: MEDELLIN MASS TRANSIT
RAILWAY

13/7
When Mr Parkinson informed the Prime Minister last week about this project, he referred to the low level Canadian initiative to have an informal understanding with OECD partners on financial terms for the project, and undertook to inform colleagues should anything come of this initiative. This letter is to bring you and copy addressees up to date.

We have now been informed that the Canadian initiative has been revived. It seeks agreement on two fronts - firstly to bar aid inputs for the project, and secondly to regulate the form of export credit cover which might be given. Both my Minister and Mr Parkinson agree that we should respond positively to this initiative. If agreement could be secured that no aid, or soft credit terms, were made available for the project, then this must be the preferred solution. Officials have therefore been instructed to indicate willingness to try and reach a common line with other OECD countries.

On the other hand, it is still too early to say if anything will come of this initiative. It is clearly very much at the last minute. The timescale is short. Final bids need to be formulated within the next couple of days if they are to be put to the Colombian Authorities by the end of this month. Therefore both Mr Channon and Mr Parkinson believe we need to retain the flexibility to offer ATP support for this project should competitor countries not give clear undertakings that they will not be offering aid. We would therefore still be grateful for agreement that we be

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authorised to offer ATP support to GEC as outlined in paragraph 9 of Mr Parkinson's minute, and to Hawker Siddeley if Canadian Government support is forthcoming. In the meantime we will continue to keep you and other copy addressees informed of the progress of the Canadian initiative.

I am copying this minute to Private Secretaries to members of EX and to Sir Robert Armstrong.

Yours sincerely,

Jonathan Rees

JONATHAN REES
Private Secretary to the
Minister for Trade (PAUL CHANNON)

CONFIDENTIAL



CONFIDENTIAL

PRIME MINISTER

1. Prime Minister

2. Mr. Coker *AR* 13/7

To note This is a
bottomless pit.

MCS 13/7

FINANCIAL ASSISTANCE FOR EXPORTS: AID AND TRADE PROVISION

This note is just to warn you in advance of a problem which we will soon be facing on ATP (Aid and Trade Provision). You will remember that ATP is the main response we use to the aggressive use of mixed credits and tied project aid by our competitors. Since 1979 commitments of £250M have enabled UK companies to secure business worth over £1.1 billion. In short, the immediate problem is that ATP funds (£66M) for 1983/84 and 1984/85 are already fully committed. (There may of course be some slippage as contracts are lost or postponed but this is taken into account in our calculations.)

2 I therefore have it in mind to put a paper to E(A) suggesting an increase of about £40M per annum in the funding available for ATP. The problem is one of timing, though. Nigel Lawson will not, I am sure, want to consider any such paper in advance of the discussions later this year on the 1983 Public Expenditure Survey.

3 Unfortunately, though, tender dates will not wait. It therefore seems likely that in the coming months companies will be beating a track to both our doors complaining that the lack of ATP funds means they cannot bid for some otherwise very worthwhile contracts, and pointing to the employment and market



opportunities lost. Their complaints will be all the more strident since, as I am sure you are aware, the multi-lateral take of our aid budget continues to increase. I understand the reasons for this, but it does look as if we are moving away from the commitment we made in 1980 to increase the emphasis we gave to industrial and commercial considerations. Industry's criticisms will, I think justifiably, be all the more pressing if in the event we do decide in the Autumn to increase ATP resources, and they have missed out on important contracts in the intervening months.

4 Finally, on a related note, I should also warn you that I intend to put in a paper shortly to colleagues recommending a very large chunk of ATP support for the Medellin mass transit railway in Colombia. This relates to the financial years 1985/86 to 1987/8, when the availability of ATP resources is not yet exhausted. Even so, I recognise that the ATP support I recommend (about £20M in each of 3 years) will be a substantial burden. But I believe the project well worth supporting for the reasons my paper will outline. However, let me stress that this is a separate issue, since it relates to commitments which run on beyond the present period for which resources are already fully committed.

C.P.

C P

13 July 1983