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Secretary of State for Trade and Industry

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The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
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PS/MST
PS/Sir AR
Mr Roberts
Mr Benjamin
Mr Hutton
Ms Neville-Rolfe
Mr Chapman
Mr Selridge
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D Peki

ATP MANAGEMENT

I am glad that officials from the Treasury, ODA and my Department have been able to reach an agreement on the ATP management issues, which they would recommend to their Ministers.

... Endorsement of this agreement set out in the attached note would avoid the need for discussion at EX. Although Paul Channon and I have some doubts about the necessity for some of the controls envisaged, the agreement could be a reasonable compromise between getting the best value from mixed credit support and avoiding possible adverse international comment on the levels of support. On this latter point there is scope for some lowering in the UK profile in mixed credit and associated financing simply by clarifying issues of terminology. In particular we must not allow the exclusion from OECD comparative tables of soft loans like those provided by the Japanese and other countries.

2 Unforeseen factors may always emerge, but otherwise we shall do our best to make these arrangements work effectively, noting the scope for dropping particular controls when the arrangements are reviewed in two years' time.

3 This new management framework should be put into operation as soon as possible. Key negotiations with the Indonesians on ATP projects and assistance to be counted against the "pledge" to Indonesia will take place in Jakarta next week.

4 I am copying this letter to the Prime Minister and to Geoffrey Howe, Nigel Lawson and Timothy Raison, as well as to Sir Robert Armstrong.

Norman Tebbit
NORMAN TEBBIT

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AID AND TRADE PROVISION - CHANGES IN MANAGEMENT
FRAMEWORK

Clearance of individual cases

1 ODA would be provided with delegated authority with Treasury clearance of individual cases being required when:-

- (a) the ATP would exceed £10m;
- (b) the imputed subsidy levels would exceed 40 per cent;
- (c) initiations would be made in "new markets", i.e, markets other than countries in the ECGD list of regular recipients of mixed credits or associated financing.

2 These conditions would be subject to review and modified if, for example, there were significant changes in OECD consensus rates, associated finance guidelines, or inflation.

ATP Budget Management

3 The scope for improving the current budget management formula with the use of O.R analysis and forecasting techniques is being examined, with the aim of enabling ODA to maintain ATP spend within the existing provisions yet avoiding the recurrence of substantial underspends.

Guideline/limit on initiations

4 The proportion of ATP that might be used for initiations would be subject to a guideline of 45 per cent on funds committed in all cases where offers are accepted. Cases would be defined as initiations, matchings or technical co-operation as reported to OECD, though should firm evidence of an earlier bid be subsequently obtained an initiation might be re-defined as a matching. DTI would provide other Departments with a quarterly report of funds committed by type of offer, also showing potential commitments through outstanding offers. Should the Treasury consider that the guideline is not being observed sufficiently closely they may require clearance of any further initiation cases.



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Pledges for individual countries

5 DTI and ODA would together ensure that any pledges (e.g £12m over three years for Indonesia) fitted in with in with the above management constraints: Treasury clearance of individual pledges would not be required.



Use of mixed credits on the bilateral programme

6 In two instances it has proved possible to obtain the industrial benefits from projects through mixed credit (at levels that could not be accommodated within the ATP allocations) rather than 100% aid. Such cases can increase the overall proportion of mixed credit within the UK's aid programme to levels that may attract international comment.

7 As a condition of the proportion of initiations being subject to a guideline of 45 per cent, it is agreed that there should be a strong presumption against the use of mixed credits on the bilateral programme and that such use could be justified only by quite exceptional circumstances, eg prior commitments or changes in international support patterns.

Review

8 These arrangements would be reviewed in two years' time. There would be a presumption that the guideline percentage would be reduced if meanwhile there had been significant use of the exception in para 7.