



*From the Secretary of State*

John Coles Esq  
Private Secretary  
10 Downing Street  
London  
SW1

*Mr 27*

*16* May 1983

*h-a-*

*Dear John*

RENEGOTIATION OF THE LOME CONVENTION

You copied to me your letter of 25 April to Roger Bone about the re-negotiation of the Lome Convention and in particular the Prime Minister's suggestion that aid should be tied to purchase from the relevant donor country.

The linking of multilateral aid with industrial and commercial objectives is particularly difficult. The 1980 Aid Review declared that the Government's aim was to give greater weight to political industrial and commercial considerations in allocating aid. The Review recognised that this aim would be essentially achieved through the bilateral programme and in consequence declared the Government's intention to look critically at multilateral expenditure.

Our performance with the EDF is below par in comparison with the World Bank or the Asian Development Bank. It is clear that commercial returns are not linked to the UK's contributions. Indeed, since the allocation of business is more or less on international competitive bidding terms we should in principle do as well in terms of procurement if our contributions were the minimum to maintain our participation in the organisation. The prospect of negotiating a direct link between our contributions and our commercial return in the EDF would seem slight.

As the attached statistics show, the UK success rate in obtaining EDF business has been improving - although overall it is still not good enough. The growth of our return, particularly in earlier years, reflects the learning curve that has been a necessary part of companies' efforts to gain EDF business. Our participation in the EDF only started in 1976, three years after joining the Community, and the administration of the Fund very much reflects French procedures. There is now a much improved awareness of both the opportunities and the methods used by the Commission; and this Department is maintaining its efforts to see the EDF exploited by UK companies.

Business under the EDF essentially falls into three categories - consultancies, supply contracts and works contracts. Quotas have only been applied to consultancy contracts. As the attached statistics show, we more than hold our own on the supply contract side and for consultancy work. It has long been the belief of our consultancy industry that we could do better if quotas were not applied, and we have recently pressed hard in Brussels for their abolition or modification.



CONFIDENTIAL



*From the Secretary of State*

Where we do fall down is in our performance on works contracts and we have tried hard to discover why. The main problems would appear to be the reluctance of British companies to go for this business in the first place. Where we do tender, our success rate in obtaining contracts is generally better than that of other Member States. A working party of the BOTB has recently considered the underlying reasons for the relatively low tender rate. We shall be examining their findings. That said, there have been welcome signs of growing British interest in the larger works contracts. There are currently three major contracts in the pipeline for which British companies stand a good chance of success. Two of these contracts come under EDF(IV) and if won, would further improve our return.

In terms of obtaining commercial benefit from our aid, it is more important to limit the size of our EDF contributions and to prevent further growth in our payments than to seek to apply quotas. We need to prevent further funds being diverted from bilateral aid, including the Aid and Trade Provision, which can more readily reflect commercial considerations. To apply national quotas within the EDF, if such could be negotiated, would be fraught with difficulty and would only increase the bureaucracy involved in the funds administration - thus making the application of the funds less efficient. Our preference therefore is for a limited fund and within that to work for a continuing improvement in the British take, both by better informing and encouraging industry and by reforming administrative procedures where these unnecessarily deter British firms.

I am copying this letter to the Private Secretaries to all members of OD(E) and to Sir Robert Armstrong.

*Yours sincerely,*  
*John Rhodes*

JOHN RHODES  
Private Secretary

CONFIDENTIAL



EUROPEAN DEVELOPMENT FUND (EDF)

UK SHARE OF BUSINESS

EDF IV (Cumulative since 1976)

1 UK share of business gained by member states (excluding ACP and 3rd countries).

	31.12.78 %	31.12.79 %	31.12.80 %	31.12.81 %	31.12.82 %
Works	3.95	6.42	6.77	6.06	7.45
Supplies	21.22	15.42	17.81	21.62	21.62
Consultancy	11.98	12.32	16.25	16.28	17.37
<u>Overall</u>	<u>9.07</u>	<u>10.22</u>	<u>12.08</u>	<u>12.73</u>	<u>13.86</u>

2 UK share of overall business (including ACP and 3rd countries).

	31.12.78 %	31.12.79 %	31.12.80 %	31.12.81 %	31.12.82 %
Works	2.51	3.65	3.81	3.39	4.08
Supplies	16.65	13.30	15.10	18.49	18.55
Consultancy	10.39	10.54	14.01	14.19	15.22
<u>Overall</u>	<u>6.44</u>	<u>7.01</u>	<u>8.27</u>	<u>8.69</u>	<u>9.41</u>

---

ACP Overall	27.94	30.05	29.40	29.67	30.15
3rd countries					
overall	0.00	1.08	1.32	2.15	1.95

(Nearly half of the ACP contracts concern basic infrastructure activities).

Note To date, only about 70% of EDF IV has been spent.

EDF V (from 1.1.81 to 30.12.82)

Share of member states business		Share (inc. ACP & 3rd Countries)	
	%		%
Works	0.13		0.06
Supplies	20.46		19.96
Consultancy	14.67		13.63
<u>Overall</u>	<u>9.39</u>		<u>5.95</u>

ACP Overall 30.79  
3rd countries 5.77

Note To date, only 305mecu spent out of approx. 3.7 billion ecu overall budget.



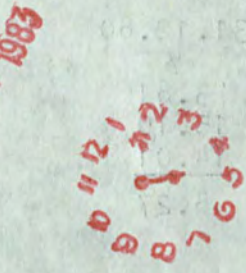
*Research  
 Money Lane  
 Pt. 2*

1. UK shared business... (faded text)

21.12.78	21.12.78	21.12.78	21.12.78	21.12.78
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35

2. UK share of world's business (faded text)

21.12.78	21.12.78	21.12.78	21.12.78	21.12.78
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35



3. UK share of world's business (faded text)

21.12.78	21.12.78	21.12.78	21.12.78	21.12.78
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35

4. UK share of world's business (faded text)

21.12.78	21.12.78	21.12.78	21.12.78	21.12.78
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35

5. UK share of world's business (faded text)

21.12.78	21.12.78	21.12.78	21.12.78	21.12.78
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35
11.35	11.35	11.35	11.35	11.35