



10 DOWNING STREET

Prime Minister

You will want to  
be aware of this  
problem before tomorrow's  
Fontainebleau briefing. But  
you may want to talk  
about it before reaching  
a decision.

The key question is  
not really a public  
expenditure one: whatever we  
agree to has to be  
found within the aid  
programme. It is a question  
rather of the proportion of

The aid programme to  
be spent this way;  
the political importance  
of Lomé both to the  
Commonwealth members of it,  
and within the Community;  
and the return which we  
get on our money.

C. D. P.

20/6.



Prime Minister

PM/84/104Pl. JLG  
CDP  
29/6PRIME MINISTERSize of EDF VI

1. The negotiation of a successor to the Lome Convention between the European Community and the 66 developing countries in Africa, the Caribbean and Pacific - the so-called ACP States - is coming to a conclusion. The final stage of the negotiations will be the unilateral declaration by the Community of the amount they are prepared to provide in the next European Development Fund - EDF VI. There is a further ACP/EC Ministerial meeting in Luxembourg on 28/29 June at the end of the French Presidency; the French are anxious to conclude the negotiations then, although this does not seem very likely at the moment. Nevertheless we need to be ready then to engage in serious negotiations about the amount in case matters move faster in the next few days than we expect.

2. I think that you and OD(E) colleagues should be aware that it is possible the French will raise the question at the European Council next week. Most probably some bland words about the importance of the Lome relationship will suffice but the French may try to secure agreement on a commitment to at least the same size fund in real terms as the previous one. It should be possible to prevent that on the grounds that it has always been agreed that the financial decision would come at the end of the negotiations and that a statement before then would weaken our position vis-a-vis the ACP. But there is a risk that other Member States will argue strongly in support of the French view. This is therefore a point which we will need to cover at your briefing meeting for Fontainebleau on Thursday.



3. I believe that the considerations which should influence our approach to the negotiations about the amount are:

- (a) on public expenditure grounds, we should try to keep the total figure down as much as possible;
- (b) in our judgement, EDF aid is less effective developmentally, and yields a lesser return to us commercially and diplomatically, than our own bilateral programme;
- (c) it is nevertheless highly valued by the recipient countries, and any weakening of the programme would be bitterly resented by them;
- (d) we should also have careful regard to the views of our European partners. Some of them indicated in the Foreign Affairs Council on 18 June their willingness to accept maintenance of the Fund in real terms, while France was prepared to go further than that: others, notably Germany, were more cautious. But, in my view, all our partners will be prepared to go along in the end with maintenance in real terms, quite possibly with additional provision for new ACP accessions (Angola and Mozambique).

4. The main elements in EDF VI will be:

- (i) the amount which goes to individual ACP countries;
- (ii) the amount for certain special sectors of which the most important is STABEX - the scheme for assisting with shortfalls in individual ACP earnings on exports to the Community.

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- (iii) funds required for new ACP members - Angola and Mozambique - and Nigeria which has hitherto waived her right to EDF funds on the grounds of her relative wealth but which now wishes to receive an appropriate share. It is important for us politically to support Nigeria's claim;
- (iv) the extent to which the figures involved are index linked to take account of inflation (the inflation factor, since EDF V was agreed in 1979 is about 50%).

The approach of the European Commission is to cumulate all these and other elements, to allow for inflation, and arrive at a total 80% higher than the previous Fund. This total of 8.5 billion écus - £5.3 billion - was put forward by Pisani at the Foreign Affairs Council on 18 June.

5. There can be no question of our accepting Pisani's proposal. The problem we face is whether we should agree to maintain the programmes in real terms. I attach a table setting out the various options and the costs involved. The salient factors are that holding EDF VI down to the equivalent of EDF V in cash terms plus a reasonable amount for Angola, Mozambique and Nigeria would cost the UK an average of £58m a year over the expected disbursement period of 10 years, although the annual expenditure would be small in the first year, rising to a peak in the early 1990s, and then fall away over the rest of the period. The same package in real terms would cost us an average of £87m a year over 10 years. Thus the difference, on which we need to focus, is an additional expenditure of approximately £29m a year on average.



6. All European Member States, including ourselves, regard the Lome relationship with the ACP countries as politically important. More than half are in the Commonwealth. Moreover, the Economic Declaration at the London Economic Summit referred specifically to the concern of the participants "about the acute problems of poverty and drought in parts of Africa". By far the greatest proportion of EDF aid goes to Africa, and anything less than maintenance in real terms would be hard to square with the Summit Declaration.

7. For most of our EC partners, maintenance in real terms is felt to be a political necessity. For the ACP it is considered part of the acquired rights established in two conventions and it does no more than keep them where they are.

#### Recommendation

8. Theoretically, we could try to keep EDF VI down to the same in cash terms as EDF V (plus an appropriate sum for Angola, Mozambique and Nigeria) but I am sure that it would be impossible to secure agreement to this and we would incur very considerable political odium both within Europe, and from the 35 Commonwealth countries who are members of the ACP. The intermediate point would be to argue for an amount midway between cash and real terms. I would propose to pursue that option in the negotiations, if, during further discussions, it seems that this line is likely to command any support.

9. I strongly suspect, however, that in the end we shall be under strong pressure to agree to maintenance in real terms. On that, we would have the choice between maintenance in real terms plus a reasonable amount for Angola, Mozambique and Nigeria (i.e. £87m per year on average): or maintenance of the EDF V total in real terms, with an insistence that the extra amounts for these three countries should be found within that total. This would trim our annual disbursement

/in the

*They don't  
believe in  
the E.C.T.  
- Save the world*



in the EDF programme from an average £87m to £78m per year, i.e. a difference of £9m. Either of the options for maintenance in real terms would lead to a further drop in our bilateral aid which on present plans will decline by 50% in real terms between 1979 and 1987. When the time came, this would need to be taken into account in deciding the level of the aid programme towards the end of this decade and beyond.

10. In summary, therefore, I propose:

- (i) if the matter is raised at the European Council we should argue for only the most general wording in favour of Lome, and leave arguments about the amount of the increase to subsequent negotiation;
- (ii) if we are hard pressed at Fontainebleau we shall have to decide how far to go towards accepting a formula which implied real terms, but without of course at that stage defining what that meant in cash terms; No
- (iii) our priority, in the subsequent negotiations, should be to work hard to keep the total EDF VI programme as low as possible; we should not agree to any increase in expenditure above maintenance in real terms;
- (iv) in the negotiations, we should try to ensure that an increase in real terms is interpreted as subsuming the sums for Angola, Mozambique and Nigeria.

*We can't decide before our budget problem is determined.*



11. I am sending copies of this minute to members of OD(E) and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
20 June 1984