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10 DOWNING STREET

From the Private Secretary

14 November 1984

The Foreign Secretary raised with the Prime Minister this morning the political problems likely to arise from the cuts in the Aid and Overseas Budget which would be required by the PES decisions. It was likely to be necessary to close 22 Consulates and 5 Embassies, make reductions in various programmes including Military Training, and still reduce the Aid Programme by something of the order of £17-25 million. All this would give rise to problems in Parliament and more widely. He believed that these problems could be avoided if the FCO's loss on foreign exchange of £18 million - a figure which had been agreed with the Treasury - could be reinstated.

The Prime Minister made clear that she thought that there was scope for further economies, particularly in Overseas Representation. She was surprised to hear that we had re-opened posts in Nicaragua and El Salvador. She could not countenance re-opening the PES decisions; otherwise there would be pressure from a large number of departments. The FCO was one of only two departments which had come out of PES with its provision unchanged. She would have no objection were the Foreign Secretary to discuss the problem with the Chancellor: but she could not give him her support. At most she would be open-minded.

Please do not give this letter any distribution.

(C.D. POWELL)

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TMS.