

PRIME MINISTEREX

There are two items:

A The future of ATP

You read Mr. Tebbit's paper at the weekend. There is agreement on improved management of ATP and the principle of soft loans, though the precise mechanism for the latter remains to be settled. (There are two possibilities: annuities and interest rate top-up. Further work on them is needed. The immediate public expenditure and PSBR costs of the latter are markedly lower.)

The difficult question is how to finance the proposed increase in ATP from £66 million in the current year to £130 million by 1988/9. None of the three departments principally involved - FCO/ODA, DTI and D of Employment - are prepared to offer the savings.

There are three possible solutions:

(i) try to bounce each of the three of them into finding ^{an} the additional £6.5 million a year over three years;

(ii) adopt the interest rate top-up mechanism for soft loans. Because this would involve very little immediate expenditure, it would enable additional ATP offers to be made now within the existing programme, leaving decisions to be made about the level of ATP in the 1985 PESC round;

(iii) make no commitment which would involve any net additions to expenditure, and postpone the decision until the PESC round.

B Samanala Wewa

You are (very) familiar with this and nothing has changed. President Jayewardene and Norman Tebbit want ATP for the project. FCO/ODA and Treasury are opposed on the grounds that it is not a good project, the Sri Lankans do not need it and we shall be using up scarce ATP resources which could be better deployed elsewhere.

The FCO and Treasury may well be right on the merits. But the Sri Lankans are determined to have their dam: in the end it has to be up to them to decide their own priorities: and in the post-Bosphorus Bridge climate the Government would come in for some pretty noisy criticism if it were held responsible for 'losing' this contract too. So the lesser evil may be to agree (and it may make Norman Tebbit a little more inclined to be helpful over financing an increase in ATP).

C.D.P.

(Charles Powell)

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