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Foreign and Commonwealth Office

London SW1A 2AH

24 April 1986

Prime Minister
Agree that the Foreign Secretary should reply to Shultz in generally discouraging terms?
CDP 24/4

Dear Charles, at flap.

Thank you for your letter of 1 April about Mr Peres' proposal for a regional development fund for some of the states of the Near East. As you know the Chancellor of the Exchequer has since discussed this with the US Treasury Secretary (UKDEL IMF/IBRD telno 104).

The proposal, which is not new, raises considerable political problems. It is, of course, an attractive option for the Israelis, eager to safeguard funds for themselves and also in particular for the Egyptians, whose economic problems could, they fear, ultimately threaten the Egypt/Israel peace treaty. There was probably an element of public relations in floating the idea during a visit to Washington in the absence of movement in the peace process.

The Foreign Secretary believes that it would be right for him to reply to Shultz on this foreign policy/aid issue. He proposes to do so along the lines of the attached draft, which sets out our doubts without seeking at this stage to close the door entirely on the Peres proposal. We do not think that this cautious response will surprise or unduly disappoint the Americans; some of them in private share our doubts, and Shultz's message is itself phrased rather tentatively. Nor are the moderate Arabs wildly enthusiastic (the Egyptians, who might be thought the most likely to be tempted, have told the Dutch Presidency of the EC that the Peres proposal puts the cart before the horse).

I am copying this letter and the draft reply to Rachel Lomax and Martin Dinham.

Yours ever

Robert Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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DSR 11 (Revised)

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TYPE: Draft/Final 1+

FROM:
SECRETARY OF STATE

DEPARTMENT:

TEL. NO:

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SG1AAW

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:
GEORGE SHULTZ

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Margaret Thatcher has asked me to reply to your letter to her about Mr Peres' proposal of a regional development fund for some of the states of the Near East. She and I have both given careful consideration to this, and I know that Nigel Lawson and James Baker also discussed it in Washington.

I have no reservations about the objective of trying to reverse the economic deterioration in the countries of the Near East identified in your letter. They have indeed suffered from a decline in remittances and external financial assistance, both of which aggravate the existing problems of their domestic economies. Any scheme which seems likely to help deserves our most careful assessment. I also entirely share your wish to reduce tension between the parties to the Arab/Israel dispute, not least because the alternative is for the moderate states of the region to become increasingly radical, with the adverse effects on Western interests and the improved opportunities for the Russians which you

Enclosures—flag(s).....

and I both understand only too well. I have no doubt that in strengthening the moderates Western aid has a vital role to play.

My doubts about Mr Peres' proposal relate not so much to these broad objectives as to the precise means by which they would be achieved. It is not clear to me that any new regional fund is the right answer. Without a much greater degree of political cooperation between the countries of the region themselves, I do not believe that any such regional fund could operate effectively. We have to be realistic and admit that any proposal of this kind born in Tel Aviv would be regarded with great suspicion by many of the moderate countries which are its intended beneficiaries. The greatest risk of all is that many of our Arab friends will assume that this is a renewed attempt by Israel to set on one side the central issue (in Arab eyes) of land and security and to fix attention instead on financial carrots.

Even if it were well received by all the countries mentioned in your letter, I wonder whether a regional fund of this kind would be an efficient tool for channelling Western aid to the region. The last thing we all need in the Middle East - or anywhere else - is another aid bureaucracy!

Against this background I believe a lot more thought needs to be given to this proposal before we could consider giving it our support. Perhaps we might have a

word about it, in the essential context of the peace process in the Middle East and the pressing problems of the moderate Arab states, when we meet on 27 May - an occasion to which I greatly look forward.

MIDDLEEAST Situation PT44

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10 DOWNING STREET

From the Private Secretary

25 April 1986

Thank you for your letter of 24 April with which you enclosed a draft reply for the Foreign Secretary to send to Mr. Shultz about the Israeli proposal for a regional development fund for some of the states of the Near East. The Prime Minister was content that the Foreign Secretary should reply in the terms proposed.

I am copying this letter to Rachel Lomax (H M Treasury) and Martin Dinham (Overseas Development Administration).

TIM FLESHER

Robert Culshaw, Esq.,
Foreign and Commonwealth Office

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