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OD(81) 2nd Meeting

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 12 FEBRUARY 1981 at 12 Noon

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Chancellor of the Duchy of
Lancaster and Paymaster General

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Biffen MP
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
(Item 1)

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food
(Item 1)

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The Rt Hon Leon Brittan, QC MP
Chief Secretary, Treasury

The Rt Hon Sir Michael Havers QC MP
Attorney General
(Item 2)

The Hon Nicholas Ridley MP
Minister of State, Foreign and
Commonwealth Office
(Item 2)

Admiral of the Fleet
Sir Terence Lewin
Chief of the Defence Staff
(Items 2 and 3)

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery
Mr R M Hastie-Smith

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1. POLAND: LONGER TERM ECONOMIC ASSISTANCE

Previous Reference: OD(80) 27th Meeting, Item 2

The Committee considered a note by the Chairman of the Official Group on Economic Assistance to Poland (OD(81) 7) covering a report by the Group on issues likely to arise in international negotiations for a longer-term settlement of the problem of Poland's indebtedness.

THE CHANCELLOR OF THE EXCHEQUER said that the economic situation of Poland presented a number of difficult problems for British policy. The position was fluid and issues which were not pressing should be left for later consideration. But negotiations were beginning and some decisions were required now.

In discussion there was general agreement on the attitude to be adopted towards Polish debt relief; but it was argued that there would be no advantage in Britain also offering new credit to Poland: there was little prospect of it being repaid, and no virtue in exports unless they earned money at some stage. It was also undesirable to treat Poland better than Turkey, which was a member of the Western Alliance. There might be a case for a limited offer of credit to promote sales of British agricultural products from intervention stocks, which would have the advantage of reducing the costs of storage and attracting support from European Community funds. As a general principle, however, it was undesirable to encourage over-production under the Common Agricultural Policy by assisting the search for subsidised outlets for Community produce in non-Community countries.

THE PRIME MINISTER, summing up the discussion, said that the Committee were content with the points they were invited to note in the Official Group's report. On the points which the report submitted for decision they were agreed as follows -

- a. The principle of a concerted debt relief operation was accepted.
- b. The technique to be used for debt relief, as between refinancing and rescheduling, should be further studied by the Chancellor of the Exchequer, in consultation with the Foreign and Commonwealth Secretary and the Secretary of State for Trade.

c. New credit should not be offered to Poland unless other major Western Governments made similar offers; subject to possible reconsideration in the light of the intentions of those Governments, it should in 1981 be limited to the purchase of British agricultural products from intervention stocks and to a maximum of £40 million including the £20 million already agreed in the context of the bridging operation covering the first part of the year; and the arrangements for 1982 should be brought back to the Committee for decision at a later stage of the negotiations.

d. Any new credit should be provided under the "encouragement of trade" provisions of Section 2 of the Export Guarantees Act.

e. The proposed debt settlement should initially be limited to the period up to the end of 1982, although that date might need to be reconsidered if it proved to be too far out of line with other Western Governments' wishes.

f. British negotiators should aim at a settlement providing no more than 85 per cent debt relief and their initial proposals should be somewhat lower; further consideration should be given to the possibility of lowering the 85 per cent ceiling if new credit were also offered, or raising it if other Western Governments pressed strongly for doing so.

The Committee -

1. Invited the Chancellor of the Exchequer, in consultation with the Foreign and Commonwealth Secretary, to arrange for the British negotiators to be guided by the Official Group's report and by the Prime Minister's summing up of their discussion.

2. Invited the Chancellor of the Exchequer, in consultation with the Foreign and Commonwealth Secretary, to inform and as necessary consult them further as the negotiations progressed.

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3. Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Trade and the Foreign and Commonwealth Secretary, to give further consideration to the alternatives of refinancing and rescheduling debt.

4. Invited the Secretary of State for Trade to instruct the Export Credits Guarantee Department as necessary that any new credit for Poland should be offered under the trade encouragement provisions of the Export Guarantees Act, and to inform Parliament as required.

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2. BELIZE

Previous Reference: OD(80) 21st Meeting, Item 1

The Committee considered a paper by the Foreign and Commonwealth Secretary (OD(81) 5) describing the current negotiations with Guatemala over Belize, and a paper by the Foreign and Commonwealth Secretary and the Defence Secretary (OD(81) 6) dealing with the security arrangements which would need to be made after Belize came to independence if no agreement were reached with Guatemala.

THE FOREIGN AND COMMONWEALTH SECRETARY said that negotiations with the Guatemalans were about to be resumed in New York. The Guatemalan position appeared to have shifted in recent weeks. There was now only a small difference between what the Prime Minister of Belize, Mr Price, was prepared to offer and what the Guatemalans were prepared to accept. There was therefore a real chance of agreement being reached. If this happened, there would be no problem over Belize proceeding to independence, the British garrison could be withdrawn and Britain would be freed from an awkward commitment. But the negotiations might still be unsuccessful and it was for this reason that the Committee needed to consider the security arrangements for Belize which might be required after independence in the absence of a Guatemalan settlement. Three elements would in these circumstances need to be involved. The British garrison would have to remain for up to a year; the Belize Defence Force would have to be built up, at a cost of about £7 million, which would be additional to the non-military aid to be provided from the Aid Budget; and Belize would have to be given a carefully-worded defence undertaking, in which if possible other countries including the United States should be involved as well as Britain. This undertaking and the temporary retention of the British garrison would both be conditional on Mr Price's Government conducting their foreign policy in accordance with British wishes.

THE DEFENCE SECRETARY said that the security arrangements proposed for Belize in OD(81) 6 would be unavoidable if agreement could not be reached with Guatemala, but from a defence point of view it would be important to end Britain's defence commitments there as early as possible. The cost of

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maintaining the British garrison for up to a year after independence could be borne on the Defence Budget, but it would be important to avoid being dragged into an indefinite military presence in Belize.

In discussion there was general agreement that it would be highly desirable to bring the current negotiations with Guatemala to a successful conclusion, and that Mr Price should be persuaded not to obstruct a settlement. The following points were made -

- a. Whatever happened, it would be important to enlist the support of the new American Administration. Britain's direct interests in the area were much smaller than those of the United States. There was a danger that President Reagan might be more sympathetic to the staunchly anti-communist government of Guatemala than to an independent Belize under a left-wing Government which might be suspected of having links with Cuba.
- b. Whatever might be thought of some of his supporters, Mr Price was not himself a Communist sympathiser. He would probably not in practice be willing to ask for Cuban protection if no settlement were reached with Guatemala and the British garrison left at the end of a year, but he might plausibly threaten to do so. In such circumstances there could be strong pressure to extend the time limit for British military withdrawal, perhaps indefinitely.
- c. The proposed British contribution to the cost of building up the Belize Defence Force could not be met from the central Contingency Reserve, which was already heavily committed. It would have to be found from the Foreign and Commonwealth Office programmes, eg by transfer from the Aid Budget. It was not clear that the contribution had to be as large as £7 million or that Belize would need the whole of the £5 million already earmarked as non-military aid. The total amount of financial assistance to be given to Belize in the context of independence should be carefully scrutinized and its priority assessed in relation to other calls on the resources available. The Aid Budget for 1981/82 included an unallocated margin of £32 million.

d. On the other hand, it would be dangerous to ignore professional military advice about the extent to which the Belize Defence Force needed to be strengthened and the cost which would be involved. Even the built-up Force would only be capable of internal security duties, and could not by itself deter invasion. Hence the need for a defence undertaking as well. Such an undertaking could, it was hoped, be dispensed with if agreement were reached with Guatemala, but the strengthened Force would still be necessary. Aid Budget money could not properly be used for military or security purposes, and no other funds were available to the Foreign and Commonwealth Office.

THE PRIME MINISTER, summing up the discussion, said that there was no doubt about the wisdom of the policy of bringing Belize to early independence. It was clear that a settlement with Guatemala would solve many difficulties. Every effort should be made, with both the Guatemalans and the Belizeans, to bring this about. The support of the new American Administration would be essential whatever happened. In the light of the current pressure on public expenditure, the cost to Britain of whatever security arrangements needed to be made for Belize after independence would have to be met so far as possible from existing departmental programmes.

The Committee -

1. Invited the Foreign and Commonwealth Secretary to pursue the negotiations with Guatemala and report their outcome.
2. Agreed that the Foreign and Commonwealth Secretary should continue to make preparations for a Constitutional Conference on Belizean independence, while retaining flexibility over the date, the public announcement and the issue of invitations.
3. Invited the Defence Secretary to develop detailed proposals for the expansion of the Belize Defence Force which took account of the pressing need for economy.
4. Invited the Foreign and Commonwealth Secretary to consult further with the Chancellor of the Exchequer and the Defence Secretary about how the necessary resources for such an expansion might be provided.
5. Invited the Foreign and Commonwealth Secretary to explore further and report on the possibility of a multi-lateral defence undertaking for Belize after independence.

6. Invited the Foreign and Commonwealth Secretary to arrange for every effort to be made to enlist the full support of the United States Government for British policy over Belize.

7. Agreed that, if no settlement could be reached with Guatemala, the British garrison might be retained in Belize for up to a year after independence, provided that satisfactory control could be maintained over the foreign policy of the Belize Government during that period.

3. TORNADO - EXPORT SALES

The Committee considered a memorandum by the Secretary of State for Foreign and Commonwealth Affairs and the Secretary of State for Defence (OD(81) 8) proposing a policy for seeking orders for Tornado from overseas customers, particularly in the Middle East.

THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS said that France was making a determined effort to sell an entire family of aircraft in the Middle East, consisting of the Alphajet, Mirage 2000 and Mirage 4000. British efforts to sell less sophisticated aircraft such as Jaguar and Hawk in these areas would be handicapped unless accompanied by offers to sell an aircraft as sophisticated as the Mirage 4000, ie Tornado. But two difficulties about selling Tornado in Arab countries were the implications for Israel which wished to buy Tornado engines, and the cautious German attitude on overseas arms sales outside Europe. Under the terms of the tri-national Memorandum of Understanding overseas sales of Tornado required the approval of the British, German and Italian Governments.

THE SECRETARY OF STATE FOR DEFENCE said that the Germans were likely to be extremely difficult about proposals to sell Tornado in the Middle East. They had even shown reluctance over Greece's interest in the aircraft, despite the Greeks being members of the North Atlantic Treaty Organisation. Nevertheless increased sales of defence equipment overseas were an essential way of easing the current pressure on the defence budget.

In discussion there was general agreement in principle to seek to sell Tornado to overseas customers. The following points were made.-

- a. The Germans' difficulty arose from domestic political factors, not military ones. Chancellor Schmidt already faced considerable problems within his own party over the proposed sale of Leopard tanks to Saudi Arabia. The German attitude might conceivably also be influenced by a wish not to damage French chances of selling their own aircraft in the Middle East.

- b. The Germans could not reasonably withhold co-operation in such a matter and at the same time expect continued co-operation from Britain over the stationing of large British forces in Germany at British expense.
- c. It was the view of British Aerospace that it would be helpful to the export sales of Tornado to transfer sales leadership to Britain (ie to British Aerospace and Rolls-Royce) and away from Panavia which was based in Germany. Such a move might also ease the German political problem.
- d. If Tornado were offered to potential Arab customers, there would be strong arguments for meeting the Israeli wish to buy Tornado engines, in order to maintain a policy of even-handedness in the Middle East.
- e. If the objections to the sale of Tornado in the Middle East allowed the French to enjoy a clear field for their aircraft the effects would rebound to British disadvantage in other areas of trade. Tornado's prospects in other potential markets such as India would also be prejudiced.
- f. A large number of jobs in the British aerospace industry depended upon the export sales of Tornado.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the proposal to seek to sell Tornado to overseas customers. Every effort should be made to persuade the Germans to agree, as it seemed probable that the Italians would fall in with whatever the Germans decided. Care should be taken in future collaborative projects not to allow our hands to be tied in this way. If Tornado was to be sold to Arab customers in the Middle East, sympathetic consideration should be given to the sale of Tornado or Tornado engines to Israel, in order to maintain a policy of even-handedness.

The Committee -

1. Agreed in principle to the sale of Tornado to overseas customers.
2. Invited the Foreign and Commonwealth Secretary to give further consideration to the implications of selling Tornado or Tornado engines to Israel, if sales were made to Arab countries, and to report his conclusions.

3. Invited the Foreign and Commonwealth Secretary to seek to persuade the German Government to relax their present stance on Tornado sales overseas.
4. Invited the Foreign and Commonwealth Secretary to consider the form of a later approach to the Americans to seek their agreement to the proposed export sales policy for Tornado, subject to the agreement of our German and Italian partners.
5. Invited the Secretary of State for Defence, in consultation with the Foreign and Commonwealth Secretary, to consider the form of an approach to the German Government about transferring the present marketing function of Panavia to British Aerospace and Rolls-Royce.
6. Invited the Secretary of State for Defence and the Foreign and Commonwealth Secretary to make every effort to keep the Tornado option in front of potential Middle East customers.

Cabinet Office

13 February 1981