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PRIME MINISTER

Relations with Developing Countries
(OD(81) 43 and 44)

BACKGROUND

During the summer officials examined the issues likely to come up at Melbourne and Cancun and other international meetings and the problems of presenting our own policies on aid and over relations with developing countries consistently and in the most favourable light. In my minute to you of 14th July (now recirculated, together with the report by officials, under cover of OD(81) 44), I suggested that we had a choice between standing pat on existing policies or modifying them; and I put forward a number of illustrative options which might be considered if you and your colleagues chose the latter course.

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2. The Chancellor of the Exchequer (his minute to you of 16 July), supported by the Secretary of State for Trade (his minute of 22nd July) commented that he was strongly in favour of standing firm. He argued that Government should seek to focus its attention on the things that really matter to the developing countries: the maintenance of private financial flows, the confidence and security of the international banking system, the ability of international institutions to raise funds from developed countries and their financial markets, and from OPEC, and the concentration of official aid on the poorest countries. The Foreign and Commonwealth Secretary (his minute of 28th July) thought that it would be necessary to consider, before the Melbourne and Cancun meetings, whether existing policies would prove sufficient, or whether some changes were needed.

3. Lord Carrington's present memorandum (OD(81) 43) provides the basis for such a review, taking account of developments at those meetings which have already been held, notably the Ottawa Summit and the preparatory meeting of Foreign Ministers at Cancun. His general conclusions are that, despite the difficulties he anticipates at Melbourne and Cancun, no increase in the aid programme (such as would be required to implement the options described in my minute) is justified at this stage, but that it may be necessary

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to return to the problem later. Lord Carrington does however seek the Committee's agreement to support the proposal that there should be an Energy Affiliate for the IBRD.

4. The Chancellor of the Exchequer is likely to oppose this specific suggestion, on the grounds that, so long as the United States and Saudi Arabia will not agree to it, the proposal will not get anywhere, with the result that we should have irritated the Americans and to some extent the Saudis and thus diminished rather than increased the likelihood of new aid flows from either quarter. It is certainly true that at any rate until recently the United States Administration were against the idea, and the Saudis were believed to be cool. But this may be changing: Monsieur Mitterrand's adviser told me last week - having recently had talks in the White House - that the United States Administration were now neutral (he said "passive") on the subject, and the Saudis now in favour. Lord Carrington argues that the United Kingdom should support the proposal on political grounds and because it addresses a vital need of the developing countries. He does not say - and the point will need to be established - whether in the event of his colleagues' agreement, he would expect the British costs involved (which are impossible to quantify at this stage, but might amount to some £3 to £4 million per annum) to be met from within the existing aid programme or whether he is hoping for additional money. As regards the comments of Lord Carrington on the aid programme generally, the Chancellor is likely to want the Committee to endorse the view that no increase in the aid budget is foreseeable.

HANDLING

5. You will wish to invite the Foreign and Commonwealth Secretary to introduce his paper; and the Chancellor of the Exchequer to explain his views on the underlying issues. Others, in particular Mr. Rees (in the absence of the Secretary of State for Trade) and the Lord President may wish to express general views on the defensibility of the Government's policy internationally and domestically. You may also wish to invite Mr. Marten to comment.

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6. There is no need for the Committee to have a detailed discussion of all four of the specific areas of policy identified in paragraph 7 of Lord Carrington's paper. It will however be necessary to settle the Government's line on the IBRD Energy Affiliate. On this you will wish to hear the views of the Foreign and Commonwealth Secretary and the Chancellor, and invite comments by the Secretary of State for Energy and Mr. Marten. Subject to there being no overall increase in expenditure involved in what Lord Carrington proposes, the question depends fundamentally on whether the positions of the United States and Saudi Arabia have indeed changed, and on the Committee's judgment of the international political effects of the line the Government takes.

CONCLUSION

7. You might guide the Committee to agree that:-
- (i) the Government should stick to its present policies on aid, making the most of their positive aspects on the lines described in Annex D to the official paper;
 - (ii) any proposals for increases in the aid budget over and above the level set as a result of the current Public Expenditure Survey should be submitted for decision in the usual way;
 - (iii) the Government should support the proposal to create an Energy Affiliate for the IBRD, if it appears, at Cancun or elsewhere, that the United States and Saudi Arabia are now ready to go along with it.



Robert Armstrong

17th September 1981