PRIME MINISTER

USE OF BILATERAL AID FUNDS IN MIXED CREDIT OPERATIONS

EX(82) 2 and 3

BACKGROUND

1. In EX(82)2, the Secretary of State for Trade proposes that bilateral aid funds pledged to Cameroon (£10 million) and to Zimbabwe(£5 million) should be used in conjunction with Export Credits Guarantee Department (ECGD) commercial credit to finance exports in mixed credit operations. He judges that it might then be possible to generate up to three times these amounts in increased exports. While these particular proposals may seem modest they open up general questions on aid and credit policy and they are opposed by the Chief Secretary for the reasons set out in EX(82)3.

2. At present, most of the funds in the special Aid Trade Provision (ATP) block are used for mixed credit operations but the normal aid programme is not. The ATP provision for 1981-82 is now committed and there are already heavy claims on the total of about £50 million for 1982-83. Because of this the Departments of Trade and of Industry have been looking at specific countries where there might be a good case for using normal aid funds in conjunction with ECGD credit.

3. The Secretary of State for Trade recommends a mixed credit operation in Cameroon on the grounds that this is a promising market at present dominated by the French who themselves operate mixed credit packages. The Secretary of State judges that it is a market into

which United Kingdom manufacturers should be given an opportunity to break. He similarly recommends mixed credit operations in Zimbabwe where United Kingdom manufacturers seem to be doing badly against competition from a number of other countries who are offering mixed credit. The Secretary of State for Trade recognises the importance of not undermining the United Kingdom's general position in international credit discussions but he sees these two proposals as modest and fully justified by the need to compete on the same terms as others rather than to sit back and rest on principles.

4. The Chief Secretary, in EX(82)3, argues that these particular proposals are the thin end of a wedge which could open up general difficulties. He points out:-

(i) the two changes would be visible and could be seen as inconsistent with our policy of strengthening the existing OECD consensus on export credit terms so as to avoid a credit war (his paragraphs 2 and 3);

(ii) although these proposals would add only about £1 million to public expenditure, any extension to other countries and any softening of export credit terms generally could increase public expenditure on export subsidies which is already running at about £500 million a year;

(iii) the proposals represent a subsidy of well over 50 per cent and this will encourage the beneficiaries to push for similarly generous terms for futher business (paragraphs 6 and 7).

5. In earlier discussions both officials and Ministers of the Overseas Development Administration have argued strongly against extension of mixed credit. They fear that the proposed changes would lead to criticism that the United Kingdom was going too far in putting its own commercial interest before the developmental requirements of the developing countries and that more aid will be devoted to the

better off countries rather than to the poorer. They fear that it would then be more difficult for you and for the Government generally to sustain a defence of the quality of the aid programme and of the Government's continuing interest in poorer countries.

HANDLING

6. After the Secretary of State for Trade has introduced his paper you will wish to ask the Chief Secretary to reply. The Secretary of State for Trade is likely to be supported by the Secretary of State for Industry and probably by the Secretary of State for Defence, (although his departmental interest in this item is very limited). Before the meeting the Lord Privy Seal and the Foreign and Commonwealth Secretary will have met to reconcile the differing views of their junior Ministers and officials in the ODA and those in the other part of the Foreign and Commonwealth Office who are sympathetic to the Secretary of State for Trade's case.

7. The general question for the Committee is whether the proposals can be accepted as small, one-off, and in line with competitors' practices or whether they should be rejected as offending general principles of aid and credit policy. In considering this question you might ask whether:-

(i) a favourable decision in these two cases would be the end of the matter or whether it would lead to similar proposals for other countries;

(ii) the provision could not be made from the ATP - although ATP funds are limited this provides a good test of the priorities which the Ministers concerned attach to particular projects and countries;

(iii) there is any case for a compromise - for example, instead of £10 million mixed credit for Cameroon Ministers might agree to make up to £5 million available to support really good projects and the £5 million proposed for Zimbabwe might similarly be reduced.

CONCLUSIONS

8. In the light of the discussion you will wish to record conclusions on -

(i) whether £10 million aid for Cameroon and £5 million for Zimbabwe (or any lesser sums) should be used in mixed credit operations;

(ii) any points of general principle which emerge from the discussion.

PLG

P L GREGSON
22 January, 1982

Qa 05784 22 January 1982

To: MR SCHOLAR

From: J R IBBS

Use of Bilateral Aid Funds in Mixed Credit Operations

1. I have seen the memorandum of the Secretary of State for Trade (EX(82)2 of 19 January) recommending the use of bilateral aid funds in mixed credit operations for Cameroon and Zimbabwe.

2. I think his case is a good one. It is agreed Government policy to give greater weight to political, industrial and commercial objectives in the allocation of the aid programme as a whole (and not just ATP). Given that ATP funds are strictly limited, and practically exhausted for next year, there is a strong case for using a modest amount of aid funds, already earmarked for Cameroon and Zimbabwe, to provide mixed credit for viable projects. The Chief Secretary in his memorandum (EX(82)3 of 22 January) expresses concern that the subsidy would be over 50%. As I have argued in the past (my minute of 5 March to Mr Lankester on the Castle Peak Project), such levels do need convincing justification. Here however the aid has already been promised to the two countries under the bilateral aid programme. By giving it in this way we can at least ensure that British industry derives the benefit. It is also a question of setting a sprat to catch a mackerel. This aid would provide useful business; in Cameroon we should be breaking into a predominantly French preserve, and in Zimbabwe it would help to re-establish us in what is potentially the third largest market in Africa (after South Africa and Nigeria). Hence the sums involved seem good value for money.

3. As John Biffen points out, we shall not be the first in the field in offering mixed credit in either country. Its use by others prevents UK exporters from obtaining orders on normal commercial criteria. We are not starting a credit war if one is already raging in these countries.

I agree with John Biffen that operating mixed credit in these circumstances will not weaken our credibility in arguing against its wider extension.

4. I am sending a copy of this minute to Sir Robert Armstrong.

JK