

*Mark H.*

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*Begins: 10/4/81  
Ends: 5/5/81.*



**PO -CH /GH/0056**



**PART A**

*Chancellor's (Howe) Papers:*

**VISIT OF MR LE PORTZ AND  
MR ROSS OF THE EUROPEAN  
INVESTMENT BANK MAY 1981**

**PO -CH /GH/0056**

**PART A**

**PART A**

*Disposal Directions: 25 Years*

*[Signature]*

*25/7/95*

EUROPEAN INVESTMENT BANK

D

THE VICE-PRESIDENT

EXCHEQUER  
13 APR 1981

Mr Lavelle
Sir K Louzenc
Mr Hancock
Mrs Hedley-Miller
Mr Peretz

sent 14/4

Luxembourg, 10 April 1981.

*See Chancellor,*

You will remember that in November 1979 you were kind enough to receive Mr Yves Le Portz and me to hear the Bank's views about the prolongation of the exchange risk cover scheme for EIB lending to the UK private sector. Following that meeting we were pleased about your decision that the scheme should be renewed for a further two years from 1 January 1980.

At that time a limit of £ 200 million was placed on the total loans to be covered -both from the EIB and the ECSC : this was later extended by £ 20 million to accomodate our potential loans for tourist industry projects.

We understand that this limit may shortly be reached, and that consideration is being given to raising it. It would also be helpful to have an early decision on the prolongation of the scheme beyond 31 December 1981. If this decision could be made before the summer recess, it would enable us to advise potential future clients appropriately, and to avoid the difficulties over timing of their applications which arose as a result of the late decision to extend the scheme after 1979.

Before either of these decisions is reached, Mr Le Portz and I would be most grateful once again to have the opportunity to put the Bank's views to you in person.

We understand that it is possible that you may have a short time available to see us on the morning of Tuesday, May 5; this would be convenient to us.

*Yours sincerely*

*And Ross*

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.,  
Chancellor of the Exchequer,  
H.M. Treasury,  
Parliament Street,  
LONDON S.W.1.

G(i)

Notes  
11.30 Am  
5 MAY

Mr Barton  
Pl enter this into the diary  
and return pps to me  
CONFIDENTIAL RT

pl attach letter 2  
from Dick Ross  
rec'd today

15/4

13/4/81

- 1. MRS HEDLEY-MILLER
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Mr Lavelle
- Mr Lovell
- Mr AJC Edwards
- Mr Patterson o.r.
- Mr Peretz
- Mr Scholes

Copies attached for:  
 Chief Secretary  
 Financial Secretary  
 Mr D Hancock

POSSIBLE MEETING WITH THE PRESIDENT AND VICE-PRESIDENT OF THE  
 EUROPEAN INVESTMENT BANK

We understand that the President of the European Investment Bank (Mr Yves Le Portz) is keen to call on the Chancellor for a brief meeting on 5 May; he would probably wish to be accompanied by Mr Dick Ross, one of the Vice Presidents. He will probably also be calling on the Secretary of State for Industry that day. The main topic he will want to discuss is likely to be the future of the Government's exchange risk cover scheme for private sector borrowing from the EIB ; but among other topics likely to come up are EIB's plans for sterling issues in London, and future lending to the public sector.

2. This note recommends that the Chancellor should see Mr Le Portz if a suitable time can be arranged.

Background

3. Ministers agreed in December 1979 that the exchange risk cover scheme for private sector borrowing from the EIB and ECSC should be extended for two years, subject to a £200 million limit on loans covered. Sir Keith Joseph wrote to the Chancellor just

before the Budget this year saying that almost all the £200m had now been potentially committed and requesting an increase in the limit, to be announced in the Budget. The Chancellor replied that he could not agree to this without a more detailed consideration of the issues, and asked for the review of the future of the scheme which was due to take place this summer to be brought forward.

4. DOI and the regional departments are strongly in favour of continuing the scheme because of its role in providing help to firms in the assisted areas. The Treasury has to weigh against this the potential public expenditure costs in the future if sterling falls. It is unlikely that anything will emerge from the review to be put to Ministers before 5 May, though we would expect something to be ready soon after that.

5. Mr Le Portz will want to lobby the Chancellor to support a continuation of the scheme. Lending to the UK private sector represents a significant portion of EIB business and one which they fear they might lose if exchange risk cover was not available. Mr Le Portz paid a call on the Chancellor (and the Secretary of State for Industry) in December 1979 with a similar objective when the future of the scheme was last under discussion.

6. There are several other points which are likely to come up. Mr Le Portz will be in London in connection with the arrangements for a proposed EIB issue in sterling ( a "bulldog" bond) and a meeting with the Chancellor would provide the opportunity to discuss this and future EIB plans for sterling business - a development which we welcome. He might also discuss EIB lending to the public sector and other aspects of the EIB's business.

#### Recommendations

7. I recommend that the Chancellor should agree to see Mr Le Portz if a suitable time can be arranged. The review of

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the future of the exchange risk cover scheme will not have been completed and put to Ministers by then, but Mr Le Portz specifically wants the opportunity to present his point of view before any decisions are taken: he will not expect the Chancellor to do more than listen to his views.

8. If a meeting does take place we shall provide fuller briefing nearer the time.

*A.C.S. Allan*

A.C.S. ALLAN

13 April 1981

*My  
14/4*



cc: Chief Secretary  
Financial Secretary  
Mr D Hancock  
Mr Lavelle  
Mr Lovell  
Mr A J C Edwards  
Mr Patterson o.r.  
Mr Peretz  
Mr Scholes  
Mrs Hedley-Miller

MR ALLAN

pa

POSSIBLE MEETING WITH THE PRESIDENT AND VICE-PRESIDENT OF THE  
EUROPEAN INVESTMENT BANK

The Chancellor has seen your minute of 13 April and also Mr Dick Ross' letter of 10 April, a copy of which is attached to the top copy of this minute.

2. He has agreed to see Mr Le Portz and Mr Ross at 11.30 a.m. on 5th May. I should be grateful for full briefing in due course.

R.I.

R.I, TOLKIEN  
16th April 1981

MR TOLKIEN

c Mrs Hedley-Miller

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CHANCELLOR'S MEETING WITH MR LEPORTZ AND MR ROSS OF THE  
EUROPEAN INVESTMENT BANK

Your minute of 16 April confirmed that the Chancellor could see Mr Le Portz and Mr Ross on 5 May at 11.30am. I have told Mr Ross's office of this but I think it would be as well for you to write to . . . Mr Ross confirming this, on the lines of the attached draft.

*A C S Allan*

A C S ALLAN

23 April 1981

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DRAFT LETTER TO :

C R ROSS  
VICE PRESIDENT  
EUROPEAN INVESTMENT BANK  
100 BOULEVARD KONRAD ADENAUER  
LUXEMBOURG-KIRCHBERG

Thank you for your letter to the Chancellor of the Exchequer of 10 April in which you asked to have the opportunity to put the Bank's views on the future of the exchange risk cover scheme to the Chancellor.

This letter is to confirm that the Chancellor will be glad to see Mr Le Portz and yourself at 11.30am on 5 May. I understand that your office has already been informed of this.

(R I TOLKIEN)



pa

cc Mrs. H. D. L. ...  
M. A. C. S. ...  
247 B



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

23 April 1981

C R Ross Esq.,  
Vice President  
European Investment Bank  
100 Boulevard Konrad Adenauer  
Luxembourg-Kirchberg

*Dear Mr Ross,*

Thank you for your letter to the Chancellor of the Exchequer of 10 April in which you asked to have the opportunity to put the Bank's views on the future of the exchange risk cover scheme to the Chancellor.

This letter is to confirm that the Chancellor will be glad to see Mr Le Portz and yourself at 11.30am on 5 May. I understand that your office has already been informed of this.

*Yours sincerely,*

*Richard Tolkién*

R I TOLKIEN  
Private Secretary

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PS/CHANCELLOR OF THE EXCHEQUER

cc Mr Hancock  
Mrs Hedley-Miller  
Mr Edwards  
Mr Peretz  
Mr Allan  
Miss O'Mara  
Mr Scholes

EUROPEAN INVESTMENT BANK : RECEPTION

I attach curricula vitae of Mr Ross and  
M George, to be added to my brief of April  
24th.

*EMorhange*

MISS E MORHANGE  
27 April 1981

Ross (Claud) Richard

CB 1973; MA; Vice-President, European Investment Bank, since 1978; b 24 March 1924; o s of late Claud Frederick Ross and Frances Muriel Ross, Steyning, Sussex; m 1954, Leslie Beatrice d of Oliver Arnell and late Dr H M Arnell, Kitale Kenya; two d. Educ: Ardingly Coll; Hertford Coll., Oxford (Open Schol., Mod Hist). Served in Royal Engineers, 1942-47. 1st cl PPE 1950. Fellow of Hertford Coll., 1951-63; Lectr in Economics, Oxford Univ., 1951-52 and 1955-63; Economic Section, HM Treasury, 1952-55; Junior Proctor, Oxford Univ., 1958-59 Bursar, Hertford Coll., 1959-63; Prof of Economics and Dean of Social Studies, Univ. of East Anglia, 1963-69 (Pro-Vice-Chancellor 1964-68); Consultant, OECD, Paris 1969-71; Dep. Sec., Central Policy Review Staff, Cabinet Office, 1971-78. Adviser Bankers' Mission to India and Pakistan, 1960. Represented HM Treasury on OECD Working Party on Policies for Economic Growth, 1961-68. Leader, British Economic Mission to Tanzania, 1965; Member: East Anglia Economic Planning Council 1966-69 (Dep. Chm., 1967-69); Jt Mission for Malta, 1967. Publications: Financial and Physical Problems of Development in the Gold Coast (with D Seers) 1952; Articles on economics. Address: European Investment Bank, 100 Boulevard Konrad Adenauer, Luxembourg; 2a Oliver's Wharf, 64 Wapping High Street, El.

André George

Born 1922, married, 6 children. Doctor of Economics, Paris; Graduate of Ecole Nationale d'Administration. Before 1962 member of French mission to United Nations; Financial Attaché at French Embassy in Washington; Alternate French Director at World Bank. 1962-64 at Finance Ministry, Paris; 1964-74 Director of External Affairs of Société Générale. 1974 appointed Manager of Finance and Treasury Directorate, European Investment Bank.

B

30/4/81.

1. MRS HEDLEY MILLER
2. CHANCELLOR OF THE EXCHEQUER

cc Attached for:

Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Sir D Wass  
Mr Ryrie  
Mr Hancock  
Mr Middleton  
Mr Ridley

cc Mr Lavelle  
Mr Lovell  
Mr Chivers  
Mr A J C Edwards  
Mrs Gilmore  
Mr Peretz  
Miss O'Mara  
Mr Scholes

MEETING WITH MR LE PORTZ AND MR ROSS OF THE EUROPEAN INVESTMENT BANK

You are meeting Mr Le Portz, the President of the EIB, and Mr Ross, one of the Vice-Presidents, on 5 May at 11.30. Mr Hancock, who is one of the UK Directors of the EIB, and I will attend the meeting. The meeting was fixed up at the EIB's request, to give them an opportunity to put their views on the future of the exchange risk cover scheme for private sector borrowers from EIB and ESCS. They are seeing Sir Keith Joseph earlier that morning.

General objectives

2. The main objective of the meeting is to let the EIB put their case: they will be arguing that the scheme should be renewed and extended. They will not expect you to do more than listen to their points and assure them that they will be fully taken into account in discussions about the future of the scheme.

546/4.

3. The main points for you to make are:

(a) No decisions have yet been taken about the future of the scheme - indeed recommendations have not yet been put forward for Ministerial discussion. The EIB's visit is thus a timely one and their views will be fully taken into account.

(b) We welcome the help which the EIB have given to the existing scheme; the fact that the limit on lending under that scheme has nearly been reached does demonstrate its attractiveness.

(c) But difficult questions about the potential public expenditure commitments under the scheme do arise. The EIB will recognise that these have to be weighed against the regional benefits from the scheme.

Some more detail about these points is set out below.

Introductory points

4. There are two points you might make in introducing the meeting.

(i) you might recall the earlier meeting you held in November 1979 with Mr Le Portz and Mr Ross when the future of the scheme was last discussed (the note of the meeting is at Annex A).

(ii) You might refer to the reception which Mr Ross hosted on 27 April which you attended.

Background

5. The exchange risk cover scheme was first introduced in December 1977; it was subsequently extended in 1978 and then again in December 1979. Under the scheme private sector borrowers in the Assisted Areas are protected from exchange risk on their borrowing from EIB or ECSC in return for a premium of 2 per cent (1 per cent in Special Development Areas and in Northern Ireland). The extension in December 1979 was subject to a limit of £220m for new borrowing in 1980 and 1981. Potential commitments have now eaten up nearly all of this £220 million and the review of the future <sup>of the</sup> scheme planned for this summer has accordingly been brought forward. It is likely that papers will be put to Ministers in early May.

Regional benefits

6. There is no doubt that the Departments who operate the scheme (DOI and Scottish and Welsh Offices and others) feel it is of value as part of the package of regional aids. The availability of fixed rate medium term finance at attractive interest rates can be an inducement for firms to locate in Assisted Areas. The Departments cite in particular the benefits to small firms and to inward investors (an EIB loan with exchange cover was part of the package which recently attracted Mitel to South Wales). You could certainly say that you recognise these benefits but must also take into account the potential public expenditure costs.

Public expenditure

7. Public expenditure only arises if the exchange risk guarantees are called - ie if sterling depreciates between when a loan is down

and when a repayment is made. With the recent strength of sterling the scheme has so far made a "profit". But the bulk of the liabilities lie in the future and there is no sure way of predicting what the cost of these may turn out to be. The premiums charged for exchange risk cover do help to offset the risks but they are not fully "commercial" premia. One thing which is being discussed during the Review is how the potential public expenditure costs can be better monitored and controlled and whether any changes should be made to the premium arrangements if the scheme is extended.

Currencies

8. With the fall in UK interest rates and the rise in interest rates abroad EIB loans are becoming much less attractive to UK borrowers, even with exchange risk cover. One possibility, which we would welcome, is for the EIB to do more sterling lending to the private sector; for sterling loans there is, of course, no question of exchange risk and hence no public expenditure implications. The EIB might, however, suggest that in order to keep down interest rates on EIB loans we should accept more Swiss francs or yen in the loan "cocktails". If this idea is raised it should be resisted on the grounds of the greater risks of borrowing these currencies (low interest rates equate with a market expectation that that currency may appreciate in the future); the possibility of increased sterling lending might be put forward as an alternative.

EC arguments

9. Use is sometimes made of EC arguments in justifying the exchange risk cover scheme. If it is suggested the EIB loans provide a resource transfer to the UK this should be firmly rebutted: only grants, not loans, represent resource transfers.

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EIB loans are also not of relevance to details about our net contribution to the EC budget.

Transitional arrangements if the scheme is ended

10. It is possible that the EIB may raise the question of transitional arrangements for phasing out the scheme if a decision is taken to end it. If they do, you could assure them that in those circumstances you would certainly be prepared to agree to generous and flexible arrangements for any borrowers caught in the pipeline when the scheme was ended.

Other points the EIB might raise

11. It is possible that the EIB may raise some other points, not related to the exchange risk cover scheme. Some defensive notes are attached on:

- (i) EIB capital increase;
- (ii) EIB sterling borrowing in London;
- (iii) Public sector borrowing from the EIB.

Brief notes on Mr Le Portz and Mr Ross are also attached.

*A.C.S. Allan*

A.C.S. ALLAN - IA

30 April 1981

*Auty*  
30/4



OTHER POINTS WHICH MAY BE RAISED BY THE EIB

EIB Capital Increase

The Bank's rules limit its outstanding loans and guarantees to 250% of the subscribed capital. On present estimates the Bank will reach that ceiling sometime in 1982. The Governors are likely to be asked to agree to a doubling of the Bank's capital at their annual meeting in June, but other issues eg the proportion to be paid in, etc. have not yet been fully discussed by the Directors.

2. We consider there is no reason for you to mention the issue. Should EIB raise it, we suggest you say the matter will not be before the Governors of the Bank until June, and the Board of Directors has not completed its discussion. But based on the papers you have so far seen, the proposal to double the capital seems right but other aspects of the matter remain to be discussed.

EIB sterling borrowing

3. The EIB is thinking of making a sterling issue in London (a "bulldog" bond): hence the reception last week. We have no objections to this - indeed it fits in well with our desire to promote overseas borrowing of sterling following the ending of exchange control. There have been some problems over the taxation of interest on an EIB issue but it seems likely that an acceptable arrangement can be agreed between the EIB and the Revenue on the lines of that agreed for the recent IBRD issue.

EIB lending to the public sector

4. Although it has been the Government's policy to reduce substantially the volume of official overseas borrowing, we have

nevertheless thought it useful to maintain a modest programme of borrowing from the Community institutions. We have therefore agreed with the EIB that the public sector should borrow up to \$350 million from them annually. Since official cover against exchange risk will be made available on these loans and the foreign currency will be taken into the reserves, we want to borrow predominantly in dollars and to avoid loans containing a large element of the traditionally "hard" currencies. We have provided the EIB with some guidelines on our preferred currency composition but with dollar and Deutschemark interest rates currently so high they are finding it very difficult to meet our currency requirements at an acceptable interest cost and are thus substantially overshooting our ceiling on lending in 1981. They have therefore been pressing us to relax our currency guidelines.

5. Another point which might be raised, possibly in connection with the EIB's sterling issue, is whether the UK would be prepared to take more sterling from the EIB. As is mentioned in the main brief we would welcome sterling lending to the private sector. For the public sector, it is a general rule that on grounds of cost sterling borrowing should be undertaken only from the NLF. We doubt whether the EIB could in practice provide a cheaper source, but if it were possible on occasions we would not want to rule out the possibility of borrowing sterling from them.

6. If either of these points is raised, you could simply say that these are issues which officials would be happy to discuss further with the EIB.



NOTE OF A MEETING HELD BETWEEN THE CHANCELLOR OF THE EXCHEQUER  
AND REPRESENTATIVES OF THE EUROPEAN INVESTMENT BANK (EIB) AT  
10.15 A.M. ON FRIDAY, 23RD NOVEMBER 1979 AT NO.11 DOWNING STREET

Present:

Chancellor of the Exchequer  
Mr. Jordan-Moss  
Mr. Patterson  
Mr. Tolkien

Monsieur le Portz  
Mr. Ross  
Mr. Kirby

-----

The meeting was held to discuss the future of the private sector exchange risk guarantee scheme for EIB (and ECSC) loans in the UK assisted areas.

2. Welcoming the representatives of the EIB, the Chancellor invited Monsieur le Portz to explain what he saw as being the main issues.
3. Monsieur le Portz explained that the scheme followed a Council initiative of 1977 which sought to increase investment in the less favoured regions and in certain sectors, e.g. energy. In the case of the UK exchange cover for the private sector was being given under the Industry Act 1972. The UK scheme was due to expire on 31st December 1979. Though the scheme had taken some time to publicise, it had developed successfully. In recognition of the problem of exchange risk, loans comprised a cocktail of currencies. The EIB could go further and provide more in sterling, though such loans could not be nominated exclusively in sterling. The form taken by the scheme could be discussed.
4. The Chancellor expressed his appreciation of the extent to which EIB private sector loans had assisted the UK and explained that a decision on what, if anything, should follow



the present exchange risk guarantee scheme had not yet been taken. A decision would have to be reached by the end of the year.

5. Mr. Ross explained that there were applications from other countries which might be approved were the UK Government not to extend the present scheme. Thus its decision had wider implications and any delay in decision making would complicate matters for the EIB. He also explained that the EIB were not financing lame ducks: all applications were appraised critically, first by the Department of Industry and secondly by the EIB themselves.

6. Monsieur le Portz said the EIB would prefer a decision in favour of an indefinite extension or one for longer than one year.

7. After discussion, the Chancellor said that there seemed to be three options:

- (i) A run-off arrangement (to provide for applications already received), with no extension;
- (ii) a further extension of one year; or,
- (iii) an extension for a longer period.

8. (iii) had the disadvantage of precluding automatic regular review. The benefits of the scheme had to be considered against its costs under the various options.

9. Mr. Jordan-Moss explained that the possible costs were unquantifiable, depending as they did on movements in the exchange rate. The scheme involved an open-ended commitment at a time when the Government were paring down the regional industrial assistance programme.

10. The Chancellor said that total loans outstanding would be



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almost £200 million by the end of December. He said that the Government would balance the considerations of cost and benefit before reaching its decision.

11. Monsieur le Portz wondered whether a decision to end the private sector exchange risk cover scheme might not be inappropriate in the context of the current discussions about budgetary contributions.

12. The Chancellor recalled what he had said at the recent Finance Council. Loans were not transfers of resources and it was therefore not valid to introduce them into the argument except to the extent that they attracted interest subsidies.

13. The Chancellor thanked Monsieur le Portz and his colleagues for coming to see him.

14. After Monsieur le Portz and his colleagues had departed, the Chancellor said that he would like some estimates of the likely charge to public expenditure on varying exchange rate assumptions. These would be useful in discussions with colleagues in EA Committee. Mr. Patterson said that any charge which did materialise would represent a not inconsiderable proportion of smaller departments' programmes. To date this possible liability had been reckoned against the contingency reserve; this partly explained the enthusiasm of the departments for the scheme.

15. Mr. Jordan-Moss said that other considerations in addition to public expenditure were relevant. As regards debt management, we could now borrow more easily and cheaply on our own credit than hitherto: there was less need to take advantage of the EIB's triple X rating. Though having a cocktail of currencies reduced the risk attached to EIB loans,



the trend had been towards an increasing share for the harder currencies, which, on balance, was probably not to our advantage.

16. The Chancellor said that in view of the wider position on Europe he might be inclined to favour some limited extension. In that case premia charged to beneficiaries might be increased. In any event, the timing and presentation of any decision would need to be considered carefully.

*R. I. Tolkien*

(R. I. TOLKIEN)  
23rd November 1979

Distribution:

Those present  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State (C)  
PS/Minister of State (L)  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Kenneth Couzens  
Mr. Hancock  
Mr. Gill  
Mr. Michell  
Mr. Scholes  
Mr. Ridley  
Mr. Cardona  
  
Mr. E. George (Bank of England)

LE PORTZ, Yves. President of European Investment Bank. B. 1920. Educ. Univ. de Paris à la Sorbonne; Ecole des Hautes Etudes Commerciales; Ecole Libre des Sciences Politiques. M 1946, Bernadette Champetier de Ribes. Children: 5. Career: Attached to Gen. Inspectorate of Finances 1943, Ministry of Finance and Econ. Affairs 1951; French Del to Econ. and Social Council of UN 1957-58; Dir. Gen. of Finance for Algeria 1958-62; Dir.Gen., Bank for Devt. of Algeria 1958-62; Vice-Pres. of the European Investment Bank (EIB) and Vice-Chmn. of the Bd of Dirs. 1962-70; Pres. of the EIB and Chmn. of the Bd of Dirs. since 1970; Inspector-Gen. of Finances since 1971. Decoration: Commandeur Légion d'Honneur 1978. Address: European Investment Bank, 100 Boulevard Konrad Adenauer, LUXEMBOURG - KIRCHBERG.

Ross (Clauđ) Richard

OB 1973; MA; Vice-President, European Investment Bank, since 1978; b 24 March 1924; o s of late Clauđ Frederick Ross and Frances Muriel Ross, Steyning, Sussex; m 1954, Leslie Beatrice d of Oliver Arnell and late Dr H M Arnell, Kitale Kenya; two d. Educ: Ardingly Coll; Hertford Coll., Oxford (Open Schol., Mod Hist). Served in Royal Engineers, 1942-47. 1st cl PPE 1950. Fellow of Hertford Coll., 1951-63; Lectr in Economics, Oxford Univ., 1951-52 and 1955-63; Economic Section, HM Treasury, 1952-55; Junior Proctor, Oxford Univ., 1958-59 Bursar, Hertford Coll., 1959-63; Prof of Economics and Dean of Social Studies, Univ. of East Anglia, 1963-69 (Pro-Vice-Chancellor 1964-68); Consultant, OECD, Paris 1969-71; Dep. Sec., Central Policy Review Staff, Cabinet Office, 1971-78. Adviser Bankers' Mission to India and Pakistan, 1960. Represented HM Treasury on OECD Working arty on Policies for Economic Growth, 1961-68. Leader, British Economic Mission to Tanzania, 1965; Member: East Anglia Economic Planning Council 1966-69 (Dep. Chm., 1967-69); Jt Mission for Malta, 1967. Publications: Financial and Physical Problems of Development in the Gold Coast (with D Green) 1952; Artilcles on economics. Address: European Investment Bank, 100 Boulevard Konrad Adenauer, Luxembourg; 2a Oliver's Wharf, 64 Wapping High Street, E1.

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1/5/81

23

CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Minister of State(C)
- Minister of State(L)
- Sir D Wass
- Mr Ryrie
- Mr Hancock
- Mr Middleton
- Mr Lavelle ← Mrs Hedley-Miller
- Mr Lovell
- Mr Chivers
- Mr A J C Edwards
- Mrs Gilmore
- Mr Peretz
- Miss O'Mara
- Mr Scholes
- Mr Ridley

MEETING WITH MR LE PORTZ AND MR ROSS OF THE EUROPEAN INVESTMENT BANK

Since my minute of 30 April I have learned of one further point of which you should be aware for your meeting with Mr Le Portz and Mr Ross on Tuesday 5 May.

2. I understand that Mr Le Portz and Mr Ross are likely to press strongly not just for the exchange risk cover scheme to be extended but also for the premiums at present charged for exchange risk cover to be abolished. The reason behind this is probably that with the present relative levels of sterling and foreign currency interest rates they are finding it increasingly difficult to put together currency "cocktails" which are attractive to firms. If the premium charged for exchange cover were abolished (it amounts at present to 2% for most loans, but only 1% in Special Development Areas and Northern Ireland) the EIB's loans would become correspondingly more attractive.

3. If this is raised I suggest you say that the question of premium is tied in closely with the public expenditure liabilities under the scheme. The premium charged is a partial offset to the potential cost which the Government will face in the future if sterling depreciates. If the premia were abolished the net cost to the Government would increase.



4. The EIB may suggest that so far the scheme has made a "profit", indicating that the premia are too high. If so, you could point out that this "profit" reflects the rapid appreciation of sterling over the last few years. No-one can predict with any certainty what will happen to exchange rates in the future, particularly over the periods of up to ten years for which the Government's liabilities for exchange risk cover run. It is reasonable for the Government to charge a premium for removing such a large element of uncertainty (and potential cost) from the borrower.

5. It will be important for / <sup>you not to</sup> give the EIB any encouragement to expect an abolition of (or reduction in) the premium. But you could assure them that the points which they make about the premia will be fully considered during the Review of the scheme.

6. One further point for the meeting is that I understand that Sir Keith Joseph will not now be able to see Mr Le Portz and Mr Ross; they will be seeing Mr John McGregor instead.

ACSA Allan

A C S ALLAN  
1 May 1981

Postscript: Miss O'Mara has pointed out to me that another argument the EIB may deploy is that the Italians and Irish do not charge any premium for exchange cover. Their case is different in that they have current account deficits and a desire to encourage inflows to finance them: this may enable them to justify taking greater risks with public expenditure in order to encourage firms to borrow foreign currency from abroad.

CHANCELLOR OF THE EXCHEQUER

cc Mrs Hedley-Miller  
Mr Edwards  
Mr Scholes  
Mr Allan

MEETING WITH MR LE PORTZ

1. It would be very helpful if you would say a word to Mr le Portz about the capital increase this morning.
2. You may remember that in my submission, seeking your approval for a line to take on the capital increase, I said that I was trying to persuade the Board of Directors to institute a procedure whereby they would review the Bank's lending programme at regular intervals to ensure that the annual rate of increase in the Bank's borrowing operations was compatible with:-
  - (a) the standing of the Bank in the international capital markets, and
  - (b) the need to avoid a further increase in capital before the end of 1986.
3. The Board of Directors is meeting again on Friday and this will be the crucial meeting so far as this initiative is concerned. It would therefore help me a great deal if you were to say to Mr le Portz that you attached importance to establishing a procedure whereby the Board of Directors reviewed the rate of expansion of the Bank's borrowing operations systematically and formally.
4. I am a bit troubled by the way things are going because, although Mr le Portz promised that he would propose a formula that met my request, he has so far failed to do so and the meeting is only three days away.

D.H.

D J S HANCOCK  
5 May 1981

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ET404 RET 135664269 - 000026 RT ID: TY

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SKP:TCZ00423762 - 00018 CUST:423762

REF1 423762

File Desc 2: PU - CHG/0056 PART A 1

Srv: 14/03 12:30pm GMT

For: RQBY\*

IRENE RIPLEY

R



HALF