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28 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER

EXPORT CREDIT CONSENSUS

Brief by HM Treasury

OBJECTIVE

To agree a new Community position for the Consensus talks to be resumed on 18-19 December.

POINTS TO MAKE

2. Clear from the Consensus talks in Paris on 26-27 November that the present Community position (an immediate increase in minimum interest rates coupled with further talks in 1981) will not satisfy the US and others. Danger now of Consensus starting to breakdown at great cost to all EEC countries, especially since the deadline of 1 December for a mutually acceptable solution set by the Venice Summit has not been met.

3. France should therefore now accept the Commission proposal of the uniform moving matrix, which has long been accepted by all other member states.

4. If despite the dangers France still cannot accept principle of automatic changes in Consensus interest rates, then Community should agree now to consider a further increase in minimum rates in 1981 and accept a commitment to annual reviews thereafter. Talks should continue on how to accommodate low interest rate countries within the Consensus.

BACKGROUND

5. The Consensus on export credit (also known as the Arrangement) sets minimum interest rates and maximum repayment periods for officially supported credits with

a term of 2 years or over. The minimum interest rates are the same for all currencies and have hitherto been agreed in negotiation amongst the participants. However, for the last 2 years the US (with support from smaller countries like Austria and Switzerland) has been pressing for the minimum rates to be linked automatically to market rates. A technical report on the options (the Wallen report) has identified two possibilities: the uniform moving matrix (UMM) and the differentiated rate system (DRS).

6. The Community has found it difficult to reach a common position on these options. The Commission proposed in the summer that the EEC should support the UMM and this was accepted by 8 member states (including the UK). But France has throughout refused to agree to any automatic linkage of Consensus rates with market rates.

7. Thus, in order to meet the deadline set at the Venice Summit of agreement on a solution by 1 December, it was agreed at the Finance Council on 17 November that the Community should suggest to other Consensus participants an immediate increase in minimum rates with talks continuing later in 1981 on the idea of an automatic linkage.

8. At the meeting of the Consensus group in Paris on 26-27 November, the Community proposal was rejected as unacceptable by the US and other participants. Senior US Treasury officials have criticised the Community position publicly as "grossly inadequate". The Americans see some linkage between market and consensus rates as now essential and they see the particular increases suggested by the Community (0.6% - 1%) as too small given the gap between market rates (averaging 10-11%) and Consensus rates (7.5 - 8.75%).

9. As there was no possibility of agreement in Paris on 26-27 November, the talks were adjourned until 18-19 December in the hope that the Community can agree in the interim a

more forthcoming line. There will be an opportunity for further Ministerial discussion at the Finance Council on 15 December, but the opportunity of the European Council should be taken to impress on the French the importance of their allowing the Community to put forward a proposal more likely to ensure the Consensus is maintained.

HM Treasury
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