



From the Secretary of State

*Please insert in P.N.'s
brief with copies to myself
and Mr. Whitmore.*

A.J.C. 3/6

John Coles Esq
Private Secretary
Prime Minister's Office
No 10 Downing Street
London SW1

3 June 1982

Dear John,

VERSAILLES SUMMIT/EXPORT CREDIT CONSENSUS

Thank you for sending me a copy of Sir Campbell Fraser's 28 May letter to the Prime Minister. We were aware of the concern of the CBI (and British industry generally) about the negotiations on the Consensus which are likely to be discussed at Versailles. The Chancellor has already suggested that the EC should put forward counter-proposals covering the two most difficult points, namely the sharp increase in Consensus rates for Newly Industrialised Countries (NICs) and the margin to be applied to Japan.

The main brief (PMVS(82)9) for the Summit generally identifies the issues, but greater stress should be given to the need to moderate and stage any changes in interest rates for the NICs. We would therefore propose that paragraphs 2 and 3 be amended to read:-

"Like most EC countries we can accept much of the compromise proposals put forward by the Chairman of the OECD Export Credit Group. But it is not sensible to widen the interest rate advantage enjoyed by the Japanese, and we are also anxious to avoid a sharp increase in the Consensus rates for Newly Industrialised Countries (NICs)".

"Given a satisfactory resolution of the Japanese and NIC points, we could go some way towards US concern on credit for the USSR".

I also enclose for your information a supplementary brief prepared by ECGD expanding on the line that might be taken with the other Summit participants.

I will let you have a draft reply to Sir Campbell Fraser shortly.

Yours sincerely,

JOHN RHODES
PRIVATE SECRETARY

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VERSAILLES ECONOMIC SUMMIT

4-6 JUNE 1982

EXPORT CREDIT CONSENSUS

Supplementary Brief by Export Credits Guarantee Department

1 The Export Credit Consensus will now almost certainly be raised at the Summit (probably by the Americans pressing the EC to accept the Swedish Chairman's compromise). Given the stalemate that has emerged in the Consensus negotiations and the real risk of the collapse of the arrangement, we should take the opportunity to apply pressure in three directions:-

A on the Americans to accept some reduction in the proposed increases in the interest rate guidelines for the Newly Industrialised Countries (and to help us with Japan on the problem of the margin (surcharge) to be added to official finance provided by the Japanese Eximbank;

B on the Japanese to agree to some increase in the margin (eg to 0.5%) which would still leave them in a better position than that agreed in November 1981; and

C on the French to accept a realistic scaling down of their hopes of securing changes in the Swedish compromise to the most vital elements (on the lines put forward by the Chancellor - see Annex attached).

2 Although agreement has been given to a short extension of the Consensus until 15 June, it is clear from discussions between officials last week that the Americans are still hoping that the EC will accept the whole compromise package, whilst the French will be insisting on significant changes. The Japanese (who have come out very well in the compromise) have made it clear that they will certainly oppose the

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opening of the negotiations. There is thus a real risk that the Consensus will disintegrate (or split into two rival arrangements) unless the Summit discussion can provide some fresh momentum to the negotiations.

POINTS TO MAKE

(To all)

- 1 The break up of the Consensus will be to no-one's advantage: it could lead to a costly credit war which might embitter future trade relations between the Seven.
- 2 Further negotiations will be necessary as the EC will be seeking some changes in the Chairman's compromise proposals (as they stand these seem clearly unacceptable to the French and would be very unpopular with British exporters).

To the Americans

- 3 Considerable progress has been made in reducing the level of interest rate subsidies and more would be achieved if the Consensus survives; (thus Consensus rates would range from 10-12 $\frac{1}{2}$ %: quite close to average World market rates of 12%; whereas last October Consensus rates of 7 $\frac{1}{2}$ -8 $\frac{3}{4}$ % were well below market rates then averaging 13.3%).
- 4 As a "windfall benefit", rates for the USSR would rise from 7.75% at present to 12.5% if the Consensus survives.
- 5 The Swedish Chairman's proposals involve far too rapid a change in the credit terms for Newly Industrialised Countries ("NICS" - Brazil, Mexico, etc). This could impair their ability to service their debts and lead to a sharp drop in World trade. (For example, the proposals would mean that the maximum terms for Brazil etc would change immediately from 10 years credit at a Consensus interest rate of 7 $\frac{3}{4}$ %, to 8 $\frac{1}{2}$ years credit at 11.6%).

6 This abrupt change would also severely affect the competitive position of the UK and France vis-a-vis Japan; (thus last October all three countries were charging a common rate of 7 $\frac{3}{4}$ % irrespective of the currency, whereas now it is proposed that the rate for the yen should be 8.7%, compared with a Consensus rate of 11.6%).

7 It is not feasible for Japan to finance all European exports in yen, therefore either the Japanese margin must be increased (to (say) 0.5% compared with the 0.3% proposed by the Swedish Chairman) or the Americans will have to forego the proposed increase in interest rates for the NICs this time.

To the Japanese

8 In addition to the points at 5 -7 above, we consider that the Japanese should make a contribution to help preserve the Consensus. We consider that a margin of 0.5% added to their (fluctuating) Long Term Prime Rate (currently 8.4%) should not be an intolerable burden. (It would enable Eximbank finance to be provided in support of yen credits at a blended rate of 8.9%, compared with about 9% at present).

9 Unless an acceptable margin is finally agreed, European and US demands for equal access to the yen capital market might reach levels the Japanese government would find embarrassing.

10 To the French

10 We have put forward some realistic ideas as to counter-proposals the EC might seek (as per Annex attached). We believe these cover the essential areas for both countries. We hope that the French will support these and not press for more substantial improvements in the Swedish Chairman's package, which are unlikely to be negotiable.

ECCGD
1 June 1982

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OECD EXPORT CREDIT CONSENSUS - CHAIRMAN'S COMPROMISE

UK COUNTER-PROPOSALS

(Proposed by Chancellor at ECOFIN on 17 May not yet put forward by EC)

- 1 The increase in rates for Newly-Industrialised Countries moving into Category 2 should be staged as a transitional arrangement (eg over 6-12 months).
- 2 The maximum credit terms for NIC's should be 10 years not 8½ years.
- 3 The proposed increase in rates (+0.6% to 11.6%) for Category 2 (middle income) countries should only be implemented if the margin (surcharge) to be applied by Japan for its official financing is increased to 0.5% above the market rate.