



Treasury Chambers, Parliament Street, SW1P 3AG
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30 September 1983

The Rt. Hon. Cecil Parkinson MP
Secretary of State for Trade and Industry

Handwritten signature of Cecil Parkinson in cursive.

CREDIT FOR IRAQ

Your letter of 29 September asked for urgent comments on a proposal that the Iraqi team visiting the UK next week should be offered £250 million of medium term credit over 5 years.

I am very reluctant to agree to this. As your letter makes clear to do so would be incompatible with our recent decision to adopt a more rigorous approach to country underwriting and would put us in the position of offering significantly more generous credit terms than other Western credit insurers. You suggest that we should nevertheless depart from normal principles for commercial and political reasons. As I understand it the commercial case is that the underlying position of the Iraqi economy is sound and it will therefore be a major market once oil exports resume and the war is over. I agree that in the longer term Iraq has much to offer as a market but in the meantime the country's resources are being channeled into the war effort, there are no signs of the war ending - indeed it may escalate - and the bulk of the repayment of the credits you propose will fall due during the next 5 years ie in advance of the time when you believe they may be in a position to pay their debts. These are all factors which should lead us to look with extreme scepticism on any case for extending credit.

You also suggest that the need to meet the Iraqi expectation for an offer of credit amounts to a political imperative because failure to meet such an expectation would be seen as an act of bad face. But the Iraqis latest demands are clearly unrealistic. The original very much smaller offer was made in conditional terms. Since then their economy has deteriorated and the conditions have not yet been met. There seems no point in securing a political, and perhaps commercial success in the short term if the only result is exports which are not paid for or which are paid for only after considerable delay. As you know this is very much the line which we are taking in other cases where we are under pressure to extend new credit.

My conclusion therefore is that we should not offer the Iraqis new medium term credit at this time.

I am copying this letter to the recipients of yours.

Handwritten signature of Nigel Lawson in cursive.

NIGEL LAWSON