



CF. No Trade Up  
e. Hunt  
DI Trade

10 DOWNING STREET

THE PRIME MINISTER

26 May, 1982.

Dear Arnold,

Thank you for your letter of 12 May.

I readily appreciate your concern about the press reports of the compromise proposals for changing the international Consensus and about the risks to UK export competitiveness as a result of the acceptance of the proposal which will allow the Japanese to offer below Consensus rate finance.

I can assure you that throughout last year's negotiations (which resulted in an interim agreement being reached last October) and in the current round, one of the Government's major concerns has been the need to protect the UK's competitive position. At the same time the UK, both individually and as a member of the European Community, has been conscious of the risks of a breakdown of the Consensus unless agreement is reached on a realignment of interest rates to bring them closer into line with market rates, and the need to strengthen control over the terms of credit offers.

The agreement reached in October was a compromise which participants were finally able to accept and which removed the immediate risk of a breakdown of the Consensus. Failure to achieve any agreement would have had the most serious consequences for the UK's trading position and would have resulted in a damaging and costly credit race between major trading nations. In agreeing to a concession for low interest rate countries the Japanese gave assurances that overseas competitors would have access to Japanese yen to match offers by Japanese exporters for third country trade.

/Access to the

Access to the domestic yen market could of course offer the market depth which is not available in the euro-yen market. In the past few months officials of ECGD and the Treasury have had extensive discussions with the Japanese Government departments concerned and with Japanese banks in London and in Tokyo to establish the basis for a yen financing scheme. Considerable progress has been made in these discussions and you may have seen the reports of a statement made by the Japanese Government at the end of last week about the success which has been achieved so far.

The European Community and all other participants are still considering their attitude to further possible changes to the Consensus, and no final decisions were taken at the Council Meeting on Monday to which you referred. There is however no doubt that all participants are mindful of the need to safeguard export competitiveness and to maintain, and to strengthen, discipline over credit terms.

Finally, you refer to the possibility of reaching an agreement on a European Consensus along the present lines to inhibit damaging competition with our European partners. The risk of damaging intra-Community competition is one of particular concern, especially in those cases where a member state offers a combination of aid and commercial credit in order to provide a package on particularly 'soft' terms. This practice has been growing in recent years, and the interim agreement reached in October was a step in the direction of ensuring greater transparency over the terms of such offers. It is doubtful however whether a European Community Consensus would provide the answer. Under a purely European Consensus export subsidies are unlikely any longer to be permissible under the GATT or the EC Treaty. So the attempt to negotiate such a Consensus could easily backfire, especially as it would leave Japan free to lend at their market rates which are lower than the rates at which they can provide officially supported finance under the current Consensus arrangements.

/I believe the

I believe the best hope of finding solutions to these problems is to maintain and to strengthen the international Consensus. This will not be easy. Failure could give low interest rate countries an even greater advantage whilst simultaneously initiating a very costly export credit race.

Yours sincerely  
Raymond White

The Lord Weinstock.



*Letter in PM's Box*

*Trade*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

20 May 1982

Michael Scholar, Esq.,  
No.10 Downing Street

*Dear Michael*

EXPORT CREDIT : LETTER FROM LORD WEINSTOCK

In your letter of 13<sup>th</sup> May you asked for a draft reply for the Prime Minister to send to Lord Weinstock in response to his letter of 12<sup>th</sup> May.

.....  
We agreed that it would be best to wait until after the meeting of EC Finance Ministers last Monday on this subject before putting forward a reply. As you are aware, no decisions were reached then on the compromise proposals put forward by the Export Credit Group Chairman in Paris twelve days ago. The draft reply for this reason gives no commitment as to the UK's or the Community's attitude to the proposals or what may eventually be agreed. It has been cleared with ECGD at official level.

A copy of this letter goes to John Rhodes at DOT.

*Yours ever*  
*Peter*

P.S. JENKINS

*M type*  
DRAFT LETTER FROM PRIME MINISTER  
TO LORD WEINSTOCK

*res 29/5*

EXPORT CREDIT CONSENSUS

Thank you for your letter of 12 May.

2. I ~~can~~ readily appreciate your concern about the press reports of the ~~Swedish~~ compromise proposals for changing the international Consensus and about the risks to UK export competitiveness as a result of the acceptance of the proposal which will allow the Japanese to offer below Consensus rate finance.

3. I can assure you that throughout last year's negotiations (which resulted in an interim agreement being reached last October) and in the current round, one of the Government's major concerns has been the need to protect the UK's competitive position. At the same time the UK, both individually and as a member of the European Community, has been conscious of the risks of a breakdown of the Consensus unless agreement is reached on a realignment of interest rates to bring them closer into line with market rates, and <sup>the need</sup> to strengthen control over the terms of credit offers.

4. The agreement reached in October was a compromise which participants were finally able to accept and which removed the immediate risk of a breakdown of the Consensus. Failure to achieve any agreement would have had the most serious consequences for the UK's trading position and would have resulted in a damaging and costly credit race between major trading nations. In agreeing to a concession for low interest rate countries the Japanese gave assurances that overseas competitors would have access to Japanese yen to match offers by Japanese exporters for third country

trade. Access to the domestic yen market could of course offer the market depth which is not available in the euro-yen market. In the past few months officials of ECGD and the Treasury have had extensive discussions with the Japanese Government departments concerned and with Japanese banks in London and in Tokyo to establish the basis for a yen financing scheme. Considerable progress has been made in these discussions and you may have seen the reports of a statement made by the Japanese Government at the end of last week about the success which has been achieved so far.

5. The European Community and all other participants are still considering their attitude to further possible changes to the Consensus, and no final decisions were taken at the Council Meeting on Monday to which you referred. There is however no doubt that all participants are mindful of the need to safeguard export competitiveness and to maintain, and to strengthen, discipline over credit terms.

6. Finally, you refer to the possibility of reaching an agreement on a European Consensus along the present lines to inhibit damaging competition with our European partners. The risk of damaging intra-Community competition is one of particular concern, especially in those cases where a member state offers a combination of aid and commercial credit in order to provide a package on particularly 'soft' terms. This practice has been growing in recent years, and the interim agreement reached in October was a step in the direction of ensuring greater transparency over the terms of such offers. It is doubtful however whether a European Community Consensus would provide the answer. Under a purely European Consensus export subsidies are unlikely any longer to be permissible under the GATT or the EC Treaty. So the attempt to negotiate such a Consensus could easily backfire, especially as it would leave Japan

free to lend at their market rates which are lower than the rates at which they can provide officially supported finance under the current Consensus arrangements.

7. I believe the best hope of finding solutions to these problems is to maintain and to strengthen the international Consensus. This will not be easy. Failure could give low interest rate countries an even greater advantage whilst simultaneously initiating a very costly export credit race.

20 MAY 1962







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Trade

10 DOWNING STREET

From the Private Secretary

13 May 1982

EXPORT CREDITS: LETTER FROM LORD WEINSTOCK

I attach a copy of a letter from Lord Weinstock about which I spoke to you earlier this afternoon.

B/F

I would be grateful for a draft reply for the Prime Minister's signature as soon as possible. Perhaps you would be kind enough to let me know in the course of tomorrow whether you think it would be advantageous to put a draft reply in the Prime Minister's box tomorrow evening; or whether we can reasonably answer in slower time.

I am sending a copy of this letter to John Rhodes (Department of Trade).

Peter Jenkins, Esq.,  
HM Treasury

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BK

10 DOWNING STREET

*From the Private Secretary*

13 May 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 12 May about the Swedish "compromise" on export credit interest rates, for discussion by EEC Ministers next Monday.

A reply will be sent to you as soon as possible.

M. C. SCHOLAR

The Lord Weinstock

THE GENERAL ELECTRIC COMPANY LIMITED

1 STANHOPE GATE · LONDON W1A 1EH

01-493 8484

12th May, 1982

*Dear Prime Minister,*

I hesitate to worry you at this most difficult time, but I feel I must draw your attention to a development which could do great damage to the GEC and indeed all other British exporters of capital goods. This is the proposed Swedish "compromise" to raise export credit interest rates, which I understand is to be discussed by EEC Ministers next Monday.

The Swedish proposal is that the Japanese rate for Yen finance should go down to something like 8.7 per cent with other interest rates for category I and category II countries going up, together with a number of countries being reclassified upwards to category I or II, as appropriate. The effect of all this is set out succinctly in the attached table. As you can see, this will mean that in many of our most important markets, the Japanese will have an advantage over us of something between 2.3 and 3.8 percentage points, with a corresponding reduction in our ability to compete effectively on major project business requiring substantial financial support.

/.....

I am aware of the proposed new facility for Yen financing to enable the UK manufacturer to finance his project in the same currency at the same interest rate as the Japanese competitor, but unless the Yen becomes as international a currency as, say, the US Dollar, it is most unlikely that Yen finance will be available in the quantity required to enable the UK manufacturer (and indeed other consensus members) to quote in Yen for major project business. Furthermore, if negotiations for Yen financing are not concluded in good time for each specific contract, there is a danger that this facility may indeed become available but only after the contract has been awarded to a (dare I say Japanese?) competitor. As these arrangements are, in any event, in an embryo stage, it is far too soon to know if they could prove advantageous to us. It is also too early to assess the impact on our export business of the October, 1981 increase in consensus rates, because many of our projects continued to be financed under the pre-October rate until quite recently.

I do not think it necessary to underline to you the problems that this proposed variation between UK and Japanese consensus rates could cause in terms of further unemployment. Surely, our right course is to resist any further changes until the present rates have been fully tested. If the result of standing firm on the present arrangements is to make it impossible to arrive at an international consensus, then I believe

/.....

that will be a less damaging result for the UK than agreeing to the Swedish proposal, or anything like it. It ought, however, to be possible to reach an agreement within the Community to a European consensus along present lines which would inhibit damaging competition with our European partners.

I am sorry to have to worry you with yet another issue, but the long term repercussions of what is proposed really do require the most careful assessment before decisions are taken on our negotiating position.

*Yours sincerely,*

*Arnold Weinstock*

Lord Weinstock

The Rt. Hon. Mrs. Margaret Thatcher, MP.,  
10, Downing Street,  
LONDON, S.W.1.

RECLASSIFICATION AND INTEREST RATE CHANGES

EXAMPLES

	Pre-Nov.81	Current	Compromise	% over Japanese rate (probably 8.7%) if compromise accepted
<u>Category I</u>				
U.S.A.	8.5%-8.75%	11%-11.25%	12.25%-12.5%	)
( Spain )				)
( Bahrain )				)
* ( U.S.S.R. ) reclassified	8.0%-8.5%	10.5%-11%	12.25%-12.5%	) 3.55%-3.8%
( G.D.R. )				)
( Czechoslovakia )				)
<u>Category II</u>				
Hong Kong	8.0%-8.5%	10.5%-11%	11%-11.6%	)
( Brazil )				)
( Malaysia )				)
( Nigeria )				)
( Mexico )				)
( Taiwan )				)
( Paraguay )				)
* ( Peru ) reclassified	7.5%-7.75%	10%	11%-11.6%	) 2.3%-2.9%
( Algeria )				)
( Chile )				)
( Colombia )				)
( Korea )				)
( Morocco )				)
( Tunisia )				)
<u>Category III</u>				
	7.5%-7.75%	10%	10%	1.3%

\* other important markets may also be reclassified

13 MAY 1982

