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10 DOWNING STREET

THE PRIME MINISTER

28 June 1982

Alan Arnold

Thank you for your letter of 9 June.

I hoped my letter of 26 May would allay your fears about the possible outcome of the present round of Consensus negotiations and the risks to our export competitiveness of agreeing to lower interest rates for yen financing.

I accept that in order to offer comparable terms to those made by Japanese exporters, UK and other countries' exporters must be able to raise yen finance in sufficient amounts to on-lend at the special Consensus rate where this is attractive to the buyer. Since our earlier correspondence you will have seen Peter Rees' announcement of new ECGD facilities to assist UK exporters wishing to finance export contracts in yen to match Japanese offers. This follows an agreement reached with the Japanese authorities on access to the Tokyo market. While it is too soon to say categorically that no difficulties will arise, the Japanese authorities have not placed any formal ceiling on this borrowing and we have no grounds for supposing that they will not honour their undertaking to allow international access to their domestic market to finance export credit transactions. However, if this proves not to be the case, we and our Community partners would act promptly to correct any injustice.

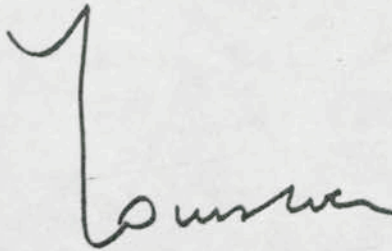
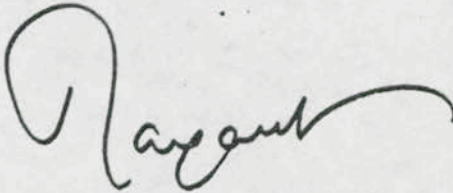

As you will be aware from recent press reports, the negotiations on changes to the Consensus are still in progress, and the final outcome is still unclear. As a member of the Community and in the course of discussions within the Consensus Group and elsewhere

/I can assure

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I can assure you that the UK has sought to safeguard the interests of our exporters and at the same time has attempted to influence discussion in the direction of a workable solution which will remove the threat of an escalating credit race.

Your suggestion that Consensus interest rates should be pegged for the time being is, I fear, one that is simply not negotiable with the other participants. Although pressure from the Americans to increase Consensus interest rates may diminish if their domestic rates fall, the real argument is over the extent (if at all) that official interest rate subsidies are given. It has been generally accepted for some time that the consensus interest rate matrix no longer reflects the market interest rates of participant countries. As a result the degree of subsidisation of officially supported export credits has increased rapidly in the past few years, particularly in France and Italy as well as the UK, and the proposals to adjust the Consensus matrix are aimed at redressing the balance.

The Lord Weinstock



29p
Trade

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

25 June 1982

Michael Scholar Esq.
10 Downing Street
LONDON
SW1

Dear Michael,

.... I attach a draft reply for the Prime Minister to send to Lord Weinstock. When I spoke to you last Friday, I said that we hoped that the negotiations might be concluded this week, so that the Prime Minister could respond in rather different terms. But as you know the emergency ECOFIN on 23 June failed to produce agreement. I attach a reply which effects this.

Yours sincerely,

Jill Rutter

JILL RUTTER

DRAFT LETTER FROM: PRIME MINISTER
TO: LORD WEINSTOCK
GENERAL ELECTRIC COMPANY LIMITED

Thank you for your letter of 9 June.

2. I hoped my letter of 26 May would allay your fears about the possible outcome of the present round of Consensus negotiations and the risks to our export competitiveness of agreeing to lower interest rates for yen financing.

3. I accept that in order to offer comparable terms to those made by Japanese exporters, UK and other countries' exporters must be able to raise yen finance in sufficient amounts to on-lend at the special Consensus rate where this is attractive to the buyer. Since our earlier correspondence you will have seen Peter Rees' announcement of new ECGD facilities to assist UK exporters wishing to finance export contracts in yen to match Japanese offers. This follows an agreement reached with the Japanese authorities on access to the Tokyo market. While it is too soon to say categorically that no difficulties will arise, the Japanese authorities have not placed any formal ceiling on this borrowing and we have no grounds for supposing that they will not honour their undertaking to allow international access to their domestic market to finance export credit transactions. However if this proves not to be the case, we and our Community partners would act promptly to correct any injustice.

4. As you will be aware from recent press reports, the negotiations on changes to the Consensus are still in progress, and the final outcome is still unclear. As a member of the Community and in the course of discussions within the Consensus Group and elsewhere I can assure you

that the UK has sought to safeguard the interests of our exporters and at the same time has attempted to influence discussion in the direction of a workable solution which will remove the threat of an escalating credit race.

5. Your suggestion that Consensus interest rates should be pegged for the time being is, I fear, one that is simply not negotiable with the other participants. Although pressure from the Americans to increase Consensus interest rates may diminish if their domestic rates fall, the real argument is over the extent (if at all) that official interest rate subsidies are given. It has been generally accepted for some time that the Consensus interest rate matrix no longer reflects the market interest rates of participant countries. As a result the degree of subsidisation of officially supported export credits has increased rapidly in the past few years, particularly in ~~countries such as France, and~~ Italy ^{as well as} and the UK, and the proposals to adjust the Consensus matrix are aimed at redressing the balance.

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Trade

10 June 1982

I enclose a copy of a letter from Lord Weinstock to the Prime Minister dated 9 June about the export credit consensus negotiations. We have acknowledged this letter.

B/P
I should be grateful if you would let me have a draft reply that the Prime Minister could send to Lord Weinstock by Monday 21 June.

I am sending a copy of this letter and attachment to Brian Fall (Foreign and Commonwealth Office) and John Rhodes (Department of Trade).

MS

John Kerr Esq
HM Treasury.

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MFJ

10 June 1982

I am writing to thank you on the Prime Minister's behalf for your letter of 9 June about the export credit consensus negotiations, which I will place before the Prime Minister.

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

MS

The Lord Weinstock

THE GENERAL ELECTRIC COMPANY LIMITED
1 STANHOPE GATE · LONDON W1A 1EH
01-493 8484

cc JV

9th June, 1982

Prime Minister ⁽²⁾

We will let you have
a draft reply as soon as
possible.

Dear Margaret,

Thank you for your letter of 26th May, 1982,
about the export credit consensus negotiations, and for
finding the time to look into the matter when even more
pressing matters call for your constant attention.

Mes 10/6

We have heard of ECGD's efforts to reach
agreement with the Japanese about obtaining access to
yen finance. But our firm impression is that the
amount likely to be forthcoming from the Japanese will
fall far short of what is required to finance the
projects which will come forward from all the OECD
countries; we believe the Japanese are really offering
little more than a sop to sweeten the negotiations.

In practice, we will for most projects be
facing a yen financial package with interest rates
markedly lower than we can offer in sterling or dollars.
The inevitable result will be that the Japanese will
win more and more such business.

/.....

To raise the consensus interest rates further simply in order to preserve the consensus involves potentially real and substantial difficulties to deal with what might well be a short-term American problem, arising, moreover, out of their own domestic economic policies. The rates of interest we are offering even now under the consensus are historically high, and no one knows to what extent they are going to be subsidised over, say, an eight to fifteen years repayment period.

Can I suggest that the right course is to see for a bit longer what effect the existing consensus rates will have on business before deciding to increase them. To postpone a decision for twelve months would enable us to do this and also to see whether the American problem will diminish anyway. I believe almost everybody involved in trying to win large project business overseas would go along with such a policy, and I am sure that it would commend itself to most, if not all, of our EEC partners.

Yours sincerely,

Arnold

Lord Weinstock

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