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TO IMMEDIATE FCO

TELEGRAM NUMBER 031 OF 4 FEBRUARY

SAVING INFO PARIS, BONN, BRUSSELS

YOUR TELNO 41: IMF INTERIM COMMITTEE, WASHINGTON, 10/11 FEBRUARY

1. I CALLED TODAY ON FINANCE MINISTER GALVEAS TO EXPLAIN THE CHANCELLOR'S REASONS FOR BRINGING FORWARD THE MEETING OF THE INTERIM COMMITTEE AND THE IMPORTANCE HE ATTACHES TO ITS SUCCESS. I HANDED OVER A SPEAKING NOTE BASED ON POINTS I - X IN PARAGRAPH 2 OF YTUR, AND TOOK HIM THROUGH THEM ORALLY.
2. GALVEAS RESPONDED VERY WELL. HIS COMMENTS ON POINTS OF DETAIL WERE AS FOLLOWS.
3. ON POINT IV (GAB EXTENDED AGREEMENT), HE SAID THAT BRAZIL WOULD ADVOCATE STRONGLY THAT APPLICATIONS SHOULD BE PROCESSED THROUGH THE IMF.
4. WITH REGARD TO POINT VIII (SIZE OF THE FUND), BRAZIL WAS FIRMLY IN FAVOUR OF A 100 PER CENT INCREASE IN THE QUOTA. THE REASONS FOR THIS WERE:
 - (A) THE NEED TO REINFORCE THE POSITION OF THE IMF BY INCREASING LIQUIDITY IN ORDER TO DEAL WITH BALANCE OF PAYMENTS PROBLEMS;
 - (B) THE DECLINE IN THE RATIO OF THE EXISTING TOTAL QUOTA TO GLOBAL INTERNATIONAL IMPORTS.THIS WAS THE POSITION OF ALL 677 DEVELOPING COUNTRIES.
5. WITH REGARD TO IX (DISTRIBUTION OF QUOTAS), BRAZIL WOULD FAVOUR 100 PER CENT EQUIPROPORTIONALITY, THOUGH MORE FOR REASONS OF REGIONAL SOLIDARITY THAN BECAUSE THIS HAD GREAT PRACTICAL SIGNIFICANCE FOR BRAZIL.
6. HE WENT ON TO EXPLAIN A POINT OF EVIDENT SIGNIFICANCE FOR BRAZIL AND WHICH HE WILL CLEARLY PUSH HARD AT THE WASHINGTON MEETING, NAMELY, THE CREATION OF A NEW ISSUE OF SDRS IN THE FORM OF AN ADDITIONAL US DOLLARS 4 BILLION FOR THE PERIOD 1982-84. HIS RATIONALE WAS THAT:
 - (A) ACCESS TO WORLD LIQUIDITY WAS NOT EVENLY DISTRIBUTED;
 - (B) THE CREATION OF 4 BILLION WAS A MODEST AMOUNT AND WOULD NOT BE INFLATIONARY, PARTLY BECAUSE THE INDUSTRIALISED NATIONS WOULD NOT NEED TO DRAW ON THEIR SDR ALLOCATION AND PARTLY BECAUSE COUNTRIES LIKE BRAZIL WHICH MIGHT DRAW THESE NEW SDRS WOULD USE THEM TO RE-BUILD THEIR RESERVES. AS A RESULT, DEMAND PRESSURE FOR FUNDS ON THE INTERNATIONAL FINANCIAL MARKETS WOULD BE REDUCED.HE STATED THAT THE CREATION OF ADDITIONAL SDRS WOULD HAVE THE SUPPORT OF ALL DEVELOPING COUNTRIES, INCLUDING THE ARABS.
7. HE MADE THE FURTHER POINT THAT, UNLESS THE EXISTING RULES WERE CHANGED, COUNTRIES WOULD HAVE TO PAY FOR 25 PER CENT OF ANY INCREASE IN EXISTING QUOTAS WITH SDRS. ABOUT 90 COUNTRIES USING THE IMF AT THE MOMENT HAD NO SDRS LEFT.

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8. HE WELL TOOK POINT X, NAMELY THE NEED FOR RAPID FORWARD MOVEMENT FROM THE START OF THE MEETING AND THE CONSEQUENT NEED FOR FLEXIBILITY. HE WOULD BE AMONG THE SMALL GROUP OF DEVELOPING COUNTRY REPRESENTATIVES WHO WOULD HAVE A PRIOR MEETING WITH TREASURY SECRETARY REGAN AND HE SET STORE BY THIS AND ALSO THE INITIAL LUNCHEON ON DAY ONE.

COMMENT

9. I THINK THAT THE CHANCELLOR CAN COUNT ON STRONG SUPPORT FROM GALVEAS, WHO SEES THE SUCCESS OF THIS MEETING AS CRUCIAL TO THE FUTURE HEALTH OF THE INTERNATIONAL FINANCIAL SYSTEM.

FCO PSE PASS SAVING TO PARIS, BONN, BRUSSELS

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(REPEATED AS REQUESTED)