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Secretary of State for Trade and Industry

11 November 1983

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Chancellor,

BRAZIL

We had a quick word in Bonn about Brazil. I said that there are one or two trade considerations which ought to be taken into account. The purpose of this letter is to amplify what I said.

2 The situation seems to be constantly changing but if, contrary to latest expectations, the rescue package should collapse outright, default by Brazil would involve ECGD in meeting claims totalling some £500 million in the period up to the end of 1986. If it led to domino-like further defaults elsewhere in Latin America, a further £250 million of additional claims might arise. Claims on ECGD on this scale would have unwelcome PSBR implications, and would threaten the financial viability of the whole ECGD scheme, although as you said, even these sums would be small beside other costs which might arise.

3 A Brazilian default would also result in a significant loss of UK exports. Brazil would be forced to pay cash for imports, and place even greater reliance on counter trading, which in general would work against us. Similar defaults elsewhere in Latin America could put at risk much of our £600 million trade with the region. Longer term prospects in Latin America, a region of great potential to absorb more UK exports, but where at present our market share is minimal, would suffer a severe knock.

4 For good reasons we have hitherto been against putting up new export credits. But there is a case for doing so on the ground that without incurring any additional public expenditure, we could keep a continuing UK foothold in the Brazilian market, and avoid discrimination against UK exports in the longer term, when Brazil may again be able to take imports - as we hope she will if the IMF package is successful.

5 Our share of new export credits in proportion to current export credit exposure would be around £100 million, guaranteed by ECGD and tied to UK exports of industrial products essential

to the Brazilian stabilisation programme or for longer term projects in which there is already a British interest.

6 Other factors will rightly come into our decision, but we should not discount the trade and employment benefits which would accrue from guarantees for a modest amount of new export credits in line with our OECD partners. In contrast to what must be expected if the rescue operation were to fail, there would be no direct charge on public expenditure, but no more than a contingent liability against the possibility of future non-payment. This might most conveniently be assumed by making use of ECGD's dormant powers to render economic assistance to overseas countries.

7 However, if we believe that the IMF package will work, then clearly a new line of ECGD credit would not be at risk. On the other hand if we are unwilling to risk a new line of credit, the implication must be that we have little confidence in the package and must therefore be bracing ourselves for its failure.

8 I am copying this letter to the Prime Minister, the Foreign Secretary and the Governor.

Yours sincerely,

Ruth Thompson

NORMAN TEBBIT

(approved by the Secretary of State and signed in his absence)