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

15 November 1983

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Norman

BRAZIL

Thank you for your letter of 11 November.

As I said in Bonn, I am of course well aware of the risks to ECGD (and still more, to British banks) which would flow from a Brazilian default. But, like the Prime Minister, I am also concerned about the risks to the world financial system and the impact on other borrowers if there were any softening of the position which has been successfully maintained so far on Brazil. There has indeed been a degree of weakening of the IMF's own de-indexation condition, although we still hope that the overall effect of this and other measures will be satisfactory. It is essential that the debtor countries themselves make the major contribution to the solution of their problems, by the adoption of appropriate adjustment policies. Brazil, like Mexico last year, is in a very good position to take the necessary steps. And there is now encouraging evidence that it intends to do so. It would be a great mistake to risk the success of this policy, just when (in the Brazilian case, which is the one which matters most) it shows every sign of succeeding.

Moreover, a UK contribution in the form of new export credit is not going to make the difference between success and failure of the package which Larosiere and Regan have put together. If there is any shortfall, I am sure that the Americans will make it up. It was originally suggested that we would have to join in because, if we did not do so, the UK banks would also stay out. They have in fact gone in. We were told in the summer that the Americans and the French would regard our participation as critical. Since the Prime Minister's visit, and mine, to Washington in late September it is clear that they understand our position: we are no longer under pressure.

This means I think that the only case for our going in is the trade argument you describe. I have to say that I do not find it convincing. There is at present very little UK trade with Brazil, and little potential for developing it in the short term. Brazil does not need large imports of raw materials or of capital equipment in order to strengthen its balance of payments, and its recovery programme will in fact require a considerable cut-back in imports. I see no point in stimulating sales which Brazil does not need and cannot afford to pay for, for several years ahead. A figure as high as £100 million looks particularly hard to justify in these circumstances. It seems to be based on the relative proportions of officially guaranteed debt, in which we happen to score particularly high (probably because past exports were concentrated in the capital sector). On the more usual trade-weighted basis, our contribution would be \$30-50m, though I would be most reluctant to consider even that degree of commitment.



It may be helpful, and save time at the Prime Minister's meeting tomorrow, if I record the latest developments and the prospective next moves. As the Governor will tell us, Brazil was high on the agenda at the recent Basle meeting, and (although there is still some uncertainty about the outcome) the prospects for the IMF package and associated bank lending now look fairly good. There was a meeting of Executive Directors of the IMF on 14 November, at which the UK representative came under no pressure to make any offer.

The next step is a meeting of the full Executive Board. This may slip from 18 November to the following week. For that meeting, I suggest that our line should be to agree the IMF package (the conditions for which have now been met), to indicate that the UK banks will be prepared to play their part, but to maintain our position on new government credit. Thereafter, there is likely to be a Paris Club meeting (originally 21-22 November but this too may slip). We have agreed that we shall then play a full part in rescheduling operation, proportionate to our share of officially guaranteed debt, which is substantial. The cost to us is likely to be some £190 m. I see no need for us to go further, and become drawn into a discussion of further new credits.

I am sending copies of this minute to the Prime Minister, the Foreign Secretary, the Governor of the Bank of England, and Sir Robert Armstrong.

NIGEL LAWSON

A handwritten signature in black ink, appearing to read 'Nigel Lawson', with a long horizontal stroke at the end.

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