

PRIME MINISTER

*See overpage
and*

BRAZIL

The FCO's first letter arrived after I had minuted out that you thought that no further offer of export credit should be made for the time being.

The FCO are proposing that we should now go public on the \$20 million which the IMF has pencilled in against the UK. This is not, as was originally argued, because such an offer is necessary to stop the debt package falling apart, since that seems to have been successfully put together, but is in order to placate criticism in Brazil. The arguments against this course are:

- (i) We do not appear to be under pressure from other industrial countries to make a further offer;
- (ii) In the process of rescheduling the total of debts concerned turned out to be larger than expected, and the additional export credit required seems to have been found. It is possible, therefore, that the IMF may never come round to ask us to deliver the additional credit. In which case, it would be foolish to offer it now;
- (iii) We have a good case on Brazil, provided that it is properly deployed.

You asked specifically for efforts to be made to present our case better. The Chancellor has responded by preparing the attached message to the Brazilian Finance Minister. The FCO are content for it to be sent except that they want to add a reference to the \$20 million. It seems unlikely that this would significantly improve the impact of the message since it is a tiny sum in relation to the UK's total contribution and looks small in relation to the offers made by Germany and France.

/ Agree,

Agree, therefore, that your original decision stands?

You wanted to see the telegrams from Brazil reporting criticism of the UK. These are attached.

AF

Original decision stands. To
mention the \$20m would only
draw forth the German & French
sums and we should look
unfavourable by contrast
not

30 November 1983

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Foreign and Commonwealth Office

London SW1A 2AH

30 November, 1983

Dear Andrew,

Brazil

with AT?
The Foreign Secretary has seen John Kerr's useful letter of 25 November, which arrived here yesterday.

The Foreign Secretary agrees that the Brazilians should be reminded of the substantial existing contribution which the UK is making to the Brazilian rescue package. The Ambassador in Brasilia has already been asked to put this across to the Brazilian government. Sir Geoffrey would like to reaffirm these instructions to the Ambassador. In particular he should be asked to point out that, in addition to the major role played by UK banks, HMG has made a substantial contribution through the BIS bridging loan earlier this year, the recently agreed Paris Club restructuring operation and, more generally, the UK contribution to financing the IMF.

At the Prime Minister's meeting on 16 November she said that our objective should still be to hold our contribution on official debt to the current offer. The UK should continue to encourage France and Germany to hold the line in order to secure the maximum contribution from the US. The meeting recognised the political disadvantage of being isolated vis-a-vis Brazil and the other industrial countries. If, at the end of the day, the package was in difficulty and other industrial countries were proposing to increase their contribution, the UK could consider making an additional contribution on a very limited scale, eg one commensurate with the importance of trade with Brazil.

It is clear we are becoming isolated in our relations with Brazil. The Brazilians regard eventual willingness to participate in providing new export credits as the touchstone of relations with Western governments. The Ambassador has reported mounting criticism of our position both by Government Ministers and in the press. We are also coming under pressure at home from MPs and senior businessmen over the apparent rift in our relations with Brazil. The Foreign Secretary will be receiving members of the British/Brazil Parliamentary Group later today. The European press, especially the French, has not been slow to report this rift. Unless we take action to check the drift, considerable damage could be caused to our political relations with Brazil.

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As Mr Kerr's letter points out, the IMF has pencilled in a contribution of \$20 million from the UK to the package of new export credits. This sum contrasts with the very substantial indicative figures for France and Germany. Since we have not discouraged the IMF from using this figure, the IMF must regard this as a fairly clear hint of our eventual readiness to participate with a modest share. At the same time it is not clear that the Brazilians are yet aware of this. Our Ambassador in Brasilia is likely to be tackled on this issue. If the Prime Minister agrees, Sir Geoffrey would propose to instruct him to take the line, if asked, that the Managing Director of the IMF reassured both the recent Executive Board meeting and the Paris Club that the \$2.5 billion of new export credits would be forthcoming. The Brazilians will know that he did this after consultation with a number of governments including our own. The Ambassador should say that we are not privy to the details of all these consultations. He should not be drawn into speculation about a specific UK commitment, and would leave it to the Brazilians to draw their own conclusions.

We do not think there is any question, at this stage, of our committing a specific amount of new export credits. As John Kerr's letter points out, there is a good deal of uncertainty about the size of any financing gap, and the extent to which other European governments would be prepared formally to commit themselves to the indicative figures which they gave the IMF. Our concern is that in the meantime, we should not allow ourselves to be politically isolated in our relations with Brazil.

I am copying this letter to John Kerr (HM Treasury), Callum McCarthy (DTI) and John Bartlett (Bank of England).

Yours ever,

Peter Ricketts

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Private Secretary

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