

Brazil file

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4766 - 1

DD 051430Z BRASILIA

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IMMEDIATE BRASILIA

TELEGRAM NUMBER 292 OF 5 DECEMBER

MY TELNO 291: BRAZIL: FINANCING

1. I HAVE WRITTEN AT HIS REQUEST TO SIR ROBIN MAXWELL-HYSLOP, MP WHOM I SAW WITH OTHER MEMBERS OF THE BRITISH/BRAZIL PARLIAMENTARY GROUP LAST WEEK TO REMIND HIM OF THE SUBSTANTIAL CONTRIBUTION WE ARE MAKING. FOLLOWING IS TEXT OF MY LETTER DATED 5 DECEMBER. YOU MAY ALSO DRAW ON THIS AS NECESSARY WHEN SPEAKING TO THE BRAZILIANS.

BEGINS:

AT OUR MEETING YESTERDAY I UNDERTOOK TO LET YOU HAVE A NOTE ABOUT OUR CONTRIBUTION TO THE SOLUTION OF BRAZIL'S DEBT PROBLEM.

I VERY MUCH WELCOMED THE OPPORTUNITY TO DISCUSS THIS QUESTION WITH YOU AND YOUR GROUP, AND TO SET THE RECORD STRAIGHT ON THE SUBSTANTIAL EXISTING CONTRIBUTION WHICH WE ARE MAKING TO THE BRAZILIAN RESCUE PACKAGE. YOU MAY FIND IT HELPPFUL IF I SET DOWN THE BASIC FIGURES. YOU WILL RECALL THAT AT THE OUTSET THE BANK OF ENGLAND WITH A GUARANTEE FROM HM TREASURY TOOK A DOLLARS 110 MILLION SHARE IN THE CENTRAL BANK CONTRIBUTION TO THE BIS BRIDGING LOAN TO BRAZIL. AT THE PARIS CLUB MEETING ON 22-23 NOVEMBER TO RESTRUCTURE BRAZIL'S 1983/84 DEBTS, ECGD'S CONTRIBUTION TO THE DOLLARS 3.8 BILLION TOTAL WAS APPROXIMATELY DOLLARS 330 MILLION. THIS AMOUNT IS TWICE THE ORIGINAL AMOUNT AT WHICH THE BRAZILIAN GOVERNMENT AND IMF HAD ESTIMATED ECGD'S SHARE (DOLLARS 180 MILLION). IT IS A VERY GENEROUS CONTRIBUTION BEARING IN MIND THAT ECGD'S EXPOSURE SHARE IS APPROXIMATELY 13 PER CENT WHILE THE UNIPED KINGDOM'S SHARE OF THE BRAZILIAN MARKET IS ONLY 1.3 PER CENT. AT THE IMF EXECUTIVE BOARD MEETING ON 22 NOVEMBER, WHEN A REVISED THREE-YEAR EXTENDED FUND FACILITY FOR BRAZIL WAS APPROVED, THE BRITISH EXECUTIVE DIRECTOR TOOK A HELPPFUL AND CONSTRUCTIVE PART IN THE DISCUSSION. HE PAID

CONFIDENTIAL

4766 - 1

PARTICULAR TRIBUTE TO THE SUBSTANTIAL EFFORT MADE BY THE BRAZILIAN GOVERNMENT TO ENABLE THE PROGRAMME TO BE REINSTATED.

AT THE SAME TIME THE BRITISH BANKS HAVE PLAYED A PROMINENT ROLE IN THE NEGOTIATIONS FOR THE DOLLARS 6.5 BILLION COMMERCIAL LOAN FOR BRAZIL. NEGOTIATIONS ARE STILL CONTINUING BUT THE BRITISH BANKS' SHARE OF THE LOAN IS EXPECTED TO BE OF THE ORDER OF DOLLARS 700 - 780 MILLION. THE BRAZILIAN GOVERNMENT HAS EXPRESSED ITS GRATITUDE TO THE BRITISH BANKS FOR THEIR HELPFUL ROLE AND FOR THE SUPPORT WHICH THE BANK OF ENGLAND HAS GIVEN THEM.

THERE WAS ALSO DISCUSSION AT OUR MEETING OF FUTURE EXPORT CREDITS FOR BRAZIL. I EXPLAINED THAT ECGD IS STILL MAINTAINING SHORT TERM COVER FOR BRAZIL. ON PRESENT LEVELS THIS IS EXPECTED TO RUN AT ABOUT A TOTAL OF POUNDS STG 20-30 MILLION PER YEAR. ECGD IS ALSO MAINTAINING COVER FOR A SUBSTANTIAL NUMBER OF MEDIUM TERM CREDITS, WHICH IN TOTAL COULD AMOUNT TO APPROXIMATELY PDS STLG 500 MILLION, IN SUPPORT OF EXISTING CONTRACTS. BRAZIL WILL CONTINUE TO BE ABLE TO DRAW UPON THESE CREDITS IN THE NORMAL WAY. YOU ALSO RAISED THE QUESTION OF EEW MEDIUM TERM EXPORT CREDITS. I EXPLAINED THAT IT HAS NOT YET BEEN CLEARLY ESTABLISHED WHAT THE SIZE OF ANY FINANCING GAP IN THIS AREA MIGHT BE. WE, LIKE THE OTHER MAJOR CREDITOR GOVERNMENTS EXCEPT THE US, HAVE NOT MADE ANY FORMAL COMMITMENTS FOR THE PRESENT. WE SHALL CONTINUE TO KEEP THIS QUESTION UNDER REVIEW IN THE LIGHT OF THE ECONOMIC CIRCUMSTANCES. I SUGGESTED THAT IF YOU OR DAVID MONTGOMERY WISHED TO DISCUSS PARTICULAR CONTRACTS YOU MIGHT HAVE A WORD WITH NORMAN FEBBIT.

I SHOULD LIKE TO EMPHASISE, AS I SAID AT OUR MEETING, THAT AS FOREIGN SECRETARY I AM PARTICULARLY CONCERNED TO PRESERVE AND STRENGTHEN OUR GOOD POLITICAL AND COMMERCIAL RELATIONS WITH BRAZIL. I FULLY RECOGNISE THE IMPORTANCE OF BRAZIL TO BRITAIN AND THE HELPFUL ROLE WHICH BRAZIL HAS PLAYED IN RECENT TIMES. I SHARE YOUR CONCERN ABOUT THE PRESS REPORTS THAT BRITAIN IS NOT TAKING A POSITIVE ATTITUDE TOWARDS BRAZIL'S PROBLEMS. WE SHALL BE TAKING STEPS TO REASSURE THE BRAZILIAN GOVERNMENT ABOUT THE CONTRIBUTION WHICH WE ARE MAKING TO BRAZIL IN HER HOUR OF

2

CONFIDENTIAL

CONFIDENTIAL

4766 - 1

DIFFICULTY AND I VERY MUCH HOPE THAT THIS ACTION WILL PUT AN END
TO UNHELPFUL PRESS SPECULATION ON THIS SUBJECT.

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3
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