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10 DOWNING STREET

*From the Private Secretary*

5 September, 1984

ECGD POLICY TOWARDS RESCHEDULING COUNTRIES

The Prime Minister has seen your Secretary of State's letter of 10 July and the replies from the Chancellor, the Foreign Secretary and the Secretary of State for Defence. She has noted that agreement has been reached between Ministers and with OECD partners that ECGD cover could be resumed somewhat earlier for those countries granted rescheduling provided they are implementing an effective adjustment programme approved by the IMF.

I am sending a copy of this letter to David Peretz (HM Treasury), Len Appleyard (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence), Michael McCulloch (Overseas Development Administration) and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Miss R. Thompson,  
Department of Trade and Industry.

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From the Private Secretary

Prime Minister <sup>(2)</sup>

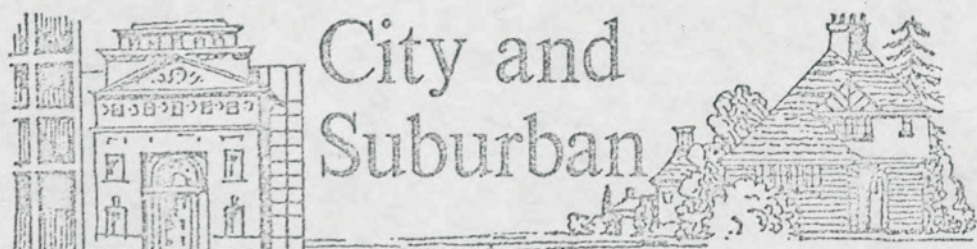
To note that DTI, Treasury and FCO have agreed a modification of policy on the restoration of ECGD cover for countries. Hitherto a country seeking rescheduling of official debts lost cover and did not regain it until sometime later when a record of creditworthiness was restored.

It has been agreed with OECD partners that cover can be reinstated when a country embarks on an IMF approved programme. This will provide greater incentive for debtors to undertake adjustment programmes.

AT

4/9

Spectator 18 August 1984



### Salomon abdicates

Private banking loses its most public advocate as Sir Walter Salomon slips into the wings. He has ended 34 years as chairman of Rea Brothers, the City bank which, in its present form, is his creation. The smallest of the accepting houses, Rea is on that score conventionally called a merchant bank. No, says Sir Walter, a private bank. It is true that for most of the time Rea keeps out of sight, occasionally looming here or there as the force behind some decisive shareholding. But the standards of the private bankers are for Sir Walter a matter of public importance, and when commercial or central banks forget those standards, they bring many of our present woes upon us. What they lack, he says, is the private banker's discipline of risking his own money: 'With the decline of the impact of the owner-occupier, as far as the funds of the banks were concerned, ambitious people wanted to compete with other ambitious people.' As for the Bank of England and the central banks of other nations, they no longer even risked their shareholders' money. Long before the seeds of today's banking troubles were sown, Sir Walter was arguing, in the *Spectator*, for making the central banks independent of government, or for establishing a new international central bank in the hands of the market. It worked (he told us last year) in 15th-century Genoa. The city state's creditors amalgamated to form the independent Banco di Giorgio, and took over the national debt. They did so well that the bank's power soon rivalled the state's. Our own city state of London, after years of secretly regarding Sir Walter as a vocal eccentric and more recent years of suspecting that he may have been right all the time, will miss those philippics, delivered in that unmistakable voice — not mittel-European, as he would point out, but a good North German accent, from Hamburg. Or have we heard the last? Sir Walter is retiring from Rea's chair and board, Sir Malcolm Wilcox of the Midland becomes chairman, Bill Dacombe comes across from the Royal Bank of Scotland group as managing director. But it is not in the nature of the private banker to walk away.



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Secretary of State for Trade and Industry

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10 August 1984

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The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

*NSP*

*JR*

*13/10*

*Dear Chancellor,*

ECGD POLICY TOWARDS RESCHEDULING COUNTRIES

Thank you for your letter of 30 July confirming your agreement to the proposals set out in my letter of 10 July for some limited relaxation in ECGD policy towards debt rescheduling countries. I have also seen Geoffrey Howe's minute of 3 August. I am pleased to hear that your consultations with other major exporting countries show that they are also working on the same broad lines. While I agree that it will be very desirable to get as much co-ordination of policy as possible - both on resumption and restriction of cover - with other Governments it may not always be possible to achieve a completely concerted view. We shall, therefore, need to be ready to consider exceptions.

2 For political and competitive reasons, it may be particularly difficult to reach firm agreements to restrict export credit cover for countries slipping into difficulties. Nevertheless we should try, and I believe that it is sensible that this should be carried forward within the OECD, as I would be reluctant to see too much power wielded by an institution controlled by the French Tresor.

3 On the question of the implementation of the new policy, our officials are continuing to discuss the detailed accounting and other arrangements. I think Paul



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Channon or I should make a statement to Parliament early in the next session, but I would like it to be linked with some specific examples of a few countries where some limited resumption of ECGD cover might be justified. I would suggest that the selection should be discussed at official level during the recess. In the meantime I think we must avoid any public disclosure of the new policy until we have had the opportunity to explain to Parliament the basis on which cover will be provided in future.

4 I have also received a letter dated 31 July from Michael Heseltine arguing for the possibility of case-by-case consideration of credits for military projects. I would not wish to be dogmatic here, but I believe that it would be very difficult to find any such projects which are contributing to the economic recovery of the importing country. I would suggest that we should normally wait for the debtor country to have recovered its economic health before offering new credits for defence projects, but I would always be willing to discuss particular cases on their merits.

5 Copies of this letter go to the Prime Minister, the Foreign Secretary, the Secretary of State for Defence, the Minister for Overseas Development and to Sir Robert Armstrong.

*Yours sincerely*

*Norman Tebbit*

*NP*

NORMAN TEBBIT

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

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13 AUG 1984

