Trade

Prime Minister (2)

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

The Rt Hon Lord Cockfield
Secretary of State for Trade

3 February 1983

Dear Arthur

EXPORT CREDIT CONSENSUS

In my letter of 12 January I suggested that we defer further discussion of the issues raised in our recent correspondence about export subsidies until we had received officials' proposals on new operating guidelines for ECGD and about criteria and priorities in the allocation of ATP funds.

Meanwhile there is another issue on which we need to take an early view. This is the line to be taken by the UK in the next round of negotiations within the EC and the OECD about the Export Credit Consensus. On past form the final Community negotiating mandate will not need to be settled before the April Finance Council, but there is a meeting at official level in Brussels on 17 February, when the Commission will be trying to establish the elements of a common Community position for the opening of negotiations within OECD in March.

As usual, the central issue will be agreement on the minimum level of interest rate below which participants will not be allowed to subsidise their exports. The present interest rate matrix ranges from 10% to 12.4%, with the lower rates being applicable to developing countries and the higher rates to developed countries (which now include the Soviet Union).

As a result of our recent correspondence we are both agreed on the objective of supporting multilateral action designed to reduce and, if possible, eliminate the widespread export subsidies. The fall in market interest rates since last year's Consensus rates were negotiated has had the welcome effect of reducing the level of susbidy implicit in the present interest rate matrix. In view of this, I would not want to argue in current circumstances that we should support a further increase in the matrix, if such a suggestion were to be made by the Americans. But I do see a good case for supporting the status quo. Increases in Consensus rates in 1981 and 1982 were negotiated only with great difficulty,

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and were several years overdue when they came. Frequent changes in Consensus rates are disruptive to the pattern of trade flows, and we should not allow ourselves to be stampeded by aggressive subsiders such as the French into instant reversal of these gains.

As against these arguments, I understand that at least half of our Community partners plus the Commission have declared in preliminary discussions in Brussels for some reduction in Consensus rates. Unless we could count on the Germans, who are never very reliable allies on these matters, we would have a bit of a battle on our hands in getting the Community to agree to support the status quo. Also, we would have to expect hostility from our own exporters, to whom the aim of policy on which we are agreed is unwelcome, since they will be concerned about widening differentials between present Consensus rates and those offered by low interest countries such as Germany and Japan.

With these considerations in mind, I would be prepared to consider if necessary in April whether we could support a modest general reduction in the matrix, in the light of the outlook for interest rate levels and relativities at that time. But I would be opposed to showing the UK hand at this stage. One important consideration I have in mind is that we might decide that our commercial and financial interests were best served by a combination of the present Consensus rates and an option for support at rates below the top of the Consensus matrix in currencies where market interest rates would justify this. Of course this depends crucially on the view one takes of the prospects for sterling interest rates ie of the chances that this approach would enable us to steal a competitive march on the French and other high interest rate countries.

For the present, therefore, I think our aim should be to try to keep the Community position as open as possible until after the initial OECD meetings. I have in mind here that reversing later a decision taken now to go for a reduction in rates would be an extremely difficult task. We could point out that the immediate outlook for interest rates is particularly uncertain, and there is no need for the Community to define its negotiating position on this issue before the final Consensus round in the second half of April.

I suggest therefore that at the meeting of 17 February we should say that we would support the status quo unless changes proposed involved a commitment to some suitable form of automaticity or semi-automaticity for fixing Consensus rates in future. Since the French are almost

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certain to oppose any move towards automaticity, the most likely outcome if we take this line is that the Community will have no clear position on interest rates for the opening Consensus discussions. We should then have kept our options open for April, when final decisions will have to be taken, and in the meanwhile we could not be accused, either within the Community or at home, of adopting an unreasonably hard line on the interest rate issue.

If you agree with this I suggest our officials should work out an agreed line on the sort of automaticity which we might be prepared to accept.

I am copying this letter to the recipients of the previous correspondence about support for capital goods exports.

GEOFFREY HOWE