



From the Minister for Trade

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Dear Richard

ECGD COVER FOR RESCHEDULING COUNTRIES

As agreed at Mr Rees' meeting with Mr Channon on 14 December, Mr Channon has arranged for a written question to be tabled for tomorrow so that he can formally announce the details of the new measures before the recess. He understands that officials will need to continue the discussion about the precise accounting procedures in the New Year.

2 I attach the text of the answer officials here have proposed to the PQ which has been tabled by Mr Peter Bruinvels and which I understand has been cleared with Treasury officials. I also enclose a copy of the accompanying press release which gives more of the background and refers, as agreed, to the early resumption of ECGD cover for Brazil and for the Mexican private sector. This has been circulated in advance to Treasury officials and others most closely involved.

3 Mr Channon is overseas today. I will be showing him the draft answer and press release tomorrow and will contact you if he has any amendments.

4 Copies of the letter and enclosures go for information to the Private Secretaries to the Prime Minister, the Foreign Secretary, the Secretary of State for Defence, the Minister of Overseas Development and to Sir Robert Armstrong.

Yours sincerely
Steve

STEPHEN NICKLEN
Private Secretary to the
Minister for Trade

ECGD POLICY TOWARDS RESCHEDULING COUNTRIES

Draft Written PQ to Trade Minister and Answer

Question: [Mr Peter Bruinvels MP (Leicester E)]

Mr Bruinvels to ask the Secretary of State for Trade and Industry what measures he will take to maintain ECGD support for UK trade with countries which have been forced to reschedule some of their officially guaranteed debts, but which, nevertheless are taking vigorous and effective action to deal with their economic problems?

Answer by Trade Minister

"I recognise the value of maintaining trading links wherever possible with such countries. Consequently I now intend to allow ECGD greater flexibility so that, in appropriate cases, cover may be restored at an earlier stage after the rescheduling of officially guaranteed debts. This cover will be given for exports of UK goods and services contributing to the economic recovery of the debtor country and will be provided under ECGD's Section 2 (National Interest) powers. However, in the light of previous assurances that have been given to Parliament about the use of these powers, I would make it clear that use of this discretion will be selective and only authorised where we are satisfied that the debtor country is taking appropriate action in dealing with its problems. I would stress that this does not represent any relaxation of ECGD's general standards of assessing country risks on overseas markets.

Whilst I would not expect that the provision of ECGD cover in these circumstances will lead to losses over the longer term, I recognise that the provision of new cover to countries carrying a heavy debt burden does involve a high degree of risk. For this reason it is intended to control its use especially carefully. However it has been agreed that

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the financial outturn of this business will not affect the level of ECGD's charges premium/for other categories of business.

This modest improvement in ECGD's arrangements should not only assist UK exporters to maintain a stake in overseas markets which are in the process of recovering from debt service difficulties, it should also help in the present international debt situation by providing an incentive to the debtor countries to adopt vigorous adjustment policies, usually in conjunction with an IMF programme. Decisions on the resumption of cover for particular debtor countries will be announced by ECGD from time to time at an appropriate stage during the bilateral negotiations with the country concerned."

S. H. Tugwell

ECGD

Date 17.12.84.

DRAFT PRESS NOTICE

ECGD TO RESUME COVER EARLIER FOR SELECTED DEBT RESCHEDULING COUNTRIES

Mr Channon outlines new measures to help UK exporters.

Mr Paul Channon, Minister for Trade today ~~Wednesday~~ announced that the Export Credits Guarantee Department is to be allowed to resume cover at an earlier stage than before for selected countries which have rescheduled their officially guaranteed debts. This will help UK exporters to maintain a stake in overseas markets which are in the process of recovering from debt service difficulties. The first two countries to benefit will be Mexico and Brazil.

In answer to a written Parliamentary Question from ~~Mr Peter Bruinvels MP (Leicester E)~~ ^{asking} what measures ~~the Secretary of State~~ for Trade and Industry will take to maintain Export Credits Guarantee Department support for UK trade with countries which have been forced to reschedule some of their officially guaranteed debts, but which, nevertheless, are taking vigorous and effective action to deal with their economic problems, Mr Channon said:

"I recognise the value of maintaining trading links wherever possible with such countries. Consequently I now intend to allow ECGD greater flexibility so that, in appropriate cases, cover

may be restored at an earlier stage after the rescheduling of officially guaranteed debts. This cover will be given for exports of UK goods and services contributing to the economic recovery of the debtor country and will be provided ^{under} / ECGD's Section 2 (National Interest) powers. However in the light of previous assurances that have been given to Parliament about the use of these powers, I would make it clear that use of this discretion will be selective and only authorised where we are satisfied,

that the debtor country is taking appropriate action in dealing with its problems. I would stress that this does not represent any relaxation of ECGD's general standards of assessing country risks on overseas markets.

"Whilst I would not expect that the provision of ECGD cover in these circumstances will lead to losses over the longer term, I recognise that the provision of new cover to countries carrying a heavy debt burden does involve a high degree of risk. For this especially reason it is intended to control its use/carefully.

However it has been agreed that the financial outturn of this business will not affect the level of ECGD's premium/^{charges}for other categories of business."

"This modest improvement in ECGD's arrangements should not only assist UK exporters to maintain a stake in overseas markets which are in the process of recovering from debt service difficulties, it should also help in the present international debt situation by providing an incentive to the debtor countries to adopt vigorous adjustment policies, usually in conjunction with an IMF programme. Decisions on the resumption of cover for particular debtor countries will be announced by ECGD from time to time at an appropriate stage during the bilateral negotiations with the country concerned."

Commenting later, Mr Channon said:

"Amongst the difficulties facing exporters, is the problem of the closure of well-established overseas markets because of the debt service problems of the importing countries. Like all official Export Credit Agencies, ECGD has been meeting heavy claims because of the inability of many developing countries to meet their debt service obligations. Consequently traditionally the Department has had to adopt a careful attitude towards the acceptance of new risks on some of these countries. It is difficult to forecast whether the

worse of the debt crisis is over, but HMG has decided that it is important to encourage the efforts of debtor countries to adopt sensible economic adjustment policies."

"The policy change which I have announced to the House today means that in future where we are satisfied that the debtor country is taking vigorous and effective action to overcome its problems, ECGD cover will be resumed at an earlier stage. The availability of this new cover is to be strictly controlled. It does not mean, therefore, that there will be any general relaxation in ECGD's normal underwriting standards. Individual decisions on the amounts and purposes of these new credits will be made by ECGD from time to time at an appropriate stage in our bilateral relationship with the country concerned but normally this will not be until after completion of the bilateral debt negotiations. It is intended that the new credits will be used to support UK imports contributing to the economic recovery programme, rather than to promote new prestige projects which do not benefit the balance of payments of the importing country. But I am pleased to be able to announce today that the first countries to benefit from this measure will be Brazil and Mexico."

NOTES TO EDITORS

In the past it has been ECGD's practice to withdraw cover immediately a debtor country announced its intention to reschedule officially guaranteed debts; and cover has been only resumed when it was clear that the importing country has been honouring the bilateral rescheduling agreement and was able to service new trade debt. In some cases this has resulted in the suspension of ECGD cover for several years.

For Mexico, cover will be considered on a case-by-case basis for medium term business with suitable buyers in the private sector. ECGD cover for public sector business was not withdrawn because Mexico did not reschedule officially guaranteed debts in this sector. Medium Term cover for Brazil was withdrawn in October 1983 but will now be resumed to support the sale of key imports to both public and private sector buyers. In both cases the bilateral negotiations for the rescheduling of earlier debts guaranteed by ECGD have been successfully concluded and the countries have agreed stabilisation programmes with the IMF.

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