CONFIDENTIAL

PRIME MINISTER 12 February 1985

EXPORT CREDITS: COUNTRY LIMITS

The Chief Secretary ought to be supported in the discussion at EX. ECGD's finances are deteriorating fast; the cash outflow will be nearly £400 million next year. We provided cover to countries such as Poland, Yugoslavia, Mexico, Brazil and Nigeria which seemed sound in the 1970s but turned out to have feet of clay. We need to respect country limits to prevent matters deteriorating even faster. If there were risky markets where we are well below the limit, we could exceed the limit in others and still balance the portfolio; but this is not the case.

We suggest that both the projects in Turkey be supported, provided that MoD and DTI agreed to press no other projects for Turkey in 1985/6 and we drop the £10 million ATP for the Bosphorus Bridge. Surely ATP is not necessary to secure the project, remembering that Cleveland Bridge built the first Bosphorus bridge. And in any case, why are we providing aid to a middle-income, European country?

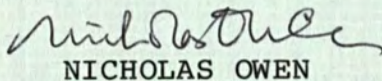
The Iran case is less attractive because the buyer has already defaulted. At the best of times it would be a bad principle to direct ECGD to act in a way which jeopardises their financial obligations. In view of ECGD's current financial position, this course is even harder to defend. There must be a chance that Talbot will carry the risk itself

and continue production; or alternatively, it could re-employ the laid-off workers once this hiatus is past.

The Chief Secretary suggests that DTI should take on some of the risk in this case. But does this help? Our exposure is not lessened just because it is shared around Whitehall. (However, if E(X) supports the cover for Iran, DTI should share the risk.)

Conclusion

We recommend supporting the bids for Turkey, with no ATP, and rejecting the bid for Iran.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