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the department for Enterprise

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The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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Date 8 February 1989

Dear Charles

VISIT OF MR KAMENTSEV - BANKING PROTOCOL

This is to confirm that the main British banks have acceded to the Soviet request that a general banking protocol should be concluded during Mr Kamentsev's visit. This should be signed this evening before the dinner being given by Lord Young at Lancaster House.

ECGD attended the meeting yesterday between representatives of the Soviet Bank for Foreign Economic Affairs and seven British banks (the four clearers, Morgan Grenfell, Bank of Scotland and Moscow Narodny). The British banks were initially unenthusiastic as the Soviet side had not pursued the £1,000 million offer they had proposed at the Joint Commission meeting last October.

However, the Soviet representatives explained their volte face by arguing that they wished to stimulate interest in bilateral trade before Mr Gorbachev's visit and an assurance of the availability of credit would assist the conclusion of some of the £1.4 billion contracts under negotiation with UK firms. They were not, however, now seeking a commitment of a specific figure and realised that several British banks have existing credit lines in place that have not been fully utilised.

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The British bank representatives present all agreed to participate subject to the approval of their senior management and agreement on the text. After discussion a fairly innocuous text was agreed. This confirms the interest of both side in arranging finance to support an increased level of UK exports to the USSR. There is no mention of ECGD and the protocol places no formal commitment on the UK banks. The protocol sets some general guidelines, several of which show welcome signs of greater Soviet flexibility (including the desire to set interest rates at a realistic level and make wider use of currencies other than sterling). However it is not intended that the protocol will be followed by a combined UK banking line but will be carried forward by specific credits negotiated by the individual participating banks as business comes forward.

In general the Secretary of State welcomes this development which shows that UK banks are willing to provide finance to support the expansion of trade with the USSR. The absence of such an agreement might have placed UK firms at a disadvantage given the similar agreements already concluded with FRG, France and Italy. However, the Soviet decision to drop the £1,000 million figure is sensible and should help to deflate criticism from the USA and elsewhere that the USSR is over-borrowing. The more flexible guidelines now agreed should also help UK firms to take advantage of the City's expertise in this area.

I am copying this letter to Richard Gozney (FCO) and Carys Evans (Chief Secretary's Office).

Yours

Jeremy

JEREMY GODFREY
Private Secretary

Bundy Clark
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With the compliments of

THE PRIVATE SECRETARY

WG Spence
Sandra Phillips
7 Feb 1989

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

CCPC

PROTOCOL OF INTENT

Between the Bank for Foreign Economic Operations of the USSR
(Vneshekonombank USSR), on one side

and

on the other

Taking into account the fact that the period of operation of the permanent inter-governmental Soviet/British Commission on ~~the~~ Scientific-Technological and Commercial-Economic Cooperation, British banks confirmed their readiness to carry out the financing of contracts for the export of British equipment which might be concluded between British firms and Soviet enterprises and organisations,

- and that Vneshekonombank USSR and other interested organisations of the Soviet Union regard this initiative by British banks as a demonstration of their desire to promote the development of Soviet/British foreign economic links, and fully share that desire,

- and that both the Soviet and the British side are interested that, with the aim of successful development of the foreign economic links between the USSR and British, British manufacturers should have equal competitive conditions in presenting their proposals,

The two sides intend to be guided in their mutual relations by the following:

1. The costs of proposals put forward will not include elements of the cost of credit, but the cost of credit will be set at a realistic level. This condition does not exclude the granting in certain circumstances of special conditions which are applied in international practice.
2. For the granting of credit terms as advantageous as possible, various new forms of credit will be used, including credits in various international currencies and multi-currency credits, credits with interest rates reviewable and set at the discretion of the borrower, and others. In this regard, the two sides take into account the fact that ECGD is favourably disposed towards the introduction of such credit methods.
3. In the case of projects requiring repayment conditions not conforming with those normally applicable, the two sides will seek the possibility of resolving the issue in question through the use of existing market practices, such as leasing, ancillary credits, and others.
4. In the event of its being necessary for the implementation of a deal attracting additional credits to pay for the cash element of contracts or for local expenditure, the two sides will make efforts to provide such financial possibilities.

5. Noting the already existing contacts in the field of project financing in third countries, the two sides confirm their interest in the continuation and development of such financial cooperation under mutually acceptable conditions.
6. Being in agreement that there is no necessity for the signature of ^{any} credit agreement at the present time, the two sides are ready, if the need arises for the signature of credit agreements in future on specific deals, to take account of the foregoing provisions on the organisation of financial cooperation.

This Protocol of Intent is signed in duplicate copies in English and in duplicate copies in Russian, both having equal force.

Signed in London

February 1989

For

For the Bank of Foreign
Economic Operations of the
USSR (Vneshekonombank USSR)

*Sov Union Visitor of
Sov Dep Foreign Affairs*

PROTOCOL OF INTENT

Between the Bank for Foreign Economic Affairs of the USSR
(Vneshekonombank USSR), on one side

and

on the other

Taking into account the fact that in the period of operation of the permanent inter-governmental Soviet British Commission on Scientific-Technological and Commercial-Economic Cooperation, the British banks have confirmed their readiness to carry out the financing of contracts for the export of British equipment, which might be concluded between British firms and Soviet enterprises and organisations,

- that Vneshekonombank USSR and other interested organisations of the Soviet Union judge this initiative of the British banks as a demonstration of their wish to facilitate the development of Soviet British foreign economic links, and fully share this wish,
- that as both the Soviet and the British side are interested that, with the aim of successful development of the foreign economic links between the USSR and Britain, British manufacturers should have equal competitive conditions in giving their proposals,

The two sides intend to be guided in their mutual relations by the following.

1. The costs of proposals put forward will not include elements of the cost of credit, but the cost of credit will be set at a realistic level. This condition does not exclude the granting in certain circumstances of basic conditions applicable under international practice.
2. For the granting of more advantageous credit conditions, various new forms of credit will be used, including credits in various international currencies and multi-currency credits, credits with reviewable percentage rates determined at the discretion of lender, and others. In this regard, the two sides take into account the fact that ECGD will address itself positively to the introduction of such credit methods.
3. In the event of projects calling for conditions of termination not conforming to those normally applicable, the two sides will seek the possibility of deciding the given question through the use of existing market practices, such as (leasing?), auxiliary credits, and others.
4. In the event of its being necessary for the implementation of an agreement attracting additional credits for the immediate payment of part of the contracts, or payment of local expenses, the two sides will make efforts to guarantee such financial possibilities.
5. Noting the already existing contacts in the field of the financing of projects in third countries, the two sides confirm their interest in the continuation and development of such financial cooperation under mutually acceptable conditions.

6. Being agreed that there is no necessity of signing any credit agreement at the present time, the two sides are ready in the event that, in the future, signature of credit agreements on specific deals should be necessary, they will take into account the above conditions for the organisation of financial cooperation.

The Protocol of Intent is signed in two copies in English and in two copies in Russian, having equal force.

Signed in London February 1989.

For

For the Bank of Foreign
Economic Affairs of the USSR
(Vneshekonombank USSR)

ПРОТОКОЛ О НАМЕРЕНИЯХ

между Банком внешнеэкономической деятельности СССР
(Внешэкономбанком СССР), с одной стороны

и

- с другой.

Учитывая, что в период работы постоянной межправительственной Советско-Английской Комиссии по научно-техническому и торгово-экономическому сотрудничеству английские банки подтвердили свою готовность осуществлять финансирование контрактов на экспорт английского оборудования, которые могут быть заключены между английскими фирмами и советскими предприятиями и организациями,

- что Внешэкономбанк СССР и другие заинтересованные организации Советского Союза расценивают эту инициативу английских банков как проявление их желания содействовать развитию советско-английских внешнеэкономических связей и полностью разделяют это желание,

- что как советская, так и британская сторона заинтересованы, чтобы в целях успешного развития внешнеэкономических связей между СССР и Англией, английские производители имели равные конкурентные условия при предоставлении своих предложений,

стороны намерены руководствоваться в своих взаимоотношениях следующим.

1. Цены представляемых предложений не будут включать элементов стоимости кредита, а стоимость кредита будет определяться на реалистичном уровне. Это положение не исключает предоставление в определенных случаях применяемых в международной практике особых условий.

2. Для предоставления наиболее льготных условий кредитов будут применяться различные новые формы кредитования, включая кредиты в различных международных валютах и мультивалютные кредиты, кредиты с пересматриваемой процентной ставкой с фиксацией по усмотрению заемщика и другие. При этом стороны учитывают, что ДГЭК положительно относятся к внедрению таких кредитных методов.

3. В случае проектов, требующих условий погашения, несовпадающих с обычно применяемыми, стороны будут изыскивать возможности разрешения данного вопроса с использованием имеющихся рыночных форм, таких как лизинг, вспомогательные кредиты и другие.

4. В случае необходимости для осуществления сделки с привлечением дополнительных кредитов на оплату наличной части контрактов или местных расходов стороны будут предпринимать усилия для обеспечения таких финансовых возможностей.

5. Отмечая уже имеющиеся контакты в области финансирования проектов в третьих странах, стороны подтверждают свою заинтересованность в продолжении и развитии такого финансового сотрудничества на взаимоприемлемых условиях.

6. Будучи согласны в отсутствии необходимости подписания какого-либо кредитного соглашения в настоящее время, стороны готовы в случае необходимости подписания в будущем кредитных соглашений по конкретным сделкам учитывать вышеуказанные положения по организации финансового сотрудничества.

Протокол о намерениях подписан в двух экземплярах на английском и в двух экземплярах на русском языке, имеющих одинаковую силу.

Подписано в Лондоне ____ февраля 1989 года.

За

За Банк внешнеэкономической
деятельности СССР
(Внешэкономбанк СССР)

За

