



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
 Secretary of State for Trade and Industry
 Department of Trade and Industry
 1 - 19 Victoria Street
 London
 SW1

COB

30 June 1986


Dear Paul,

PEUGEOT TALBOT AND IRAN

Thank you for your letter of 23 June in which you reiterate your determination to continue ECGD cover for this contract in the absence of secure payment arrangements.

My letter of 17 October put a clear time limit on the availability of this cover which has been recognised as exceptional. No means of providing better security of payment has been found since then. There are no new points in your letter to support continuing special treatment. Indeed, your own department's current analysis of the outlook for the Iranian economy, now before the Export Guarantees Committee, says clearly that problems with the opening of ILCs are likely to grow.

In these circumstances I do not think reinstating ECGD cover, building up additional contingent liabilities would be justified. It offers no prospect of ending this exceptional treatment. Indeed, since negotiation has failed to improve payment arrangements it may only be by denting Iranian confidence that the contract will continue that ECGD's existing exposure can be reduced. If Iranians do issue fresh ILCs, thus reducing ECGD's exposure, I would reluctantly be prepared to look at arrangements for resuming cover within very tight limits, which would effectively reduce exposure over time, leading to a situation in which Talbot's preferential position would end.

Yours ever,


JOHN MacGREGOR

c.c. Chancellor
cc pd
 FST MST EST
 Sir Peter Middle
 Sir Geoffrey Lister
 Mr Butler McMonch
 Mr Lavelle Mr Burgess
 Mr Mountfield
 Mr R Adams Mr Cooper
 Mr Tyne Mr Case



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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COMMERCIAL IN CONFIDENCE

23 June 1986

The Rt Hon John McGregor MP
Chief Secretary to the
Treasury
H M Treasury
London
SW1

John John

CBP

PEUGEOT TALBOT AND IRAN

attached

Thank you for your letter of 3 June. You said that you would be most unhappy to see ECGDs existing credit cover for the Peugeot Talbot car contract with Iran extended. You doubted whether letters of credit would be issued by the Iranians later this year and hence whether an increased ECGD exposure could be justified.

When dealing with the Iranians nothing is ever certain. However they have always over the 18 year life of this contract eventually issued letters of credit especially when they have nearly run out of kits as they will do again later this year. There is also every expectation that the Iranians will continue to need these cars for several years to come.

Peugeot and their Peugeot Talbot subsidiary have said that with continued British Government support they are prepared to continue to sustain losses in the hope of long term continuity of supply and to preserve the future of their Coventry plant. They now need to know whether we are prepared to continue to support this contract. On the basis of the evidence that I have, and given the implications for our trade and other relations with Iran if we withdrew support and the potential serious implications for the future of the Coventry plant and the component supply industry in the West Midlands I must repeat my determination to continue ECGD cover within a limit of £25m which has already been reduced from

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the £35m exposure which existed earlier last year. Once letters of credit arrive and ECGD's liability can be reduced, then I would be prepared to set an even lower limit. I hope on this basis you would agree to an extension of cover until the £25m limit is reached.

In view of the broader exports and West Midlands job implications, I am copying this letter, my previous one and your response to the Prime Minister as well as to Geoffrey Howe.

*Yours,
Paul*

PAUL CHANNON

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
 Secretary of State for Trade and Industry
 Department of Trade and Industry
 1 - 19 Victoria Street
 London
 SW1

TO *Mr Brown V*
 FOR ADVICE (AND
 DRAFT REPLY IF
 APPROPRIATE)
 PLEASE BY: *13/6*
 ASAP
 IF DEADLINE
 CANNOT BE MET
 21 1986

PS IIFT
PS IPI
PS IJB
PS IJC
Mr Gill
Mr Mountford
Mr Roberts
Mr Titchener
Mr Cochrane
Mr Foxall
EGD
EGD
EGD
OTG

3 June 1986

Dear Paul,

PEUGEOT TALBOT AND IRAN

You wrote to me on 23 May proposing that the £25 million ECGD preshipment cover extended on this contract until the end of May should be further extended, although at higher premium rates - to reflect the increased risk - and with an extended claims waiting period.

I would be most unhappy to see this cover further extended. My agreement last October was for a temporary "final" extension with a clear deadline to enable Talbot to negotiate improved payment arrangements. That deadline has now been reached without such arrangements being agreed. The Iranians have now had over 12 months in which to make clear their willingness to pay. Their failure to do so suggests that they do not value this contract, as a use for their scarce foreign exchange resources, as highly as has been suggested. Nor is it clear that by extending further cover our prospects of repayments are improved. Until letters of credit are issued, the Iranians are not committed to buying anything. You doubt whether further letters of credit will be issued on this contract at least until the Autumn. There must be considerable doubt whether they will be issued even then. The Iranian economy has worsened considerably since our last exchanges and there are suggestions that since the beginning of this year the Iranians have been restricting imports to essentials - a definition which seems unlikely to encompass car kits.

In these circumstances your proposal to increase ECGD's exposure and extend it in time is tantamount to permanent acceptance of these preferential arrangements, which ECGD

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judge unacceptable and which our other trade with Iran, including that supported by ECGD, does not attract. I find that difficult to accept. In my view ECGD preshipment cover should now be completely withdrawn.

I am copying this letter to Geoffrey Howe.

Yours ever,



JOHN MacGREGOR

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Secretary of State for Trade and Industry

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138/03

23 May 1986

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The Rt Hon John McGregor MP
Chief Secretary to the Treasury
HM Treasury
Whitehall
London SW1

Dear Chief Secretary,

PEUGEOT TALBOT AND IRAN

Leon Brittan wrote to you on 7 October 1985 to explain why it was necessary to have ECGD pre-shipment cover extended on the Paykan car kit contract until 31 March 1986 to give both sides time to conclude satisfactory payment arrangements. In your reply of 17 October you accepted that decision.

Since that time Peugeot Talbot have been seeking to get Letters of Credit (LOCs) issued earlier by the Iranians but without success. The present position is that no LOCs have issued since December 1985, ECGD's potential exposure is currently at about £19m of the £25m ceiling agreed with you, and ECGD cover remains in place with the agreement of your officials until end May 1986 whilst an ECGD official has visited Tehran for discussions. That visit confirmed that the Iranian payments system provides for LOCs to be issued when they are firmly committed to buying goods. The Iranians, however, are not under pressure to supply LOCs because they have enough kits already available to maintain production of the Paykan until around the end of the year. Given also the current, though improving, state of the oil market and the priority which military requirements have for LOCs, I doubt if further LOCs on this contract will issue until at least the autumn. However the company, my officials and, I understand, the British Interest Section in Tehran have no doubt that the Iranian need for the Paykan and long-term support for the contract remains as strong as ever.

CC: AS/HFT
AS/PM
AS/IB
AS/Sec Ret.
Mr Bull
Mr Mountford
Mr Roberts
Mr Titchener
Mr Cochlin
Mr Ffrench-ECGD
Mr Sassoon-ECGD
Mr Brown-FCI
Mr Foxon-ECIP
Mr Topson VI
Mr Wakarusa
Mr Brown-VAC

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ECGD are already committed to £19m on this contract and, although they advise against issuing ECGD cover for further liability, I consider that it is appropriate in all the circumstances that it should be ECGD cover that is provided to enable this contract to continue rather than any other means, such as the Industry Act. Whilst the use of the Industry Act would not be ultra vires it would not be an appropriate medium. Quite apart from the budgetary pressures, to require the DTI Accounting Officer to approve an insurance risk that the ECGD Accounting Officer found unacceptable would be wrong in principle and practice. It would also be unsatisfactory to have arrangements that involved ECGD and DTI in sharing risk where it would be difficult to separate the motivation between encouragement for exports and industrial aid. The Industry Act is not a substitute for export insurance.

Peugeot Talbot are looking for ECGD cover to be confirmed at the £25m ceiling already set until the end of the year. A relatively modest £6m increase in ECGD's current liability would give time for the Iranians to give a clear view of their willingness to pay on this contract. It would also support UK export interests through a difficult period in a country which despite the war remains a substantial and largely cash market with long-term potential.

We have to consider the risks arising from not giving any further ECGD support. One consequence could be that ECGD faced a claim for the existing £19m of liability with the Government facing plant closure at Coventry, redundancies across the West Midlands component industry and damage to our trade with Iran. Recent discussions with Peugeot in Paris suggest that they would not be prepared to bear further risks themselves.

ECGD propose that any further cover should attract substantially higher rates of premium to reflect the present perception of risk and be given only on condition that the waiting period before any claim could be paid be extended from four or six months to twelve months. I intend to make a statement announcing the extension of cover probably in answer to an arranged PQ along the lines of my statement of 28 October 1985. This statement would of course be agreed with the Treasury.

I am copying this letter to Geoffrey Howe.

Yours sincerely,

Michael Cillibean

PAUL CHANNON

*[Approved by the
Secretary of State and
signed in his absence]*

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