SECRET 2

TRADE

Prime Minister (2)

You asked about this.

MLS 8/11

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

8 November 1982

Michael Scholar, Esq.,
No.10 Downing Street

Dear Michael,

ONCE-OFF PAYMENT TO ECGD

You asked in your letter of 25 October for a note on the possibility of a once-off payment to ECGD in 1982/83 which was raised at the Prime Minister's discussion with the Chancellor on that day about the 1982/83 PSBR undershoot. Unfortunately such a payment would not in itself help the undershoot. ECGD banks with the Consolidated Fund like any other Government Department, so a once-off payment would just be a transfer from one pocket of central government to another with no PSBR effects.

To affect the undershoot ECGD would have to spend money (i.e. cause its financial position to deteriorate) in 1982/83. But no premium increase which could be reduced or delayed is contemplated during the rest of this financial year, and, because of normal time-lags, a premium reduction would have little effect this year. Perversely, it would have a much bigger effect in 1983/84.

The Chancellor agrees with the Prime Minister that it would be a matter of concern if ECGD were charging high premia in relation to those charged by other official credit insurance agencies. This is a matter which ECGD and the Treasury considered during the last premium review which resulted in the premium increases effective from July 1982. Precise comparisons are difficult because of differences in national arrangements and facilities, but broadly we believe ECGD's premia are in line with most of their competitors. The latest comparative figures we have are for 1981 and they are enclosed. They showed ECGD rates as below both mean and average at every point. There has been one ECGD increase averaging about 10 per cent since then, but other countries' rates have increased also.

Yours sincerely,
Margaret O'Mara

MISS M. O'MARA

COMPARISON OF EXPORT CREDIT AGENCIES PREMIUM RATES

	5 years		8½ years		10 years	
	Best Markets	Worst Markets	Best Markets	Worst Markets	Best Markets	Worst Markets
Highest	5.90	9.20	7.00	12.00	8.36	11.69
2nd Highest	4.56	6.73	6.65	9.64	7.37	10.85
COFACE	1.98	4.59	2.79	5.39	3.09	6.09
ECGD						
Buyer Credit	1.65	4.36	2.04	4.82	2.31	5.14
Supplier Credit	1.65	4.63	2.19	5.38	2.51	5.92
2nd Lowest	1.57	2.10	1.50	2.81	1.86	3.41
Lowest	0.29	1.43	0.44	2.18	0.52	2.62
Arith. Mean	2.74	4.91	3.54	6.51	3.98	7.35
Middle Rate	2.46	4.70	3.15	6.58	3.60	7.79

Trade, Jan '80, ECGD

18 NOV 1982

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File

cc: Mr. Walters

10 DOWNING STREET

From the Private Secretary

25 October 1982

In their discussion this morning of the measures which might be taken to rectify the 1982/83 PSBR undershoot the Prime Minister suggested to the Chancellor that there might be a case for a once-off payment to ECGD during 1982-83. The Prime Minister understands that, following the losses of recent years, ECGD, given their requirement to break even, are charging high premia in relation to those charged by other official credit insurance agencies. What the Prime Minister has in mind is the possibility of making a once-and-for-all payment to strengthen ECGD's financial position, so as to moderate the pressure on their premia.

I would be grateful if you would let me have a note on the feasibility of this idea as a corrective to the undershoot in the 1982/83 PSBR; and if you would give this letter the usual restricted circulation.

M. C. SCHOLAR

Miss Margaret O'Mara,
H.M. Treasury.