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From the Minister for Trade

NBPM
11/6

The Rt Hon Peter Rees MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

8 June 1984

Dear Peter.

ECGD: PORTFOLIO SPREAD

Thank you for your letter of 25 May. I very much agree with you that given the sombre background of the continuing debt service problems of many developing countries, the need remains for ECGD to take very careful account of prudential consideration in its Section 2 operations.

I have noted with interest the outcome of the Export Guarantees Committee review of ECGD's country risk exposure, following as it did the wider Financial Review of ECGD's Operations. Given the economic background, the deterioration in the portfolio balance is not surprising, but the situation needs to be watched closely.

Nevertheless I am pleased that over-reaction, which might have caused lasting damage to our trade, has been avoided. The conclusions reached by officials and the proposals agreed upon for further monitoring of the Department's Section 2 portfolio seem to me to be in line with the guidelines established last year and I agree that they are desirable. I have asked my officials at ECGD to act accordingly and to keep me advised of further developments.

I am copying this letter to Members of EX and to Sir Robert Armstrong.

Yours
Paul

PAUL CHANNON

Trade: ECGD Jan 80

C.C. Chancellor
FST
EST
MST
Sir Peter Middleton
Mr Littler
Mr Unwin
Mr Mountfield
Mr Sedgwick
Mr Scott-Barrett
Mr Adams
Mrs Case.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon P Channon MP
Minister for Trade
Department of Trade & Industry
1 Victoria Street
London
SW1E 6RB

25 May 1984

Dear Paul

Mr Turnbull: to see o/r

NBPM AT 30.5

ECGD: PORTFOLIO SPREAD

When we discussed ECGD's Financial Review recently you expressed concern about the gradual deterioration in ECGD's overall portfolio, in particular on the national interest Section 2 account, and the need to improve the existing controls on the Department's exposure on risky markets. Since then I understand that the interdepartmental Export Guarantees Committee has had some further discussion of the Department's "Risk Review" which, under the new arrangements instituted last year in response to the Prime Minister's concern about the extent of ECGD's exposure in poor markets, looks at their portfolio spread.

The review showed a real deterioration in portfolio spread, reflecting both the downgrading of existing markets and risks and also considerable (£1.2 billion) new net liabilities in Section 2 in poorer markets. It was generally agreed that no across-the-board action should be contemplated but that there was a need to improve the existing safeguards and to ensure that any increases in limits were made only after very careful consideration. A number of changes were discussed by officials, including closer monitoring of the portfolio balance including in relation to particular cases, a more selective approach to markets in the C grade and greater use of the risk sharing technique in order to contain demand for cover and import some market test. I hope that you can agree that measures of this kind are desirable. They should help to protect ECGD's financial position (and hence the Exchequer) and thus allow continued support within prudent limits for British exports.

At the same time I think it is worth reminding ourselves of the guidelines on risks which we set ourselves last year in considering export credit insurance risks (set out in Geoffrey Howe's minute of 18 March to the Prime Minister) and the continuing need to weigh carefully the prudential considerations in national interest cases.

I am copying this letter to Members of EX and to Sir Robert Armstrong.

Yours ever

Peter

PETER REES