Prime Minister 4

Agree to write as proposed? (ECGD are almost certainly to blame for some of the losses – but successive Governments have been extremely reluctant to make drastic reductions in credit limits.)

DLW 6/3.

Yes (ii) (iii) ✓

PRIME MINISTER

5 March 1986

ECGD

The recent tin crisis has highlighted the danger of contingent liabilities entered into by government crystallising as actual losses.

Recent ECGD evidence to the Public Accounts Committee foreshadowed a total cash shortfall by the end of the decade of up to £3 billion compared with £2 billion expected a year ago. Annual costs to the PSBR are of the order of £300-£400 million.

The losses arise from commitments entered into some years ago to insure exports to Poland, Brazil, Nigeria, Mexico and elsewhere. The financial position of most countries concerned makes refinancing of these commitments unlikely. ECGD got deeply involved in these countries some years ago, as did many banks, but may have read the danger signs more slowly.

These disastrous results pinpoint the continuing need to improve management at ECGD. One Under Secretary has been recruited from outside the Civil Service to deal with information technology. It is expected that by the summer efforts will be made to recruit a new Secretary of the Department from commercial sources.

You may wish to:

i. Request a progress report from DTI on the implementation of the ECGD Management Review of May 1985.

ii. Enquire from the Chief Secretary what steps are taken to control the level of contingent liabilities entered into by Government. ECGD, tin and Varley-Marshall assurances are examples.

Agree to this

David Hobson

DAVID HOBSON

Prime Minister

I believe ii above to be well worth doing. Some years back Sir Douglas Allen carried out a similar exercise after the Crown Agents debacle. I don't know whether he identified the Tin Agreement as a potential liability.

NLW
6.3

CONFIDENTIAL

6

a BG

10 DOWNING STREET

From the Private Secretary

10 March 1986

ECGD

The Prime Minister's attention has been drawn to recent ECGD evidence to the Public Accounts Committee which foreshadowed losses by the end of the decade of up to £3 billion compared with a figure of £2 billion expected a year ago.

In the light of this, the Prime Minister would be grateful for a progress report on the implementation of the ECGD Management Review of May 1985.

I am copying this letter to Richard Broadbent (Chief Secretary's Office).

David Norgrove

John Mogg Esq
Department of Trade and Industry

JB

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10 DOWNING STREET

From the Private Secretary

10 March 1986

CONTINGENT LIABILITIES

You will have seen my separate letter of today to John Mogg about ECGD's finances.

Concern about ECGD finances has prompted the Prime Minister to enquire what steps are taken to control and monitor the contingent liabilities entered into by Government. I should be grateful to have a report on this.

The Prime Minister would also be grateful to know whether the monitoring arrangements identified the International Tin Agreement as a potential liability for Government.

(David Norgrove)

Richard Broadbent, Esq.,
H.M. Treasury.