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DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144  
SWITCHBOARD 01 215 7877

From the  
Minister ~~XXXXXX~~  
for Trade's Office

Prime Minister.

(1)

The attached list was prepared in the  
F.C.O. It is pretty brightly worded. Agree?

Mr N Sanders  
Private Secretary to the  
Prime Minister  
No 10 Downing Street  
London  
SW1

I'm afraid we shall not *think*  
be likely to give a *January* 7  
response to a letter from me. *12/11*

December 1979

Dear Nick, could it not be dealt with at Sec 7  
state level? *not.*

CREDIT FOR USSR

One of the agenda items for the Prime Minister's recent meeting with M Giscard d'Estaing concerned credit terms for exports to the USSR. Since time did not permit a discussion of this subject, my Minister feels that the Prime Minister may wish to write to the President in the terms of the attached letter.

The background is briefly as follows. The UK/USSR Credit Agreement was signed by the then Prime Minister in February 1975 to match similar arrangements which had been negotiated by the Russians with other countries. It expires mid February 1980. The French agreement signed in 1974 had very low rates of interest which the French maintained throughout the life of the agreement on the grounds that they were a commitment undertaken prior to the introduction of the Consensus (the agreement amongst the major trading nations on terms and interest rates for exports). With the expiry of the Agreement in December 1979, the French cannot so argue any longer, and if they continue preferential rates they will have to derogate formally from the Consensus.

The Italians and Canadians also have similar agreements with the USSR, both of which expire on 31 December 1979. We therefore have an opportunity to return to Consensus interest rates on the USSR which is unlikely to be repeated in the near future.

There have been frequent representations made to the French at official level, but the response has always been that a decision on a return to Consensus rates would be taken by the President. Mr Parkinson raised the matter with M Deniau when he was in Paris in October and more recently Sir Geoffrey Howe did the same with M Monory, who expressed broad agreement with our line. Nevertheless, it seems likely that the President will have the final say.

Representations have also been made at official level, and at Ministerial level with the Canadians and Italians. Both recognise the need to return to Consensus

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rates on the expiry of their present agreements; indeed officials here have just been advised by the Canadian authorities that their agreement will not be formally renewed, but that business will be dealt with on a case by case basis giving due consideration to financial terms being offered by others. Everything therefore depends on what France does.

I attach a draft for the Prime Minister's consideration.

*Yours sincerely,*

*Vivien Thackeray*

VIVIEN THACKERAY  
Private Secretary to the Minister  
for Trade (CECIL PARKINSON)

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DRAFT LETTER FROM THE PRIME MINISTER TO PRESIDENT GISCARD D'ESTAING

There is one important matter which we did not have an opportunity to discuss when you were in London recently. This is the question of credit agreements with the Soviet Union.

We both have agreements which expire shortly: yours at the end of December and ours in February. Sir Geoffrey Howe has already written and spoken to M Monory about this. I feel very strongly that we should bring to an end the exceptionally favourable interest rates which the Soviet Union has been receiving. When <sup>the United Kingdom's</sup> ~~our~~ Agreement expires we would certainly wish to ensure that future business was on terms wholly in accord with the OECD export credit agreement - the Consensus. We would wish to insist in particular that interest rates were in line with the minimum rates laid down in the Consensus and to make it clear to the Russians that these rates would be subject to any future changes in the Consensus rates.

To continue the present preferential rates for any period beyond the existing expiry dates would be a breach of the Consensus. The present rates have continued hitherto within the Consensus because they count as 'prior commitments'. But once the present agreements expire, any extension or renewal is a new commitment. To breach the Consensus would endanger its operation elsewhere and indeed its existence. This, I am sure you will agree, would go against the interests of France and the United Kingdom and of the EEC as a whole. There is no need to give the Russians special subsidies in order to secure exports.



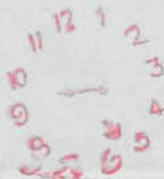
....continued

Your own agreement has now only a few weeks to run and I hope very much that in any new agreement or arrangement you make with the Soviet Union the rates available would be within the terms set by the Consensus and that you will join with us in persuading other countries to do the same. If, however, there was any question of your Government offering the Russians credit support which was in any way more preferential than that provided for in the Consensus I hope you would be willing to discuss the matter with me before any decision was taken. I should add that we are making similar approaches to the Canadians and Italians who also have credit agreements with the USSR which expire next month.

MT

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10 DEC 1979



*Soviet Union*

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GR 380

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FM FCO 282000Z DEC 79

TO PRIORITY PARIS

TELEGRAM NUMBER 574 OF 28 DECEMBER

INFO SAVING BONN OTTAWA ROME MOSCOW

*fs*  
*Ans*

CREDIT FOR THE USSR

1. IT HAS BEEN DECIDED THAT WE SHOULD MAKE A FURTHER EFFORT TO DISSUADE THE FRENCH FROM NEGOTIATING WITH THE RUSSIANS A NEW CREDIT AGREEMENT PERMITTING INTEREST RATES AT BELOW CONSENSUS MINIMUM LEVELS.

2. PLEASE SPEAK AS SOON AS POSSIBLE TO THE ELYSEE ALONG THE FOLLOWING LINES, MAKING IT CLEAR THAT YOU ARE DOING SO ON THE PRIME MINISTER'S INSTRUCTIONS. THERE IS ONE IMPORTANT MATTER WHICH THE PRIME MINISTER DID NOT HAVE AN OPPORTUNITY TO DISCUSS WHEN PRESIDENT GISCARD WAS IN LONDON IN NOVEMBER. THIS IS THE QUESTION OF CREDIT AGREEMENTS WITH THE SOVIET UNION. FRANCE AND THE UNITED KINGDOM BOTH HAVE AGREEMENTS WHICH EXPIRE SHORTLY. THE CHANCELLOR OF THE EXCHEQUER HAS ALREADY WRITTEN AND SPOKEN TO M MONORY ABOUT THIS. WE STRONGLY BELIEVE THAT THE EXCEPTIONALLY FAVOURABLE INTEREST RATES WHICH THE SOVIET UNION HAS BEEN RECEIVING SHOULD BE BROUGHT TO AN END. WHEN THE BRITISH AGREEMENT EXPIRES, WE WOULD CERTAINLY WISH TO ENSURE THAT FUTURE BUSINESS WAS ON TERMS WHOLLY IN ACCORD WITH THE OECD CONSENSUS ON EXPORT CREDITS. WE WOULD WISH TO INSIST IN PARTICULAR THAT INTEREST RATES WERE IN LINE WITH THE MINIMUM RATES LAID DOWN IN THE CONSENSUS AND TO MAKE IT CLEAR TO THE RUSSIANS THAT THESE RATES WOULD BE SUBJECT TO ANY FUTURE CHANGES IN THE CONSENSUS RATES. TO CONTINUE THE PRESENT PREFERENTIAL RATES FOR ANY PERIOD BEYOND THE EXISTING EXPIRY DATES WOULD BE A BREACH OF THE CONSENSUS. THE PRESENT RATES HAVE CONTINUED HITHERTO WITHIN THE CONSENSUS BECAUSE THEY COUNT AS QUOTE PRIOR COMMITMENTS UNQUOTE. BUT ONCE /THE

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THE PRESENT AGREEMENTS EXPIRE, ANY EXTENSION OR RENEWAL IS A NEW COMMITMENT. TO BREACH THE CONSENSUS WOULD ENDANGER ITS OPERATION ELSEWHERE AND INDEED ITS EXISTENCE. THIS WOULD GO AGAINST THE INTERESTS OF FRANCE AND THE UNITED KINGDOM AND OF THE EEC AS A WHOLE. THERE IS NO NEED TO GIVE THE RUSSIANS SPECIAL SUBSIDIES IN ORDER TO SECURE EXPORTS. OUR STRONG HOPE IS THAT IN ANY NEW AGREEMENT OR ARRANGEMENT THE FRENCH GOVERNMENT MAKES WITH THE SOVIET UNION THE RATES AVAILABLE WOULD BE WITHIN THE TERMS SET BY THE CONSENSUS AND THAT THE FRENCH WILL JOIN WITH US IN PERSUADING OTHER COUNTRIES TO DO THE SAME. IF, HOWEVER, THERE WAS ANY QUESTION OF THE FRENCH GOVERNMENT OFFERING THE RUSSIANS CREDIT SUPPORT WHICH WAS IN ANY WAY MORE PREFERENTIAL THAN THAT PROVIDED FOR IN THE CONSENSUS, THE PRIME MINISTER HOPES THAT THE PRESIDENT WOULD BE WILLING TO DISCUSS THE MATTER WITH HER BEFORE ANY DECISION WAS TAKEN.

CARRINGTON

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F I L E S

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MR WIDDUP } TREASURY  
MR COWDY }

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10 DOWNING STREET

*From the Private Secretary*

21 December 1979

CREDIT FOR THE USSR

We discussed on the telephone the question of whether or not the Prime Minister need herself write to President Giscard in the terms of the enclosure with Vivien Thackeray's letter to me of 7 December on this subject. You suggested that it would suffice if Sir R. Hibbert were to speak to M. Wahl on the lines of the draft letter, making it clear that he was speaking on the Prime Minister's instructions.

I have consulted the Prime Minister and she is content that we should proceed in the way you propose.

I am sending a copy of this letter to Vivien Thackeray in the Department of Trade.

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

JS  
cc DIT

Dr





(1)

10 DOWNING STREET

Prime Minister.

Departments agree that there is no point in a message of this kind going from anyone other than you. However there is no particular reason why it should go in writing. Sir R. Hubert might be instructed to go in cars and speak to N. Wahl, making it clear that he was doing so in your name. Agree?

Yes not Point

Trade



DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144  
SWITCHBOARD 01 215 7877

From the  
Minister of State  
XXXXXX  
for Trade

NBPA  
19/10

Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London  
SW1P 3AG

19 October 1979

Dear Geoffrey,

USSR - ANGLO-SOVIET CREDIT AGREEMENT

On 9 October you wrote to Monsieur Monory expressing HMG's concern at the possible continuation of the below Consensus interest rates in any renewal of the UK and French Credit Agreements. At the same time similar representations were made at official level to the Italians whose Credit Agreement also expires at the end of this year.

Reports from our Embassy in Rome suggest that the Italians may well concede on low interest rates during the Italo/Soviet Joint Commission which takes place 25/26 October. If this were to be the case the French would have all the excuses they need to themselves concede low interest rates and we should then find ourselves in the difficult position of having to match or be out of line with our competitors. We have already passed the substance of your letter to M. Monory to Italian officials but I suggest that you should follow this up with a personal message to the Italian Minister of Finance urging him to stand firm. A draft is attached. If you agree with it we can telegraph the text on Monday and follow it up with a signed version later in the week.

I am sending a copy of this letter to the Prime Minister.

James  
Dear

CECIL PARKINSON



DRAFT LETTER

Minister of Finance  
Rome  
Italy

The British and Italian credit agreements with the USSR both expire in the next few months. If the Soviet Government seek to renew these agreements both our Governments will need to reach decisions soon on the terms on which any renewal should be negotiated.

The British Government are concerned that the exceptionally low rates of interest which apply in both the present agreements for the financing of credit sales to the Soviet Union should be eliminated if the agreements are renewed. You will recall that during the recent meeting of our two Prime Ministers it was agreed that we should try to co-ordinate our policies on this issue. Our Embassy officials have since communicated our views to your Government at senior official level.

I understand that Mr Patolichev, the Russian Minister of Foreign Trade, will be visiting Rome on 25 and 26 October. I have no doubt that you will be discussing the renewal of your credit agreement with him and that he will press for the continuation of the present terms. I very much hope that you will not agree to such terms, but that if you come under pressure from the Russians we can have further consultations.

19 OCT 1979

1961 130 81

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GRS455

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FM FCO 281625Z SEP 79

TO IMMEDIATE BELGRADE

TELEGRAM NUMBER 111 OF 28 SEPTEMBER

INFO IMMEDIATE PARIS AND MOSCOW.

*Trade*

*Ly. Pmt*

FOLLOWING FOR CHANCELLOR OF THE EXCHEQUER:

USSR CREDIT AGREEMENT.

1. THE UK/USSR CREDIT AGREEMENT SIGNED BY THE THEN PRIME MINISTER IN FEBRUARY 1975 EXPIRES IN 1980. TO MATCH SIMILAR ARRANGEMENTS WHICH HAD BEEN NEGOTIATED BY THE RUSSIANS WITH THE FRENCH (AND OTHER COUNTRIES), IT PROVIDES FOR EXPORT FINANCE TO BE MADE AVAILABLE AT RATES OF INTEREST BELOW THOSE IN THE INTERNATIONAL CONSENSUS ON EXPORT CREDIT TERMS. EVEN IF THE AGREEMENT IS RENEWED BY US, IT IS VERY MUCH IN OUR INTEREST TO STRIVE TO ELIMINATE THE BENEFIT TO THE RUSSIANS AND THE PUBLIC EXPENDITURE COST TO US OF THESE EXCEPTIONALLY LOW INTEREST RATES. SIMILAR VERY LOW RATES OF INTEREST WERE AGREED IN THE FRENCH/RUSSIAN CREDIT AGREEMENT WHICH EXPIRES AT THE END OF DECEMBER 1979. RENEWAL OF THAT AGREEMENT WITH CONTINUED LOW INTEREST RATES WOULD BREACH THE CONSENSUS.

2. OFFICIALS HERE HAVE BEEN TOLD THAT PRESIDENT GISCARD WILL HIMSELF MAKE THE DECISIONS ON THE RENEWAL AND TERMS OF A NEW AGREEMENT. EFFORTS AT OFFICIAL LEVEL TO PERSUADE FRENCH TO GIVE AN ASSURANCE NOT TO RENEW AT PRESENT VERY LOW RATES HAVE FAILED.

3. WE UNDERSTAND THAT FRENCH FINANCE MINISTER IS GOING TO MOSCOW IMMEDIATELY FOLLOWING THE IMF MEETING AND THERE THUS SEEMS TO BE RISK THAT HE WILL HAVE PRELIMINARY DISCUSSIONS ON RENEWING THE AGREEMENT AND THAT ANY PRESSURE WE WERE LATER TO PUT ON FRENCH WOULD MEET WITH THE RESPONSE THAT THE DECISIONS HAD ALREADY BEEN TAKEN.

4. IN VIEW OF THIS IT SEEMS VERY DESIRABLE THAT YOU SHOULD RAISE THIS WITH THE FRENCH FINANCE MINISTER AND PRESS HIM STRONGLY NOT TO MAKE ANY COMMITMENT TO THE RUSSIANS, STRESSING THAT IT IS

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*/IM BOTH*

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IN BOTH OUR INTERESTS FOR CREDIT TO THE USSR NOT TO BE GIVEN A  
BELOW CONSENSUS RATES.

5. YOU MIGHT HAND HIM LETTER ON LINES OF THE FOLLOWING:-

BEGINS.

QUOTE

THE BRITISH AND FRENCH CREDIT AGREEMENTS WITH THE USSR BOTH EXPIRE IN THE NEXT FEW MONTHS. IF THE SOVIET GOVERNMENT SEEK TO RENEW THESE AGREEMENTS BOTH OUR GOVERNMENTS WILL NEED TO REACH DECISIONS SOON ON THE TERMS ON WHICH ANY RENEWAL SHOULD BE NEGOTIATED.

I AM CONCERNED THAT THE EXCEPTIONALLY LOW RATES OF INTEREST WHICH APPLY IN BOTH THE PRESENT AGREEMENTS FOR THE FINANCING OF CREDIT SALES TO THE SOVIET UNION SHOULD BE ELIMINATED IF THE AGREEMENTS ARE RENEWED. BOTH OUR GOVERNMENTS SUBSCRIBE TO THE INTERNATIONAL CONSENSUS ON OFFICIAL SUPPORT FOR THE FINANCING OF EXPORTS. THE BRITISH GOVERNMENT BELIEVE THAT IT WOULD BE VERY DAMAGING TO CONCEDE RATES OF INTEREST TO THE USSR BELOW THE MINIMUM RATES LAID DOWN IN THE CONSENSUS.

I HOPE THAT THE FRENCH GOVERNMENT AGREE. IF THERE IS ANY POSSIBILITY OF THE FRENCH GOVERNMENT IN FACT GOING BELOW THE APPROPRIATE CONSENSUS RATES, THE BRITISH GOVERNMENT WOULD HOPE THAT THERE WOULD BE CONSULTATION BETWEEN OUR TWO GOVERNMENTS BEFORE ANY DECISION WAS TAKEN. IF NECESSARY, THIS CONSULTATION SHOULD TAKE PLACE AT THE HIGHEST LEVEL WHEN PRESIDENT GISCARD VISITS LONDON IN NOVEMBER.

UNQUOTE

ENDS.

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M. WIDDUP TSY:  
M. VILE CABINET OFFICE  
PS/S.S. TRADE.

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TRADE

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From the Private Secretary

28 September 1979

USSR Credit Agreement

The Prime Minister has seen Stuart Hampson's letter to me of 27 September on this subject and the draft telegram enclosed with it.

The Prime Minister agrees that a telegram should be sent to the Chancellor of the Exchequer proposing that he take action along the lines proposed in Stuart Hampson's letter. However, she is unhappy with the text of the letter contained in the draft. I enclose a new draft which reflects the Prime Minister's wishes.

I am sending copies of this letter and its enclosure to George Walden (FCO), Stuart Hampson (Department of Trade), Andrew Duguid (Department of Industry) and Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

M.A. Hall, Esq.,  
H.M. Treasury.

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ABD

TEXT OF A LETTER TO BE HANDED TO THE FRENCH MINISTER OF  
FINANCE BY THE CHANCELLOR OF THE EXCHEQUER

The British and French Credit Agreements with the USSR both expire in the next few months. If the Soviet Government seeks to renew these Agreements both our Governments will need to reach decisions <sup>soon</sup> on the terms on which any renewal should be negotiated.

I am concerned that the exceptionally low rates of interest which apply in both the present Agreements for the financing of credit sales to the Soviet Union should be eliminated if the Agreements are renewed. Both our Governments subscribe to the international Consensus on official support for the financing of exports. The British Government believe that it would be very damaging to concede rates of interest to the USSR below the minimum rates laid down in the Consensus.

I hope that the French Government agree. If there is any possibility of the French Government responding to Soviet pressure to go below the appropriate Consensus rates, the British Government would hope that there would be consultation between our two Governments before any decision was taken. If necessary, this consultation should take place at the highest level when President Giscard visits London in November.





①

Prime Minister.

From the Secretary of State

I believe the other depts would be content for action on these limits to be taken. Agree with?

Michael Alexander Esq  
Private Secretary  
Prime Minister's Office  
10 Downing Street  
London SW1

I agree the purpose but I just don't like the tone

of the letter and 27 September 1979

don't believe it would achieve its objective.

Dear Michael, It seems to me there is only one point - we have agreed international credit rates. Do the French propose to adhere to their agreed rates or not?

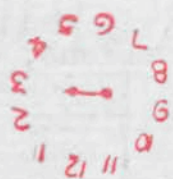
USSR CREDIT AGREEMENT

The UK/USSR Credit Agreement which was signed by the then Prime Minister in February 1975, expires in February 1980.

To match similar arrangements which had been negotiated by our trading competitors, principally the French, the Agreement provides for funds to be provided at rates of interest below the minimum subsequently agreed under the International Consensus. The Russians are expected in the near future to seek renewal of our Agreement. Even if we decided to renew it, it seems clear that we must strive to eliminate the benefit to the Russians, and the public expenditure cost to us, of these exceptionally low rates of interest. Our Ministers are aware of the political sensitivity of this Agreement and are still considering its future. However, urgent action is needed to prevent an initiative by the French which could impinge on our freedom of action.

The minimum rates of interest at which export finance may be provided are governed internationally by the so called Consensus to which all the credit giving countries of the West subscribe. Rates considerably below the Consensus minimum were agreed in the Franco/Russian Agreement and were later defended by the French on the grounds of a commitment undertaken prior to the introduction of the Consensus, the terms of which did provide for prior commitments to be excepted from its ambit. Italy elected to match the French low rates of interest and the previous Government considered themselves obliged to follow suit to protect the competitive position of British exporters. This means that we have to pay higher subsidies on export credits for Russia than we would if we adhered to the Consensus minimum rates.

contd/.....



27 SEP 1979



*From the Secretary of State*

The Franco/Russian Agreement expires at the end of this year and negotiations for its renewal are expected to take place in November or early in December. All Departments are agreed that it is very important that the French should not renew their own Agreement at rates of interest below those permitted by the Consensus. If they did, it would be a clear breach of the Consensus, it would increase the chances of a self-defeating international credit race and it would make life much more difficult for those like ourselves who see no justification for giving preferential treatment to the Russians.

There is no possibility that the French could justifiably plead a prior commitment to maintain low rates of interest for business with Russia, but exchanges of information at official level have failed to elicit any assurance from them that Consensus minimum rates of interest will be observed in any renewal. Our officials in London and in Paris have been told repeatedly that the President will himself make the decisions on the terms for renewal of the Agreement.

We understand that the French Finance Minister is to go to Moscow after the IMF meeting in Belgrade. It is just possible, therefore, that he could discuss a renewal of the Franco/Russian Agreement and that any approach to the French by us could meet with the response that the decisions to renew and on the terms of the Agreement have already been taken. In view of this we feel that it would be very desirable for the Chancellor to raise this with the French Finance Minister in Belgrade and warn the French that if there were to be any question of their considering going below the Consensus, the Prime Minister would wish first to have the opportunity of discussing the matter with President Giscard.

I should be grateful if you could seek the Prime Minister's approval for this action. A draft telegram for despatch to the Chancellor in Malta is attached.

I am copying this to George Walden (FCO), Martin Hall (Treasury), Andrew Duguid (Industry) and Martin Vile (Cabinet Office).

*Yours sincerely,*  
*Stuart Hampson*

S HAMPSON  
 Private Secretary



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TO BRITISH HIGH COMMISSION, MALTA      REPEATED      BELGRADE  
MOSCOW  
PARIS

Following for Chancellor of Exchequer

USSR CREDIT AGREEMENT

The UK/USSR Credit Agreement signed by the then Prime Minister in February 1975 expires in 1980. To match similar arrangements which had been negotiated by the Russians with the French (and other countries), the Agreement provides for export finance to be made available at rates of interest below those in the International Consensus on Export Credit Terms. Even if the Agreement is renewed by us, it is very much in our interest to strive to eliminate the benefit to the Russians and the public expenditure cost to us of these exceptionally low interest rates. Similar very low rates of interest were agreed in the Franco/Russian Credit Agreement which expires at the end of December 1979. Renewal of that Agreement with continued low interest rates would breach the consensus.

2. Officials here have been told that President Giscard will himself make the decisions on the renewal and terms of a new Agreement. Efforts at official level to persuade French to give an assurance not to renew at present very low rates have failed.

3. We understand that French Finance Minister is going to Moscow immediately following the IMF meeting and there thus seems to be risk that he will have preliminary discussions on renewing the Agreement and that any pressure we were later to put on French would meet with the response that the decisions had already been taken.



4. In view of this it seems very desirable that you should raise this with the French Finance Minister and press him strongly not to make any commitment to the Russians, stressing that it is in both our interests for credit to Russia not to be given at below Consensus rates.

5. You might hand him letter on lines of the following:

Begins

The French and British Credit Agreements with USSR both expire in the next few months. If the Soviet Government seeks to renew these Agreements both your Government and my own must reach decisions quite soon on the terms on which any renewal may be negotiated.

I am concerned that the exceptionally low rates of interest which at present apply in both these Agreements for the financing of credit sales to Russia should be eliminated for any renewal of the Agreements. <sup>would be very desirable to</sup> I believe that there is no <sup>to</sup> defensible reason <sup>to</sup> for <sup>to</sup> conceding rates of interest to the USSR which are below the minimum rates laid down in the Consensus on official support for the financing of exports, to which we all subscribe. <sup>were</sup> Moreover, to do so would set a precedent for which others, for example China, could be expected to press and could jeopardise the future of the Consensus; and there are countries, for example Germany and Japan, which could comfortably offer low interest rates to other markets which it would be very costly for France and the UK to match; and there are others, for example the USA, which could readily offer long credit periods which it would be equally burdensome for us to rival.

*I hope the French Govt agree. JF*



*If there is any possibility*

I hope therefore that you can assure me that there is no question of the French Government responding to the inevitable Soviet pressure to go below the appropriate Consensus rates. If any question of this kind should arise, we very much hope that you will take no decision without first allowing for discussion between us, if necessary at the highest level, when our Prime Minister meets President Giscard in November.

*London 6 November*