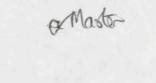
Suspect





10 DOWNING STREET

From the Private Secretary

16 November 1983

Dew John,

Brazil

The Prime Minister held a meeting today to discuss the UK's contribution to the financial package being assembled for Brazil. Present were the Chancellor of the Exchequer, the Foreign Secretary, the Secretary of State for Trade and Industry and the Governor of the Bank of England. Also present were Mr. Middleton and Mr. Unwin (HM Treasury), Mr. Appleyard (Foreign Office), Mr. Titchener (Trade and Industry) and Mr. Blunden (Bank of England).

The Foreign Secretary recognised that the UK was making a substantial contribution to the financial package for Brazil. He fully accepted the policy of trying to limit the contribution which the UK made to the refinancing of official debt. The aim should be to hold to the existing offer, in the hope that the US would make good any shortfall.

His concern was that when the commercial banks had made their pledges, and the contributions from governments had been identified, there could still be a shortfall. It would be regrettable if, after Brazil had offered to make substantial policy adjustments, the deal fell through for want of a small additional contribution from governments on export credit. He was worried that, if this arose, the UK Government could find itself isolated politically. He was therefore seeking contingent authority to offer a small addition to export credit.

The Secretary of State for Trade and Industry said that Brazil was a market with great potential in the longer term. The financial package was being assembled on the assumption that Brazil would eventually resume being a paying importer. It was therefore worth keeping a foothold in this market. This would justify some additional export credits, commensurate with the size of the UK's trade with Brazil. One or two projects had been identified which would strengthen Brazil's balance of payments and which could benefit UK exporters. In discussion it was suggested that the size of our trade would justify additional export credits in the range \$35-50 million.

/ The Chancellor

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The Chancellor took the view that the financial package was falling into place. The IMF would be consulting the G10 members individually to assess their potential contributions. He believed that the Fund would find that sufficient funds would be forthcoming. This would be reported to the IMF Board without identifying the contributions of individual governments. He believed the total UK contribution from commercial banks and from the Government directly and through the Fund, was substantial - perhaps around £750 million - and could be defended. The UK was not coming under pressure to raise its official contribution. To offer anything further would weaken credibility in future negotiations and could also weaken the resolve of others in the G5 who were currently standing firm.

The Governor argued that a further gesture from the Government would help secure the final pledges from UK commercial banks which were still being sought. In the bank package \$788 million had been allocated to UK banks and of this \$628 million had so far been found. It was noted, however, that for this tactic to work the UK would be required to disclose its fall-back position.

In discussion it was noted that ECGD would not be rescheduling Brazilian debts as originally envisaged but would be refinancing them. The benefit to Brazil was identical but the cost to the PSBR would be deferred instead of being incurred over the next two years. The refinancing of official credits was due to be discussed by the Paris Club around 23 November.

Summing up, the Prime Minister said that our objective should still be to hold our contribution on official debt to the current offer. The UK should continue to encourage France and Germany to hold the line in order to secure the maximum contribution from the US. The meeting recognised the political disadvantage of being isolated vis-a-vis Brazil and the other industrial countries. If, at the end of the day, the package was in difficulty and other industrial countries were proposing to increase their contributions, the UK could consider making an additional contribution on a very limited scale e.g. one commensurate with the importance of trade with Brazil. But no indication of our willingness to do this should be given until the very last stage of the negotiations and then only after clearing the proposal with her. If necessary this could be done by phone during her visit to India.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office), Callum McCarthy (Department of Trade and Industry) and John Bartlett (Bank of England).

Yours sinceds

John Kerr, Esq., HM Treasury.