

File and ISF with
Treasury response.

AT 8/12

PRIME MINISTER

AT 8/12

BRAZIL

The FCO have returned to the charge on Brazilian credit, proposing a case by case approach. It is difficult to see why we should change our reluctance to grant extra credit.

- (i) The conditions in paragraph 4 look feeble. When were credits not in support of British exports? What assurance can there be that the remaining conditions will be fulfilled?
- (ii) The original proposition was that extra export credit might be needed to complete the internal debt package. In fact all the components seem to have fallen into place. Later it was argued that extra export credit was needed to keep in with the Brazilians. After the visit of our Ambassador, we seemed to have restored our position quite successfully. Thus the justification keeps changing all the time.

Treasury have not yet responded but are unlikely to be enthusiastic.

AT

7 December 1983



PM/83/99

PRIME MINISTER

Brazil

1. Our Ambassador in Brasilia has carried out your instructions to put across energetically our case on the substantial contribution which we have made to the Brazilian financial package. I attach a copy of his report (Brasilia telegram No CULL 5). I believe the Chancellor's helpful message to the Brazilian Finance Minister was instrumental in enabling us to turn an awkward corner in our relations with Brazil.

2. Meanwhile we have now had more details from Brasilia about the position which the German, French, Canadian and American Governments have taken with the Brazilians about new medium term export credits. In essence the French and Germans have refused to make any commitments to new lines or credit or global credit ceilings. Instead they have indicated willingness to guarantee new credits on a case by case basis and subject to some stringent conditions.

3. This is a useful move from our standpoint. It gets away from the American approach of trying to fill a global "financing gap" by allocating shares among creditors. In adopting this approach the other European governments are able to retain control over the amount of potential exposure by building in some restrictive conditions. In short the policy combines the advantages of looking generous while safeguarding their interests in practical terms.

/4. I suggest



4. I suggest that, if you agree, we could take a leaf out of their book by moving fully into line with them at little risk to ourselves. I think that we should confirm to the Brazilians that, like other European governments, we are not prepared to name a global figure for new medium term export credits. But we should go on to say that we are prepared, as they are, to look at requests for new medium term export credits on a case by case basis and subject to four conditions. These conditions are:

- (i) that the credits are in support of British exports;
- (ii) that the projects will be given priority in terms of import certificates and foreign exchange disbursements to UK exporters;
- (iii) that the projects offer a reasonable prospect of timely repayment; and
- (iv) that the projects are consistent with the IMF's structural adjustment programme and the long-term strengthening of the Brazilian economy.

5. The main advantage of this approach is that it would enable us to make a judgement ourselves on whether to grant new export credits in individual cases. The conditions are admittedly restrictive but are only prudent in present circumstances. They provide ample opportunity to turn down requests which we consider unreasonable. This approach would also place the onus firmly on the Brazilians to come up with specific, economically worthwhile proposals. It should stop the Americans and the Brazilians from badgering us about a global credit figure. We would also be demonstrating our support of the IMF programme for Brazil and the long-term strengthening of the Brazilian economy.

are we still being pressed?

/6. I believe



6. I believe that such an approach would consolidate the success we have achieved in preserving our political relations with Brazil without exposing us to extra commercial and public expenditure risks. As I said in my minute of 30 November, I do not envisage that we should commit ourselves to a specific amount of new credits. In practice I would doubt very much whether under the conditions stated there would be a rush of requests for new credits. Lastly I think that an approach on these lines would be seen by our exporters and by Parliament as a reasonable and pragmatic attitude in present circumstances.

7. I am copying this minute to Nigel Lawson and Norman Tebbit.

GEOFFREY HOWE

Foreign and Commonwealth Office
7 December 1983