

*see OAW memo*

THE GOVERNOR'S PRIVATE SECRETARY

Copies to

- The Deputy Governor
- Mr Fforde
- Mr Dow
- Mr Page
- Mr Loehnis
- Mr Cooke
- Mr Balfour
- Mr George
- Mr Bell

*on 6/11*

ISSUES BETWEEN GOVERNMENT AND THE CLEARERS

1 There are three actual or potential issues in my area. First, the proposal to obtain some £100 million from the clearers by means of what is in effect a levy on NIBELs though in form a retrospective adjustment of the fixed rate credit arrangement: my note <sup>S.41/1</sup> of 27 October, copied below, refers: I now understand that the Chancellor plans to broach this with Sir Jeremy Morse at a meeting arranged for 13 November, but will not, on present plans, put this to the Secretaries of State for Trade and Industry and to the Prime Minister until about 11 November.

2 The second issue is Massey Ferguson, to which ATB's note below relates. <sup>on T/S problem</sup> The immediate position is that of the £42 million of risk capital that is sought from them in the present Canadian package, the clearers are resistant to putting up more than about £12 million on an own-risk basis. They are ready to put up a further £30 million only if this is guaranteed by ECGD. The latter recognise that they will have to offer some such guarantee, but will hope to stop well short of a further £30 million and to induce the banks to push up their own-risk contribution to, say, £15-20 million. This will be a matter for difficult negotiation to which the Chancellor's initiative with Sir Jeremy Morse on 13 November could well be relevant in a way unhelpful to ECGD's position. I am in close touch with developments and imagine that both sides will ask that the negotiation between the clearers and ECGD will take place in the Bank as neutral ground.

3 Third, there is a possibility that the clearers (and other UK banks) may be asked to waive for the time being their right to withdraw credit lines to British Leyland as a result of the early (quite likely next week) prospective breach of covenants relating to capital gearing, ratios of short to medium-term debt, etc. Until a conversation with

me earlier today, the Treasury had been inclined to assume that the banks could probably be prevailed upon fairly readily to take an accommodating line, in particular on the basis of the "Varley assurance" given under the last government that the government stood behind the company and its debts. I have expressed considerable doubt whether the clearers would be ready to disregard breaches of covenants in present circumstances without some more explicit guarantee commitment from government - not least in the light of the government's record on shipbuilding and aircraft compensation. The attitude of the clearers to any government request of this kind would plainly be harder if they were aware that the proposed fixed rate credit/NIBELs levy was in the offing.

*DAW*

D A Walker

4 November 1980