

2.12.80

NOTE FOR RECORD

Copies to GPS

DGPS

Mr Dow

Mr Flemming

Mr Page

Mr Loehnis

Mr Balfour

Mr Cooke

Mr George

Mr Lomax

Mr Anderson

ISSUES BETWEEN GOVERNMENT AND THE CLEARERS

1 It may be useful to set on record, solely for purposes of information, the current state of play on each of the range of issues that is actually or potentially under discussion between government and the clearers:

(a) Sale of granny bonds via the clearers: the Governor has indicated that he regards this as a commercial issue between the clearers and the Department of National Savings, and the ball is currently in the clearers' court to respond to the DNS offer of 12½p.

(b) Export finance: there are two issues:

(i) the Treasury proposal to reduce the margin on short-term export credit from ¾% to ½%, rejected by Sir Jeremy Morse as unacceptable; although not yet in play in discussion with the CLCB, we know that the Treasury would like to reduce the 1½% margin on longer-term business as soon as possible.

(ii) The proposal by the Chancellor to apply a levy to NIBELs under cover of the export credit arrangements has been rejected by Sir Jeremy Morse, the clearers tentatively offering to undertake further refinancing of ECGD paper instead. The signs are that Ministers wish to persist with their original proposal and the next step will probably be a meeting between the Financial Secretary and the Chairmen.

Please copy to M. H. H. H.
RDS

see DAWM 4/11

Thank you.
A very helpful summary

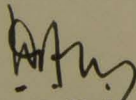
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— see FT news
item saying
they had
refused.

2nd Dec
p 8
(attached)
RDS

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- (c) Sir Keith Joseph has proposed to the Chancellor that a pilot small firm loan guarantee scheme be introduced, with an element of subsidy or underwriting by the Exchequer. Work is currently in train in Treasury and Bank on practical aspects of any such scheme, without commitment at this stage as to whether it should be introduced. While the clearers would probably be ready to go along with a scheme involving Exchequer support, this would be bound to involve them in some administrative cost.
- (d) Educational loans by the clearers: the DES are anxious to pursue the possibility of educational loans for university students on, presumably, favourable terms, partly in the context of reducing grant support of students. This is still being considered at working level, but could plainly be an issue between government and the clearers if the proposal were for particularly favourable treatment.
- (e) Retail deposits: the Chancellor indicated on 24 November that consideration was being given to collection and publication of an additional series for banking retail deposits. Sir Jeremy Morse expressed apprehension at the CLCB Chairmen's meeting last week that such a series would involve a bias (in any control that were based on it) against the clearers. Work is in train in the Bank on papers on the rational for establishing a retail deposit series and on practical possibilities and problems that will arise.
- (f) Massey Ferguson: although we have managed to establish agreement for the time being between the clearers and ECGD on the scale of their respective support for the proposed credit package for the company, there is a distinct possibility that the packages originally conceived will not run and that both ECGD and the clearers will have to stump up more - the clearers have hitherto sought to push as much as practicable onto ECGD, and the eventual outcome on all this (where the amounts involved are very large) could depend heavily on the state of play in discussions between government and the clearers on export credit matters generally.


D A Walker

2 December 1980