4.

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Prime Minister
CDP 13/xi

PRIME MINISTER

NIGERIA : PROPOSED OIL/DEBT AGREEMENT

Peter Walker sent me a copy of his minute of 5 November to you about the Nigerian proposal to service their debts to us through supplies of oil.

2. The Nigerians have, in the past, tended to see oil countertrade, to pay for imports or to settle debts, as a means of evading the sort of measures which will be necessary if they are to reach an agreement with the IMF and, as importantly, put their economy on a sounder footing. We have not, of course, wished to encourage this delusion. With our major stake in this market (exports £760m in the first nine months of this year), we are naturally keen to see a Fund programme and adjustment measures in place, so that we can trade on a sound basis and the arrears owed to us can be paid off in an orderly fashion.

3. This has caused us some difficulty in the context of the considerable problems experienced earlier this year by long-standing UK suppliers to the market, following a series of oil countertrade deals which Nigeria had concluded with our competitors (including France). Our approach was to make clear that, while we did not wish to encourage the spread of countertrade and wished to avoid direct Government involvement, we would acquiesce in private sector agreements on countertrade which UK exporters might negotiate in defence of their interests in Nigeria.

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4. The proposal described to Peter Walker seems to avoid at least some of our earlier objections to the extent that the deal would only come into effect after a Nigerian devaluation and, presumably, after an agreement with the IMF (Nigerian reluctance to devalue being one of the greatest obstacles to the latter). By agreeing to it we would not, as possibly in the past, be abetting Nigerian attempts to avoid the essential elements of the debt strategy, but could actually encourage them to accept the need for an IMF programme. The public debate taking place in Nigeria on this issue is still, on balance, opposed to a deal with the Fund and the Finance Minister's approach seems, at least partially, designed to help him allay some of the fears that have been expressed. For these reasons, as well as because the Nigerians have recently made plain that they regard our attitude on export credit and debt rescheduling as the touchstone of our relations, I hope that our response can be a positive and sympathetic one.

5. But I appreciate that there would be other problems, such as those which Peter Walker has mentioned. We should also have to consider our obligations to our partners in the Paris Club. Nor would it seem equitable for us to receive debt service in kind while others were being paid in hard currency.

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6. We might therefore point out to the Nigerians that an IMF agreement would open the way for a multilateral rescheduling of all current official debt, as well as existing short term arrears. We could pledge our full support in urging our partners in the IMF and Paris Club to reach an agreement designed to ensure, in the new circumstances, that Nigeria could cope with its debt service burden. To implement this debt restructuring, ECGD would be prepared to enter into a mutually acceptable arrangement for the payment of short term debt and to guarantee new financing loans, as well as to take the lead among export credit agencies in reopening medium and long term credit lines.

7. I am copying this letter to Sir Geoffrey (2) Howe, Peter (3) Walker and Nigel (4) Lawson.

L. B.

L B

13 November 1985

Department of Trade & Industry

ECON. POL: Indebtedness : Pt 5

13.XI

PM