Chex

Howe / Lawson

PART A

SECRET

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PART A

Begins: 15/9/82
Ends: 24/11/83

DD: 25 years
5/9/95

CHANCELLOR'S PAPERS ON
RELATIONS WITH INDUSTRY

PART A

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET

TELEPHONE DIRECT LINE 01 215 5662
SWITCHBOARD 01 215 7877

D

From the
Minister of State
for Consumer Affairs' Private Secretary

CHEXCHEQUER
16 SEP 1982
ACTION Mr Chivers
COPIES TO CST
FST
EST
MST(C)
MST(R)
Sir D Wass
Mr Quinlan
Mr Lovell
Mr Kemp
Mr Midgley

M 17/9.

J F Halliday Esq
Private Secretary to the
Home Secretary
Home Office

15 September 1982

Dear Mr Halliday

CONSUMER PROTECTION ADVISORY COMMITTEE

Dr Vaughan has decided for the present not to reappoint the existing members of the Consumer Protection Advisory Committee as their appointments expire over the next six months nor to appoint new members in their place. I attach a copy of a Press Notice which the Department will release on Friday 24 September announcing his decision.

As the Press Notice points out no Minister has made a reference to the Committee since it was established under the 1973 Act. It seems unlikely that a Minister will wish to make such a reference partly because of the difficulty of identifying suitable topics and partly because the Secretary of State can only make an Order if the Director-General made the original reference to the Committee. I should, however, be grateful if you would let me know in confidence a few weeks in advance if your Minister proposed to make a reference to the Committee. My Minister would then take urgent steps to appoint a Chairman, Vice Chairman and members qualified to consider the proposed reference.

I am sending copies of this letter to the Private Secretary to the Prime Minister, the Private Secretaries to all Secretaries of State and the Private Secretaries to the Lord Chancellor, the Chancellor of the Exchequer, the Lord President of the Council, the Lord Privy Seal, the Chancellor of the Duchy, the Attorney General and the Lord Advocate.

Yours sincerely

Peter Waller

PETER WALLER

01-405 7641 Ext. 3020

Communications on this subject should be addressed to

THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

24 September, 1982.

Peter Waller, Esq.,
Private Secretary to the
Minister of State for Consumer Affairs,
Department of Trade,
1, Victoria Street,
LONDON, SW1.

S/D Wax
Mr Quinlan
Mr Lovell
Mr Kemp
Mr Ridley

EXCHEQUER
30 SEP 1982
Mr Chivers
CST
FST
EST
MST C
MST R

Dear Waller

CONSUMER PROTECTION ADVISORY COMMITTEE

The Attorney General has seen your letter of 15 September to Halliday at the Home Office.

He understands that your Minister was advised by Departmental Solicitors that the Secretary of State was under a duty to appoint members to the Consumer Protection Advisory Committee, that he would be in breach of that duty by pursuing the course which he has adopted but that as a practical matter it was most unlikely that anyone would wish to, or would even be in a position to, challenge this failure in the courts. So far as the law of England and Wales is concerned, the Attorney General agrees with this assessment and merely wishes the point to be recorded so that ministerial colleagues will not be unaware of the position. It is, of course, a matter of not unimportant constitutional principle that Ministers should so far as possible comply with the duties laid upon them by Parliament whether or not there is anyone in a position to enforce those duties, but he accepts that in this case the departure from this principle is sufficiently insignificant for it not to warrant his taking the matter any further.

I am sending copies of this letter to the recipients of yours and also, with thanks for their assistance, to Nuala O'Flynn and Michael Huebner.

Yours sincerely

A.M. Susman

A.M. SUSMAN.

J

EXCHEQUER

-6 OCT 1982

ACTION Mr Chivers M 6/10

COPIES TO CST FST EST MST C MST R Sir D Wass Mr Quinlan Mr Lovell Mr Kemp Mr Ridley

(mp)

Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

Telephone: Direct Line 01-212 0100
Switchboard 01-212 7676

Peter Waller Esq.,
Private Secretary to the Minister of State for Consumer Affairs,
Department of Trade,
1 Victoria Street,
London SW1H OET.

5th October 1982

CONSUMER PROTECTION ADVISORY COMMITTEE

The Lord Advocate has seen your letter of 15th September to Halliday and Susman's letter of 24th September to you.

The Lord Advocate agrees from the viewpoint of Scots law with the Attorney General's view that there is probably a duty to establish, and to keep established, the Consumer Protection Advisory Committee, but like the Attorney General he would not insist on pursuing the matter any further. He points out, however, the danger that if as proposed the Committee is to be appointed only ad hoc, the Secretary of State may be subjected to the accusation of appointing those sympathetic to a particular view of the case under scrutiny.

Copied to the recipients of your letter and to Miss O'Flynn and Huebner.

Private Secretary

Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

Peter Waller Esq.,
Private Secretary to the Minister of
State for Consumer Affairs,
Department of Trade,
1 Victoria Street,
London SW1H 0ET.

8th October 1982

CONSUMER PROTECTION ADVISORY COMMITTEE

The Lord Advocate has seen your letter of 16th September to Halliday and Norman's letter of 24th September to you.

The Lord Advocate agrees from the viewpoint of Scots law with the Attorney General's view that there is probably a duty to maintain, and to keep established, the Consumer Protection Advisory Committee, but like the Attorney General he would not insist on pursuing the matter any further. He notes, however, the danger that if we reconstitute the Committee it is to be appointed only ad hoc, the Secretary of State may be vulnerable to the accusation of appointing those sympathetic to a particular view of the case under scrutiny.

Copies go to the recipients of your letter and to [illegible] and [illegible].

XCHEQUER
-7 OCT 1982

C/10 see.
JR 7/10

PWP

CST
FST
EST

M 7/10

10 DOWNING STREET

From the Private Secretary

6 October, 1982

MST C
MST R
Sir D Wass
Mr Burns
Mr Quinlan
Mr Middleton
Mr Kemp
Mr RIG Allen
Mr Traynor
Mr Mercer
Mr Kelley
Mr D. Moore
Mr Kitcatt
Mr Ridley
Mr Harris
Mr French

Dear Jill,

I enclose a copy of an exchange of correspondence between Mr. Walter Goldsmith and myself.

PS/IR

You will see that there is no action for the Treasury. But I thought that you would wish to know what had transpired.

Yours sincerely,

Michael Scholar

Miss Jill Rutter,
H.M. Treasury

10 DOWNING STREET

From the Private Secretary

6 October, 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 5 October. I shall place your letter before her at the earliest opportunity.

I am sure the Prime Minister will be grateful to you for your kind words about the policies which the Government is following; and that she will study carefully the ideas you put forward for the Government's programme over the coming year.

Yours sincerely,

M. C. SCHOLAR

Walter Goldsmith, Esq.

INSTITUTE OF DIRECTORS
From the Director General

Director General
Walter Goldsmith

Ø/ Ross

The Rt Hon Margaret Thatcher MP
Prime Minister
First Lord of the Treasury and
Minister for the Civil Service
10 Downing Street
LONDON SW1A 2AL

5 October 1982

116 Pall Mall
London
SW1Y 5ED
Telephone
01-839 1233
Telegrams
Boardrooms
London SW1
Telex 21614

Dear Prime Minister

1. I am writing to express the views of the Institute of Directors on the policies Her Majesty's Government should pursue during the next Session of Parliament.

2. The Institute is acutely conscious of the importance to you and to the whole country of the next twelve months - the last full parliamentary Session of your Administration. It therefore seems an appropriate time to focus on your Administration's achievements, to examine the opportunities which exist within the next Session for continuing to create a solid foundation for further achievement in the next Parliament and beyond, and in particular to prepare the ground for growth in opportunities for employment.

3. Self-sufficiency in energy, continued progress towards self-sufficiency in temperate foodstuffs, and the apparent beginning of a virtuous economic spiral of lower inflation, lower interest rates, higher productivity and a stable balance of payments and exchange rate, unfortunately catch the headlines less than reduced manufacturing output and reduced employment. But they are a solid foundation on which to build a more stable economic and social future and you and your Cabinet colleagues deserve great credit for the steadfast manner in which you have pursued them.

<u>THE SHORT TERM: ECONOMIC POLICY</u>

4. For the short term therefore, the IOD's message is once again to hold firm. Even the most extreme shift in economic policy could not now create any significant increase in employment over the next two years, and that only at the expense of much increased inflation very shortly afterward, with higher unemployment to follow. There is, therefore, no reason why the Government should not use this year's parliamentary time to continue its programme of reducing the institutional constraints on the free operation of the economy. It should select priorities for legislation which demonstrate to the largest possible number of people the soundness of your policies and the benefits they derive from them.

5. The elements which require attention seem to be:-

a) <u>More Money in Individual Hands</u>

The first and essential condition for this is the most rigorous control of public expenditure, permitting a substantial reduction in income tax. We acknowledge that the Chancellor will wish to continue the present additional reduction in the National Insurance Surcharge into the next fiscal year. Thereafter all the fiscal freedom he can achieve should be devoted to raising the income tax threshold to alleviate the poverty trap, reducing the rates of tax to increase incentives and abolishing the Investment Income Surcharge to remove bias against saving and investment.

b) <u>Further Privatisation and Deregulation</u>

We would not wish to see any of the sales to the public at present in contemplation delayed, but spectacular public offerings of shares are only part of this story. The deregulation of long distance coach services is a perfect example of the way in which the Government's policies confer an obvious benefit on a large number of people. Possible candidates for action this year include local bus services, air fares, the letter post monopoly, shop opening hours, and implementing the Erroll Committee's recommendations on the opening hours of licensed premises.

c) <u>Local Government</u>

We recognise the Government's desire to see the domestic rate burden reduced; and we wish to see an equal or greater reduction in the burden borne by business. However, any reduction in the business rate should not be at the expense of domestic ratepayers - the customers of business. It should arise from greater efficiency, abolition of the metropolitan second tier authorities - for instance, the Greater London Council - and the widest possible privatisation of local services, including a statutory right to tender for the supply of any service.

d) <u>Trade Unions</u>

Privatisation and deregulation must go hand in hand with further measures to ensure that opportunities for the irresponsible use of trade union power are reduced. The Institute warmly welcomes the prospect of the 1982 Employment Act and recognises that there may be a desire to see how the new legislative provisions work before further legislation is introduced. However, the 1982 Act does little to contain the power of trade unions operating in the public sector. In many cases they are monopoly bodies operating quite lawfully but within organisations which are themselves monopolies. Collective

bargaining in much of the public sector is therefore immune from the kind of market forces which condition negotiations in the private sector. To correct this situation, further employment legislation is not necessarily the answer. Rather, where privatisation is not in prospect, immediate plans should be made to offset the effects of the trade union monopoly in much of the public sector by decentralising negotiating arrangements.

THE MEDIUM TERM: EMPLOYMENT

6. For the medium term rather different considerations apply. A Government which has explicitly abandoned the formal priority accorded to full employment by other postwar governments can easily be accused of callousness if it does not pay, and is not seen to pay, particular regard to the immediate victims of such a change. We can see no evidence to refute the contention that the continuation of present trends in the economy and of government response to them at the macro level will ultimately increase opportunities for paid work throughout the UK economy. But to pretend that there will not have to be massive changes in the work people do, and the way that they do it, is to risk wasting public resources. Worse, it is cruel in that it raises expectations only for them to be dashed.

7. The Institute is concerned that too many self-fulfilling prophecies are being made about future levels of unemployment, and are thereby diverting attention from the measures that should be taken to prepare everyone for the changing opportunities of the future and the removal of the obstacles which stand in the way of such change. The preservation of a flexible capacity to respond must be a high priority. Some of the areas which appear to combine medium term benefits with the alleviation of short term problems include:-

Preparing for change

Self employment

a) stimulating self employment and creating a favourable attitude to it. The Institute is convinced from the reception of its proposals that the chief barrier to progress in this field is the almost instinctive antipathy on the part of the bureaucracy, particularly the Inland Revenue, to policies which would require it to deal with a large number of small units rather than a small number of large units. National effectiveness is more important than Departmental efficiency: we believe that the weight of your Government should be put firmly behind a campaign to remove institutional barriers to self employment, and to devise means for making it more attractive. The Institute would be more than happy to assist in this endeavour;

Reform of education

b) a far reaching reappraisal of education and training, with a major shift towards an increased vocational content, especially for those aged between fifteen and eighteen. In this context the New Training Initiative assumes a primary role, but will be all the more effective if combined with changes in the approach to secondary school structure, which would recognise the equality of status between those who will pursue a technological career, a skill, or self employment and those equipped to pursue further academic study.

Recognition of the service sector

c) an examination of the elements of public policy and administration which discriminate against the service sector in favour of manufacturing. This could range from such weighty items as the tax treatment of commercial buildings to such minor items as the treatment of the aptly named "invisibles" in the presentation of government trade statistics;

Removal of obstacles

d) removal of other obstacles to the most effective deployment of human resources, whether these are geographical (eg rent control) or economic (eg Wages Councils).

THE LONG TERM: PUBLIC SPENDING

8. In spite of your Government's deep conviction and commitment to the contrary, the proportion of the Gross National Product passing through government hands has shown no sign of falling over the past few years. Moreover there is no reason to doubt the projections which suggest that unchanged policies and demographic trends will increase this proportion to unacceptable levels unless substantial changes in government policy are made. The Government will need courage in addressing itself to this problem, and we believe that the Government would be justified in drawing attention to these issues, unpalatable though their public consideration may be to some. We do however believe that an opportunity has been missed to emphasize the objectives we consider appropriate to reduced government involvement in these areas.

9. The objectives are:

a) concentration of government attention and resources on its legitimate function of helping those unable to help themselves, and,

b) the progressive transfer of responsibility for providing services to the private sector thus promoting:

- greater efficiency
- greater freedom of choice
- higher standards of service.

10. We believe that changed methods of provision which increase consumer choice could have a substantial effect in increasing demand for these services and therefore increasing job opportunities in the service sector. Far from reducing expenditure on health and education such a change would almost certainly bring about a voluntary increase.

FREE TRADE AND EUROPE

11. Turning from the purely domestic perspective, the Institute is concerned that you and your colleagues should continue to struggle to maintain freedom of international trade in the face of ever growing demands for protection both here and abroad. We see demands for protection as an elevation to an international scale of the fears of those faint hearts who say that there should not be more money in individual hands because it would all be spent on imports. We believe that wholehearted support for the economic principles underlying the Eureopean Economic Community is a key feature in this struggle, since a Europe only dubiously trading freely internally and sheltering behind external tariff walls is of no value to anyone.

12. We therefore urge the Government, in its relations with the Community to emphasise its continued support for the fundamental concept of a common market based on the principles of free trade. Such a stance is entirely consistent with the most steadfast rejection of the dissipation of the Community's resources on social and political issues (such as employment practices), activity only at best questionably sanctioned by the Treaty of Rome.

CONCLUSION

13. Contrary to assertions elsewhere, we believe that business leaders have a high level of confidence in the future, and rightly so. Members of the Institute of Directors continue to stand firmly behind this Government's policies. They do so with a better knowledge than most have of the transitional difficulties those policies present, and they firmly urge you not to weaken in your resolve to see them through.

Yours sincerely

WALTER GOLDSMITH

RESTRICTED

A.32

FROM: ADAM RIDLEY
12 November 1982

CHANCELLOR

cc Ministers
Advisers
Mr Kemp
Mr R I G Allen

VIEWS OF THE ABCC

On Monday November 8 the Chief Secretary and I dined with a dozen or so senior ABCC activists led by Jim Ackers, Lord Boardman and Tony Newsome. You may like to glance at the attached brief record of the principal points made by our hosts. I would particularly underline the anxieties about EZs and the interest in protection. The rest of what they had to say will surprise you no more than it did us.

AR

A N RIDLEY

We need, in future speeches, to make more of
- RDGs
- energy prices (the line between "govt. imposed prices" - from E. Heath - + on commercial, economic reasons for other decisions, by the industries themselves)

NOTE FOR THE RECORD

DINNER WITH THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE, NOVEMBER 8

The principal points made in discussion were as follows:

(i) It was important that the Government should really restrain public spending at last, and get its share of gdp down. Where do the latest announcements leave us on that front?

(ii) Looking at the wider world, there were many worrying developments. How far could one look on the recent fall in interest rates as being the main, or even sole engine of growth? Was there not an urgent need for attention to the framework of the international monetary system as well?

(iii) ABCC members had had to do terrible things to their costs and employment, and were not being helped by comparable improvements in the costs imposed on them by Government and public sector organisations. There was the well known, but nonetheless disagreeable, problem of rising industrial rates. All the state industries were major culprits, but worst of all was the problem of energy prices. There seemed no sense in the Government's policy for raising such prices which was surely wrong.

(iv) There seemed to be a tendency for Ministers to neglect the anxieties in many quarters about enterprise zones. To a large extent they were robbing Peter to pay Paul, though not of course everywhere to the same extent. Should Ministers not stop and consider a carefully researched assessment of what they have achieved so far before committing themselves to a massive further expansion in their number? [There was some dissent, not least from John Risk, over the criticisms of the enterprise zone experiment offered by others of those present!]

(v) Some anxiety was expressed about the level of the exchange rates. It was not advocated that the Government should

go hell for leather for massive depreciation, but the hope was expressed that interest rate falls would continue, and that that might lead to some alleviation.

(vi) It was asked whether there was some scope for helping to improve income determination although it was not clear exactly what the ABCC wanted.

2. On the margins of discussion there was a great deal of interest in the Chancellor's recent remarks at the Manchester Chamber of Commerce, and other recent newspaper reports, to the effect that Ministers were looking with a slightly less beady eye at arguments for protection in certain sectors. At least two speakers, neither from depressed areas, argued for an abolition of RDGs and the devotion of that money to more posititive purposes, for example to sectoral industries schemes.

AR

A N RIDLEY

mp

CHANCELLOR.

HOUSE BUILDER'S FED'N,
PLANNING POLICY,
Mr HUMBER'S PAPER FOR
POLICY GROUP etc.

I have skimmed this document which is attached to Mr French's minute to you of today. It is just conceivable one could put it to K. Wickenden on Enterprise. But it is a bit peripheral to them,

likely to divert
them (they are a weak
group) and I would
advise against.

On the other hand
this *is* a mainstream
matter for DOE or
?? Misc 14. I recommend
it should go to one or
~~both of~~ them!

DOE M 15/2

SP

C

PERSONAL AND CONFIDENTIAL

From: DOUGLAS FRENCH

15th February 1983

CHANCELLOR OF THE EXCHEQUER

cc Mr Ridley
Mr Cropper - CRD

Roger Humber, Director of the House-Builders Federation, has asked me to circulate the attached paper on planning policy which he sees as an input to the Party's policy groups. If there is a group studying this area, or housing in general, perhaps Adam would care to pass it on to the members concerned.

DoE

Douglas French

DOUGLAS FRENCH

FROM: T U BURGNER
23 February 1983

Chancellor of the Exchequer

cc: Chief Secretary
Financial Secretary
Minister of State(C)
Minister of State(R)
Sir Anthony Rawlinson
Mr Bailey
Mr Judd
Mr Perry
Mr Morgan
Mr Wicks
Mr RH Wilson

PUBLIC CORPORATIONS, EFFICIENCY STUDIES & THE ROLE OF THE C&AG

Mr John Bullock of Deloitte Haskins & Sells has written to you following your recent lunch there, setting out some views about the relationship between the Government and public Corporations and the different approaches that might be adopted towards efficiency studies.

2. On the general approach to the industries, Mr Bullock's ideas are broadly in line with the Government's post-CPRS - although they are more inclined than we to believe that once objectives have been set and the industry divided into its separate profit centres they can be left to get on with it. We would regard monitoring progress towards the objectives and targets set as a further important element.

3. On efficiency studies they rightly point to the difference between an adversarial approach; and one working with the grain of the industries' management, which they favour. But their views underplay the need for visible public accountability, which a system such as the MMC provides, albeit at the price of some "adversarial" element. The alternative approach is better exemplified by management consultants and it is of course Government policy to use these to supplement the MMC's approach.

4. As for follow-up, Deloittes are of course anxious to show their interest since they will want to ensure their share of whatever public sector work is going. Allowing for that I think it would nonetheless be worthwhile to circulate their letter to sponsor Departments and this can conveniently be done using the NIP circulation. It might also be worth bringing Deloittes into discussion with Treasury officials. Mr Bailey would be willing to meet them and I have suggested this in the attached draft reply.

TB

T U BURGNER

Encs: 2

FROM J GRAHAM

DATE 26 July 1983

MISS SIMPSON

c.c. PS/CST
Mr Anson
Mr Bottrill
Mr Capstick

CHANCELLOR'S MEETING WITH RICHARD DEBS OF MORGAN STANLEY, 27 JULY 1983

I attach a brief on the US economy for this meeting.

2. The Chancellor may be aware that last year Morgan Stanley made tentative enquiries at the Bank about the possibility of establishing a formal banking presence in the UK. This would entail them seeking authorisation to take deposits under the Banking Act 1979. No further contact has been made since then but another approach cannot be completely discounted particularly with Goldman Sachs already having travelled this route. However the Bank wish to proceed very cautiously with these requests and while willing to consider a firmer approach do not want to solicit one.

3. If this is raised we suggest the Chancellor avoids any discussion by saying this is a matter for the Bank which is the appropriate regulatory authority.

4. I also attach a short personality note on Mr Debs, who visited the previous Chancellor in December 1981 and some background on Morgan Stanley.

J GRAHAM

J Graham

CHANCELLOR'S MEETING WITH MR DEBS MORGAN STANLEY, 27 JULY 1983

Points to make

(i) Welcome positive signs that recovery in the US economy is now underway. Important that this should be turned into durable growth.

(ii) But essential to avoid renewed rise in inflation or interest rates which would damage both US and rest of the world, particularly LDCs.

(ii) Major concern is prospect of large structural Federal deficit continuing into the medium-term. How does Mr Debs assess prospects for reducing the deficit before next year's Presidential election?

(iv) Fed is faced with dilemma of seeking to avoid any sharp increase in interest rates while not allowing the deficit to result in excessive monetary expansion. By rebasing M1, Fed has written off overshoot earlier this year. How does Mr Debs assess new targets and Fed's commitment to the counter inflation strategy?

(v) The domestic budget deficit is being mirrored by a rising external current deficit. The financing of both by capital inflows is maintaining upward pressure on the dollar. Does Mr Debs agree this is probably unsustainable over the medium-term?

(vi) Our concern is that any realignment of the dollar should be orderly. UK already takes account of the exchange rate in setting domestic policies. Perhaps US should do likewise.

(vii) A lower budget deficit would presumably reduce the need for capital inflows and ease the pressure on monetary policy and interest rates. This would allow the dollar to reflect underlying US competitive position and in turn reduce protectionist pressure from US industry.

Recent developments

After 3 years of depressed activity the US recovery is now underway. GDP growth in the second quarter has been revised upwards to 2 per cent (8.7 per cent at annual rates) following ½ per cent increase in the first quarter. Retail sales have continued to improve while housing starts have picked up again after faltering slightly in April. Orders for durable goods rose sharply in June. Industrial production up to June has risen by 8 per cent since the final quarter of last year though it still remains well down on its previous peak in mid-1981.

2. As a result unemployment has fallen back steadily from last winter's peaks of almost 11 per cent to 10 per cent in June. At least part of this improvement is due to higher employment which usually responds rather later in the upswing of the cycle.

3. Consumer price inflation has more than halved since 1980 falling to 6 per cent last year. It is now down to 2½ per cent and has been below 4 per cent since the start of the year.

4. Short-term interest rates have fallen from around 15½ per cent last summer to 8½ per cent by the end of the year and have remained broadly flat until May. Since then three-month rates have edged up to around 9½ per cent partly reflecting, and partly in anticipation of, tighter monetary policies to curb the rapid growth in the monetary aggregates so far this year. Long-term rates have also increased recently firming at over 11 per cent.

Outlook

5. Most forecasts, including the OECD's latest assessment (copy attached) expect recovery to strengthen now and into next year. In the mid-year review of forecasts the Administration has revised up its projection for growth to 3 per cent this year and to 5.2 per cent next. This now implies growth of 5½ per cent between the end of 1982 and the end of 1983 compared to the earlier forecast of 4½ per cent. The April inflation (GDP deflator) forecasts of 4½ per cent this year and 5 per cent in 1984 remain unchanged. In view of the faster than anticipated second quarter GDP growth some are already suggesting the government's forecasts are too cautious.

The OECD now sees the US economy growing by 3 per cent this year and 4½ per cent next (slightly lower than the Administration) with some pick up in inflation as faster activity raises wages and profit margins.

US budget

6. The Federal budget deficit is forecast to be around $210 bn in the current fiscal year - that is around 6½ per cent of GDP. On the basis of 'current services', ie in the absence of economy measures, the deficit was projected to rise to $300 bn by fiscal 1988 even assuming 4 per cent a year GDP growth. The Administration's budget proposals for savings, mainly on non-defence spending and for a contingent tax increase if necessary from 1986, are designed to reduce the structural deficit gradually between now and 1988.

7. The mid-year review contains revised estimates (the third set this year) for the Federal deficit which take account of faster growth in 1983 and 1984. Over the next 5 years the deficits are now expected to be between $10 and $20 bn lower each year. By 1988 the deficit is now expected to be down to $80 bn, around 2 per cent of GDP. For 1985 onwards these estimates depend crucially on the growth assumptions. The 4 per cent assumed growth, reflecting the increase in productive potential, may now be a little too high if the economy is expected to grow very rapidly in 1983-84. As a result these estimates of the deficits may also be rather optimistic. Despite faster growth than anticipated this year the deficit for fiscal 1983 remains unchanged at $210 bn.

8. Congress has finally agreed a first budget resolution which for the 3 fiscal years 1984-86 would have given deficits up to $30 bn lower (depending on how many of the recession relief programmes are passed) than the Administration's estimates. As it calls for lower defence spending, higher non-defence spending and higher taxes than the Administration it has not been accepted by the President. As a result, the government may have to fall back on an ad hoc process with the President vetoing tax and expenditure bills he does not like.

9. The short-term impact of the deficit may be modest, although it may help to explain why long-term interest rates have remained around 11 per cent and the US Treasury's large financing requirements are periodically unsettling financial markets despite weak credit demand elsewhere. More worrying is the fact that even on the Administration's relatively favourable assumptions, the deficit is likely to average about 3 per cent of GDP between 1983 and 1988, compared to an average of 2 per cent in the 1970s and ½ per cent in the 1950s and 1960s.

10. The prospect of deficits of this size as private credit demand recovers suggests a risk of rising interest rates, inflation or both. Next year's Presidential election probably also means that the political opportunity to tackle the deficit convincingly will have been lost until the budget for fiscal 1986. This looks a long time and places a heavy onus on monetary policy.

Balance of payments

11. The lagged effects of lost competitiveness and faster US recovery is leading to a growing US current account deficit. Martin Feldstein recently put the trade deficit at $60 bn this year and possibly $100 bn next. The strength of the dollar has contributed strongly to the drop in US cost competitiveness of almost 50 per cent over the past 3 years. The dollar has strengthened again most recently regaining its previous peaks of late last year as US interest rates have crept up. It rose again sharply early this week reaching record highs against the deutschemark.

12. High US interest rates are currently attracting capital inflows to finance the deficit and sustain the dollar, but as the deficit widens downward pressure on the dollar may increase. The prospective deficits are smaller in scale to those of 1977 and 1978 which led to an effective fall in the dollar of more than 10 per cent in a year.

Monetary policy

13. Monetary conditions in the US so far this year have, as in 1982, been difficult to interpret as a result of continuing distortions and shifts in liquidity preference. The narrow aggregate (M1) has

(M1) has been particularly affected. The introduction of super NOW accounts has attracted funds into M1 while at the same time money market deposit accounts (MMDAS) have been attracting funds into M2 and also out of M1. We suspect the net effect on M1 has probably been rather small.

14. Recently M1 growth has been volatile. In the week ending 13 July M1 rose slightly while the market was expecting a fall, after growing rapidly in the previous week. Despite some slight slowdown M1 by the start of June has already exceeded its original end year target level. M2 and M3 growth has been at the top or above their respective target ranges.

15. It is difficult to escape the conclusion that since last summer monetary growth has been relatively accommodating. Reports of the May Federal Open Market Committee (just released) indicated policy has already been tightened slightly in order to restrain monetary growth. This helps explain why interest rates have edged up recently. But Volcker's latest announcement made last week in his mid-year testimoney to Congress when he rebased and raised the M1 target for 1983 amounts to a sharp change of tack since that May meeting. Targets for M2 and M3 were left unchanged.

16. He rebased M1 to the second quarter average for this year and raised the target for the rest of the year from 4-8 per cent to 5-9 per cent. By making no attempt to offset the overshoot earlier this year the Fed is allowing a major relaxation of policy. Volcker must have been particularly concerned over the impact of higher interest rates on US recovery and the international financing situation. M1 growth is still above the new target so policy may yet have to be tightened again. For 1984 the M1 target has been reduced back to 4-8 per cent and targets for M2 and M3 have been reduced by ½ point to 6½-9½ per cent and 6-9 per cent respectively.

17. This decision should help foster recovery in the short-term. But it may aggrevate existing fears that the Fed's easier policy may now be undermining the progress achieved against inflation and is leading to a resurgence of inflation which could damage the recovery later. Clearly Volcker's explanation of the new targets will be closely studied for evidence of the Fed's continuing commitment to its counter-inflationary strategy.

EF2
HM Treasury

26 July 1983

The National Archives

DEPARTMENT/SERIES T639 PIECE/ITEM 220 (one piece/item number)	Date and sign
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Use black or blue pen to complete form.

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eg. HO 405, J 82.

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CONFIDENTIAL

From: J ANSON
27th July 1983

CHANCELLOR OF THE EXCHEQUER

cc Mr Middleton
Mr Littler
Mr Cassell
Mr Bottrill
Mr R H Wilson
Mr Graham

MEETING WITH MR DEBS OF MORGAN STANLEY

I had lunch today with Dick Debs, whom you are seeing at 5.00 pm.

2. I think his prime purpose in seeing you will be to get your own reactions on the way the UK economy is going. He may also, however, be trying to find out whether the privatisation programme could involve business for Morgan Stanley in the form of a New York offering - whether of BP or of one of the nationalised industries, eg British Telecom. I imagine you will wish to give a guarded answer, since whatever we eventually decide to do, you will not want to commit yourself to any one New York bank, or to the timing of any particular operation.

3. Mr Debs may possibly also refer to the fact that Morgan Stanley were one of the lead underwriters of the UK bond issue in New York in 1977, and suggest that it would be nice if we did another. But he will not seriously be expecting a positive answer; they regularly say this, and just want to keep the matter warm in case we ever decide to do it.

4. On paragraph 4 of Mr Graham's note, Mr Debs is one of the small group of knowledgeable New York bankers whom I used regularly to invite to lunch to meet the former Chancellor at the time of the IMF Annual Meetings. I gather from what Mr Debs said today that Mr Wicks is carrying on that tradition and has again invited Mr Debs.

JA

J ANSON

Jon

FSST
This is Important. X.

MS

From: P E Bingha

Date: 2 August 1

C
You asked for this note.

[M]PSON

cc PS/Economic S
Mr Middleton
Mr Cassell
Mr Monck
Mr Watts

[RED]EMPTION STOCK 1986-1996

[…]minute of 1 August to Mr Watts asked for a note on the background t[…] […]ons attributed to the Treasury spokesman in the article in the Inve[…] […]icle. I am providing the note as I was the official that spoke to […] [M]urray.

Last October I received a telephone call from IDT asking if I would […] [cal]l from Mr Murray as they were unable to answer the technical nature o[…] [que]stions he was asking on the Tithe Redemption Account. I was unable to […] Murray's questions immediately so I asked him to write to me which he […] October 1982 and I replied on 12 October 1982 (copies of correspondenc[…] [at]tached).

He subsequently telephoned me to thank me for the information and the[…] started asking questions about the Treasury's intentions of redeeming the[…] I explained that as the earliest possible date for redemption was 1986 no […] or decisions would be taken before then and that I could not speculate wha[…] likely Treasury view would be in four years' time. I have no knowledge o[…] referring to the stock as a 'nuisance'.

P E Bingha[m]

P E BINGHAM

Chancellor,

you are free.

Advice? ✓

DB

Morgan Guaranty Trust Company of New York PO BOX 161, Morgan House, 1 Angel Court, London EC2R 7AE

Alfred M. Vinton, Jr.
Senior Vice President and General Manager

Telephone 01 600 2300

23rd August, 1983

The Morgan Bank

Private Secretary to
The Rt. Hon. Nigel Lawson,
HM Treasury,
Parliament Street,
London SW1P 3AG.

Dear Private Secretary,

Further to my secretary's conversation with you, I am pleased to advise you that our Chairman, Mr. Lewis T. Preston will be visiting London in late November and would very much like to pay a visit on the Chancellor of the Exchequer, Mr. Nigel Lawson. He will be here on 21st and 22nd November and, if possible, we would prefer some time during the morning of 22nd November if this is convenient.

Sincerely yours,

A.M. Vinton, Jr.,
Senior Vice President
and General Manager

HM TREASURY — MCU	
REC'D.	24 AUG 1983
ACTION	Mr. Pirie — for advice plse.
SIGNATURE	
REF. No.	

Incorporated with limited liability in the State of New York, USA

COPY NO 1 of 7 copies

FROM: C J A CHIVERS
DATE: 2 September 1983

CHANCELLOR OF THE EXCHEQUER

Thanks. I take it DTI have warned the PM. N.

cc: Chief Secretary
Mr Middleton
Mr Bailey
Mr Anson
Mr Halligan

DUNLOP

We reported in the August Monitoring Group Report that Dunlop was in difficulty. The Group's European tyre businesses continue to incur heavy losses and substantial rationalisation is required particularly in Britain, Ireland and France.

2 The problems have recently become more acute, and the company's bankers have had - in the strictest confidentiality - to co-ordinate their efforts to keep the company afloat while financial re-structuring and rationalisation of operations can be accomplished. I attach a note which is extracted from a letter to me from the Industrial Adviser at the Bank of England which describes these efforts. It goes without saying that this information is extremely sensitive.

3 The Chairman, Sir Campbell Fraser, called on the Secretary of State for Trade and Industry yesterday. He said that Dunlop had come to the conclusion that they would have to get out of the tyre business in Europe, and they were now at the heads of agreement stage of a plan to sell all that part of their business to their Japanese partners Sumitomo, except for the heavily loss-making French operation. Sumitomo would acquire both of Dunlop's plants in Britain. The deal is on terms which the Department of Trade and Industry regard as highly unfavourable : the sale will extend over a period of 15 months from 1 October 1983, and in that period Dunlop will be responsible for all the rationalisation and redundancy costs less a £10 million contribution from Sumitomo.

4 Dunlop will go on to meet the rest of their capital requirement, estimated at £200 million, by further divestments and by conversion of about half of their borrowings (perhaps £100 million to £120 million) to preference shares. A financial re-structuring package on these lines is, as the note by the Bank of England says, being worked on by the company's bankers with the help of a report by Price Waterhouse.

5 Sir Campbell Fraser concluded his talk with Mr Parkinson by saying that cash would be extremely tight over the next couple of years and he hoped that the Department of Trade and Industry would be as helpful as they could be in these circumstances. He did not go into detail.

6 He could have been alluding to certain requests for Selective Financial Assistance which are currently before the Department or are expected; or he may have been foreshadowing a request for more fundamental support - perhaps guaranteeing some of the preference shares, as we did for ICL. Mr Parkinson simply took note.

7 The situation is very delicate, as it is not proving easy to persuade all the creditor banks to be patient. We shall keep in close touch with the Bank of England and the Department of Trade and Industry, and shall report any developments.

K

KIT CHIVERS

The financial background

3 Losses in the European tyre operations have amounted to about £45 mn in the last two years. This compares with trading profits in the remainder of the group of £70 mn in 1981 and £67 mn in 1982. However interest costs, tax charges on overseas subsidiaries and rationalisation costs have resulted in attributable losses totalling £120 mn over these two years. Thus at December 1982 Dunlop's balance-sheet was already looking stretched, with borrowings of about £460 mn supported by ordinary shareholders' funds of £387 mn.

4 Dunlop is now forecasting that it might break-even at the pre-tax level (after interest charges) in 1983. However the continuing losses in the European tyre division, which are expected to be around £30 mn this year, have forced the board to consider the sale of this operation as described in paragraph 8 below. They will first have to bear the substantial costs of rationalisation and, largely as a result, the attributable loss will be of the order of £150 mn in 1983 even after assumed profits on divestment. With borrowings at present over £500 mn the group's gearing will probably be in excess of 300%, an unsustainable level for a group like Dunlop and one which will result in further breaches of borrowing covenants.

5 In addition, the continuing delay in the completion of the sale of Dunlop's Malaysian tyre manufacturing subsidiary (Dunlop Malaysian Industries Berhad - DMIB) places the group's cash flow under increasing pressure. It is forecast that Dunlop is likely to exhaust its current facilities in the UK by end-September, even if there are no unexpected outgoings and no calls for the funding of overseas subsidiaries. The cash position is almost as difficult in Germany and only slightly less so in France, so that Dunlop is having to use every opportunity to maximise the credit extended to it by suppliers.

Recent developments

6 Against this background, a steering group of five major British banks, subsequently widened to include a US and a German bank, was set up to co-ordinate the actions taken by the 150 or so bankers to

the company throughout the world. One of the first actions of this group was to appoint investigating accountants to examine the financial position of the group, its forecast profit, its cash flow requirements and the adequacy and viability of Dunlop's plans for the closure of loss-making operations and the disposal of assets. The first part of the accountants' report, concerning the financial position, has been completed, and makes sombre reading; the assessment of the company's strategy for the future is expected later this month.

7 Thereafter, the banks will consider the company's plans, in the light of the accountants' appraisal, in order to decide whether they consider that the group has a viable future and, if so, how they can best provide the support and supervision which will be required to nurse it back to health.

8 Shortly before the bank steering group was set up, Dunlop had decided to dispose of the group's tyre business in Europe. Discussions have been proceeding with Sumitomo Rubber Industries (SRI) in whom Dunlop have a 40% stake. Dunlop have now signed heads of agreement under which they will sell their SRI shares to institutions nominated by SRI (to facilitate SRI obtaining a full quote on the Japanese Stock Exchange). Dunlop have also agreed to sell the "Dunlop" trade mark to SRI for their exclusive use in Japan, Korea, and Taiwan. In return, SRI have agreed to acquire Dunlop's European tyre operations - except those in France and Ireland, which will have to be closed or otherwise dealt with - with effect from 1 January 1985. In the UK, this means the acquisition by SRI of the Washington factory and the technical aid and truck and bus tyre manufacturing facilities at Fort Dunlop; SRI have agreed to take on at least 1,100 employees and provide continuing work for them at these two sites. However, Dunlop will have to bear the initial costs of rationalisation and closures in the European tyre division, and will have to survive until 1985 for this deal to be consumated.

Proposals for financial restructuring

9 In order to provide Dunlop with a more secure future, consideration is now being given to restructuring Dunlop's £500 mn debt. Initial estimates suggest that the level of debt should be reduced by around £200 mn, to bring the group's gearing down from the forecast 300% at end-1983 to around 100%. Part of the reduction in debt will be accomplished by disposing of certain overseas assets, such as DMIB and SRI; and partly, perhaps, by the conversion of debt into equity by the banks. It seems unlikely, however, that these measures, taken alone, will be sufficient - or indeed, that any significant conversion will be achievable - unless there is also an injection of new equity.

10 Such an injection is difficult given the structure of the group's present shareholdings. Pegi own about 26% of Dunlop's equity and other Far Eastern interests perhaps a further 8% in the form of local bearer certificates. In addition, Morgan Guarantee Trust have announced that its holding in Dunlop is now 17.4% representing American Depositary Receipts held on behalf of a large number of individuals; these are thought to represent speculative purchases. There are doubts about whether Pegi has sufficient cash resources to contribute any significant amount of additional equity; and, in the absence of any major UK institutional stake in the company, it is improbable that other shareholders will be ready to subscribe very much, especially as the value of the shares originally purchased is likely to fall sharply on news of a financial restructuring.

11 In a sense debt conversion and equity injection are mutually supportive. The hope is that the banks will be ready to contemplate conversion of debt on a scale which will encourage some institutional support for the equity.

Banking facilities

11 These longer-term problems are only one aspect of the financing difficulties facing Dunlop at the moment. With such a large group of banks providing facilities throughout the world, it is inevitable that some are becoming increasingly concerned and increasingly reluctant to keep their facilities in place. Yet banks cannot be expected to co-operate in supporting a company in difficulties

if any one bank is repaid or otherwise allowed to improve its position against the other lenders. Generally speaking, the banks so far approached have accepted the validity of this principle (though sometimes reluctantly). But if, for example, a bank overseas were to insist upon repayment, and to start proceedings to enforce that demand, the remaining banks would have to decide how to respond. In such circumstances, there would be a significant risk of the widespread withdrawal of banking support. The present position is that one bank in Germany has formally requested repayment, but has not yet taken action to enforce that request.

Government participation

12 Given the scale of the problems facing the Dunlop group, and the benefit in terms of UK employment of keeping it afloat at least until the SRI deal can be completed, you will no doubt wish to consider, with DTI, whether or not - and in what circumstances - the Government might wish to support the company should this become necessary. At this juncture, any such consideration would be in the nature of contingency planning, in advance of any specific proposals from the company - though it seems possible that their thinking on these matters will take a sharper focus in the course of the discussions which I understand are now to be put in train with the DTI.

13 It is not the objective of this letter to argue the case for government participation one way or the other, but simply to summarise the problems confronting the group as background to decisions which Ministers may have to take. It might, however, be helpful to refer briefly to some forms of support which could become relevant if the occasion were to arise.

14 Assistance need not always involve cash. For example, the company might seek help with their negotiations with an overseas government - most probably the French government - to try to enlist their sympathetic involvement in the group's efforts to abstract themselves from unprofitable operations. The difficulties of such a proposition should not be understated; for instance, the company has a contractual obligation to inject additional equity into its French subsidiary starting this month.

15 However, the likelihood is that any approach for Government help would involve financial support at some stage. Such requests might be directed to cash-flow needs or other relatively short-term requirements, or towards the more fundamental restructuring of the company's finances.

16 Among shorter-term measures, it is possible to foresee circumstances in which a government guarantee of part of the group's banking facilities might avert a withdrawal of support by banks overseas and so enable the group to continue until the SRI deal has been completed. Again, if cash-flow problems became unsustainable, the company might seek deferment of VAT, PAYE or National Insurance payments, or ask for help with redundancy and rationalisation costs; or it could be that they would wish to explore the scope for additional orders for Dunlop products from such customers as MoD and (perhaps) BL.

17 In the longer-term, the problems of introducing additional equity have already been outlined (in paragraph 10). If any significant amount is to be raised, that would necessitate the involvement of UK institutions which at present have no material commitment to the group. It is not yet clear to what extent the institutions would regard this as a purely commercial proposition. To the extent that they participated from a sense of public duty, they would be likely to look for some accompanying participation by the government. Such participation might be in cash, or by means of a partial government guarantee of the capital and interest of an issue of (say) a convertible preference stock.

18 As I have already said, it is not the purpose of this letter to make a case for government support at this stage. However, if it did become necessary for the company to seek such support, the circumstances may be such as to necessitate some rather quick decisions.

Please forgive so long a letter.

Yours,

Tom. Bell.

A T Bell
Head of Industrial Finance Division

SECRET
COMMERCIAL IN CONFIDENCE

FROM: MISS M O'MARA
DATE: 5 September 1983

MR CHIVERS

cc Chief Secretary
Mr Middleton
Mr Bailey
Mr Anson
Mr Halligan

DUNLOP

The Chancellor was grateful for your minute of 2 September alerting him to the latest developments on Dunlop. He assumes X that DTI have warned the Prime Minister.

Mary

MISS M O'MARA

Miss O'Mara

Not yet, but they are going to do so.

K

6/9

SECRET
COMMERCIAL IN CONFIDENCE

8/100

From: N J ILETT
Date: 9 September 1983

1. MR ~~PIRIE~~ AP 9/9
2. PS/CHANCELLOR

c/
Carter?
MOM
9/9

cc Mr Monck
Mr Peretz

MoM.
Yes. Mr Sir.
JM.

The Chancellor's Office have asked for advice on this letter from the General Manager of the Morgan Bank (ie. Morgan Guaranty Trust). The letter asks whether the Chancellor could see Morgan's (American) Chairman when he visits London late in November.

2. Morgan is one of the top five US banks, with extensive domestic and international business, and is of course prestigious and well respected. If the Chancellor has time, I recommend that he should receive a courtesy call from the Chairman. The Bank of England are not aware of any particularly live issues which Morgan would raise beyond the complex of issues which concern international banks.

N.J. Ilett.

N J ILETT

David
Pl phone them & arrange a meeting.
M.

Note
10.30 suggested - Morgan Bank (Mr Vintani office) will phone back to confirm this is OK

Note
Morgan Bank phoned to confirm 10.30 on 22/11/83, at No 11. They write to confirm.

Chancellor,

you are free.

Advice? ✓

DB

Morgan Guaranty Trust Company of New York PO BOX 161 Morgan House, 1 Angel Court, London EC2R 7AE

Alfred M. Vinton, Jr.
Senior Vice President and General Manager

Telephone 01-600 2300

23rd August, 1983

The Morgan Bank

Private Secretary to
The Rt. Hon. Nigel Lawson,
HM Treasury,
Parliament Street,
London SW1P 3AG.

Dear Private Secretary,

Further to my secretary's conversation with you, I am pleased to advise you that our Chairman, Mr. Lewis T. Preston will be visiting London in late November and would very much like to pay a visit on the Chancellor of the Exchequer, Mr. Nigel Lawson. He will be here on 21st and 22nd November and, if possible, we would prefer some time during the morning of 22nd November if this is convenient.

Sincerely yours,

A.M. Vinton, Jr.,
Senior Vice President
and General Manager

HM TREASURY — MCU	
REC'D.	24 AUG 1983
ACTION	Mr. Pirie
SIGNATURE	
REF. No.	

Mr Willett for advice pl[illegible] pse.

Sen 7/9

UNCLASSIFIED

FROM: A P HUDSON

DATE: 19 September 1983

C
Separate note below on general exercise.
MOM 29/9

MR R CAPSTICK
HF

I look forward to the note on privatisation Mr Woodman? Congrat. N.

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Mr Monck
Mr Burgner
Mr Pirie
Mr Morgan
Mr Ilett
Mr F K Jones – see para 7
Mr Grimstone
Mr Neilsen
Mr A Turnbull } See para 4
Mr S. N. Wood }

LUNCH WITH MORGAN GRENFELL

The Economic Secretary was grateful for the briefing which you and Mr Grimstone provided for the lunch we had with Morgan Grenfell yesterday. I apologise for the short notice.

2. The following people from Morgan Grenfell were there:

Christopher Reeves, Deputy Chairman and Chief Executive

John Sparrow, who has overall responsibility for MG's UK Public Sector Advisory work.

Blaise Hardman, who is responsible for MG's Treasury Division

Richard Webb, Corporate Finance Director whose interests include oil and telecommunications

Chris Beauman, who is directly responsible for MG's UK Public Sector Advisory group.

3. Much of the discussion was about the Government's privatisation programme. Mr Sparrow asked how far the Government

intended to sell off 51 per cent of companies, so as to take them out of the public sector, and then privatise no further. The Economic Secretary assured Mr Sparrow that this was not the intention. Clearly taking companies outside the public sector was a priority, and the desirability of selling further shares in those companies had to be weighed against calls on the market for new privatisations. But the policy of privatisation followed from the Government's belief that the activities concerned were better handled by the private sector, so there was no question of seeing 51 per cent as a final goal.

4. Morgan Grenfell argued that in deciding on the future form of a company to be privatised, the Government should have regard to the structure of the industry or sector affected. The link between privatisation and industrial policy should be close. Mr Hardman was particularly interested in the projected sale of Enterprise Oil. He felt strongly that it would be better to sell the Company's interests to company buyers within the oil sector, rather than to make a public share sale.

Why?

They lost out on the RoFs, of course

5. Morgan Grenfell were not happy about the way in which beauty contests were arranged. They felt that insufficient time was allowed between the invitation to compete and the time of the presentations, and that they had insufficient opportunity to get to know the subject and the officials who would be making the decisions. They were at an even greater disadvantage in cases where one merchant bank had already been advising on the case, and therefore had a considerably head start.

6. They thought that Government departments would benefit in general from closer and regular contact with merchant banks. For example, some of the mistakes in the DeLorean case would have been avoided. Their suggestion was that each department should appoint one, or perhaps two, merchant banks to advise it on a permanent basis. The Economic Secretary simply noted this.

7. One specific question was raised,: why did the Government not privatise the Tote?.

APH

A P HUDSON

cc Mr Klett

22/11

MOF[illegible]N GUARANTY TRUST COMPANY
OF NEW YORK
PO BOX 161, MORGAN HOUSE
1 ANGEL COURT, LONDON EC2R 7AE
TELEPHONE: 01-600 2300

London

Alfred M. Vinton, Jr.
Senior Vice President and General Manager

29th September, 1983

Mr. D. Ballie,
Private Secretary to
The Rt. Hon. Nigel Lawson,
HM Treasury,
Parliament Street,
London SW1P 3AG.

Dear Mr. Ballie,

This will confirm the appointment we have made for our President, Mr. Lewis T. Preston, to call on Mr. Nigel Lawson at 11 Downing Street, London SW1 on Tuesday, 22nd November at 10.30am. The biographical notes and suggested topics for conversation will be sent to you shortly.

Yours sincerely,

Y.R. Sutton

Mrs. Y.R. Sutton
Secretary to Mr. Vinton

JH 118

CONFIDENTIAL
MARKET SENSITIVE

ACTION Mr P. R. Gordon
CST. FST. MST. EST. Mr Middleton.
Mr Bailey.
Mr Anson.
Mr Cassell.
Mr Pirie.

PRIME MINISTER

EAGLE STAR

We had a word this morning about the Allianz bid for Eagle Star. I explained then that there were no competition policy grounds for a reference of the bid to the Monopolies and Mergers Commission, but I agreed to look again at what, if anything, could be done to stop the offer.

2 The advice that I have received is firm and clear: I have no powers to prevent the bid. The most I could do would be to overrule the Director General of Fair Trading and refer the proposed takeover to the Monopolies and Mergers Commission on public interest grounds. If I were to do that, I would confidently expect the MMC's verdict to be that the offer was acceptable. At that stage, the bid would have to be allowed.

3 We could, at the cost of slight embarrassment, delay an announcement that the bid is not to be referred for about a week. But to do this would raise expectations of the sort that we could not fulfil. The only purpose in doing this would be to try to extract some concessions from the Germans in the meantime: and on this, I fear, we must expect them to know that we would be bluffing.

4 In the circumstances, I do not believe it would be wise to try to put pressure on the Germans, in case they did decide to call our bluff. The best course seems to be to announce that neither the Allianz nor the BAT bid will be referred, and to do this tomorrow, before the closing date for the Allianz bid.

5 I am sending a copy of this letter to Geoffrey Howe, Nigel Lawson and Sir Robert Armstrong.

NT

N T

10 November 1983

Department of Trade and Industry

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

✓14/11

Action MST

11 November 1983

PMP

Dear Nigel

LAURA ASHLEY LTD

On 26 June 1981, Bernard Ashley of Laura Ashley Ltd, wrote to the Prime Minister about the refusal of HM Customs to clear foreign nationals through Shobdon Airfield which the Company uses to get foreign employees and customers to and from its factories in Mid Wales.

There followed further correspondence between the Prime Minister's Private Secretary and the Company but the Government line was maintained that the provision of additional facilities at Shobdon was not justified.

Mr Ashley uses Gatwick Airport for customs and immigration clearance where there are foreign nationals involved, but he is dissatisfied with the service being provided there. This, added to the additional expenses of having to set down at Gatwick on route to Shobdon, is a source of considerable irritation to Mr Ashley who after speaking to me by telephone has written the attached letter outlining his case.

My feeling is that Mr Ashley will continue to press the question of the provision of immigration facilities at Shobdon and that our apparently unhelpful attitude could put any future expansion of Laura Ashley's operation in Mid Wales in jeopardy. The Company already has 5 production units in North and Mid Wales employing a total of some 886 people. They are therefore an extremely valuable source of employment in a predominantly rural area which has suffered from depopulation through lack of work and which now faces high unemployment in its towns whose other industries are affected by the decline in the fortunes of the West Midlands. Moreover, Laura Ashley is an important and very successful exporter.

/I am of course

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

I am of course aware of the Rayner review of HM Customs services and I know the pressures to contain manpower expenditure. I would not push this if I felt that Mr Ashley were pursuing it as a personal matter, but I feel that we have a duty to encourage successful entrepreneurs such as Laura Ashley. The company really are putting British goods on the map overseas and are located and prepared to expand in a remote area which is in desperate need of good jobs in order to keep some of its young people in the neighbourhood. Surely they do not deserve to be penalised by having to land their foreign customers twice with all the expense that entails.

May I ask you to regard this as a case with exceptional circumstances and to look again to see if we cannot help Mr Ashley and so convince him that a decision to locate in the United Kingdom, near to his existing plants, would be the right one.

I am sending copies of this letter to Nicholas Ridley and Paul Channon.

Yours ever

Nick

laura ashley

49 TEMPERLEY ROAD
CLAPHAM
LONDON, SW12 8QE
TEL: 01 675 5411 TELEX: 893556

Rt. Hon. Nicholas Edwards, M.P.,
Secretary of State for Wales,
Welsh Office,
Gwydr House,
Whitehall,
London SW1A 2ER.

17th October 1983

Dear Sir,

I confirm my conversation with you the other day concerning the continuing problems that we have with immigration procedures at Shobdon Airport with non-British passports. I felt from your reply, when you quoted the Treasury's previous answer about expense, that you are not fully aware of the very high costs incurred by my Companies because of this inconvenience. This cost is easily approaching £50,000 a year in fuel, landing fees and extra overnight stops, and it is increasing with our expanding export business from our plants in this area.

This problem is further exacerbated by worsening conditions at the General Aviation Terminal at Gatwick where we sometimes have to clear with foreign guests on their way to Shobdon. 50% of the time at Gatwick there are no immigration (or customs) facilities available at the GAT and we are faced with the embarrassing situation of having to take our customers through the main terminal with the consequential delays.

As you know, I do not intend to let this matter rest and this is very much affecting the decision of our Group to locate its new textile finishing plant in the U.K. This plant will be operated with our Welsh and Dutch textile plants as one cohesive operation very dependant on personnel interchange by the Company's two general aviation aircraft. The combined weekly output of these plants will be over 1,000,000 metres per week making this production I believe one of the largest privately owned cotton textile operations in the world. An exciting enough idea for Wales and the E.E.C.

I would like to know what action is being taken on the above and when this very petty matter can be brought to a conclusion and the damage to our export and trading position terminated.

Yours faithfully,

B. A. Ashley

c.c. Rt. Hon. Norman Tebbit, M.P.
Rt. Hon. Alexander Carlile, M.P.
C. J. Owen, Esq.

10 DOWNING STREET

From the Private Secretary

CHEQUER 11 NOV 1983

Mr P.R. Gordon.
CST·FST·MST·EST.
Mr Middleton.
Mr Bailey.
Mr Anson. Mr Cassell.
Mr Pirie.

11 November 1983

It really is about time we developed a coherent policy on acquisitions & mergers. [illegible] P.

EAGLE STAR

The Prime Minister has seen your Secretary of State's minute of 10 November about the Allianz bid for Eagle Star. She agrees that he has no real way to prevent this and that he should announce today that neither the Allianz or the BAT bid would be referred to the MMC.

I am sending a copy of this letter to Brian Fall (Foreign and Commonwealth Office), John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

MR. A. TURNBULL

Callum McCarthy, Esq.,
Department of Trade and Industry

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From: R J CAPSTICK
Date: 21 November 1983

1. MR ~~ILETT~~
2. CHANCELLOR OF THE EXCHEQUER

cc Mr Pirie
Mr Grimstone
Mr Denison
Mr R J T Watts

CHANCELLOR OF THE EXCHEQUER: VISIT OF LEWIS T PRESTON

The Chancellor is meeting Lewis T Preston, Chairman and Chief Executive Officer of J.P. Morgan & Co. Incorporated and its wholly owned subsidiary, Morgan Guaranty Trust Company of New York (known as the Morgan Bank for short) on Tuesday 22 November. Morgan Guaranty have provided the attached biographical note on Mr Preston who was recently voted the 1983 banker of the year by the Eurocurrency Group comprised of the chairmen of the top international banks.

The Morgan Bank is the fifth largest bank in the USA and the principal subsidiary of its holding company, J.P. Morgan & Co. It is the only US bank to have retained its triple A rating with the US credit agencies. In terms of the Federal Reserve Board's prudential measures on capital, Morgan Bank is the best capitalised bank in the USA.

The bank has had a branch in the UK since the last century and is authorised as a recognised bank under the Banking Act 1979. The London branch is involved in foreign exchange and loans syndications and has strong links with the eurobond market. Morgan Guaranty also has a non-licensed merchant banking subsidiary in London, Morgan Guaranty Limited. Since it does not accept deposits, the merchant bank does not require authorisation under the Banking Act 1979. This is itself a source of consternation and complaint from Morgan's US rivals who have had to seek Banking Act authorisations for their London branches (because they accept deposits). Morgan Guaranty also have a 20% shareholding in the Saudi International Bank which is one of the strongest London based consortium banks. As an illustration of Morgan Guaranty's involvement in the UK the Bank of England estimate that almost half of the bank's total assets are London-based.

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Recently announced third quarter results for the J.P. Morgan Group revealed a $5 million drop in income to $101 million over the same period last year. The group attributed the decline in profits to a loss in trading account profits and commissions and a sharp decline in profits from foreign exchange trading. The decline in overall profit would have been greater had it not been for a change in the New York state banking rules concerning the classification of non-performing overseas loans. The attached Financial Times extract provides further details on the groups third quarter results.

I understand that Mr Preston will mainly wish to discuss the international debt problem and privatisation. Briefing on these subjects prepared by AEF and PE divisions respectively, are provided at Annexes A and B.

Other issues which might be raised are:-

(i) Matchmaking on the Stock Exchange

Mr Preston might ask what the attitude of the authorities is to the acquisition by US banks of a stake in UK stockbrokers or jobbers. If the issue is raised we suggest that you say that this is an issue for which the primary responsibility lies elsewhere; the Stock Exchange and, in principle at least, the mergers machinery. You can however point out that two American banks have already successfully bought the maximum permissable stake of 29.9%. The overall score is currently two to the Americans (Security Pacific/Hoare Govett and Citicorp/Vickers Da Costa) and two to the home side (Warburgs/Ackroyd and Smithers and Charterhouse Group/Kitcat and Aitken).

(ii) CHAPS

Morgan Guaranty are known to be unhappy with some of the rules of the proposed clearing house automated payment system (CHAPS). They have added their voice to the chorus of complaints which have been made by non-clearing bank users against the unfair advantages which the foreign banks allege the Clearing Banks would enjoy under the ~~current~~

WRW

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HF regard these complaints as ~~...~~ not proven. N.J.I.

currently proposed

rules. If this issue is raised, I suggest you say [that while you sympathise, it] is a matter for the bank to pursue with the clearing members of CHAPS.

(iii) Taxation of Banks

If this is raised, we suggest you take the standard line which is:-

(a) the previous Chancellor announced in the last Budget that he had "concluded that it would not this year be sensible to tighten the tax regime for banks"; and

(b) many potential sources of tax revenue routinely come up for consideration within the Treasury in the months leading up to the Budget.

R J CAPSTICK

N.J. Ilett.

21 November 1983

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ANNEX A

INTERNATIONAL DEBT

X Mr Preston is from Morgan Guaranty which is the agent bank for the syndication of the $6.5 billion commercial bank loan for Brazil. So he may well want to discuss progress on this element, and the rest of the Brazil package.

2. More generally, he may comment on the commercial banks' increasing reluctance to continue to provide (as they see it) the lion's share of the new finance in support packages. He may well argue that the present shortterm case-by-case approach will need to be replaced by more formalised arrangements, almost certainly involving a much longer timescale and possibly greater government participation.

3. The line to take on these and other issues, and on the main current problem countries (Argentina, Brazil, Poland and Yugoslavia) is as follows.

General debt policy

4. Any durable solution to country debt problems must depend above all on economic adjustment by debtor countries. Developed countries best contribution is non-inflationary growth and avoidance of protectionism.

5. Support the role of the IMF and World Bank in promoting sound adjustment policies by ensuring they have the necessary resources and by supporting such policies in the Board.

6. Governments stand ready to contribute through the IMF, World Bank, BIS bridging operations and official rescheduling. They should not normally be expected to make further contributions either direct or indirect to the financing burden. To do so could weaken the normal market disciplines on debtors and private creditors.

7. Generally debtor countries are not a homogenous group. Their difficulties are properly dealt with on a case-by-case basis, not by generalised and costly schemes. The flexibility of this approach is already allowing the timescale to lengthen; for example the facilities for Brazil run over 9 years.

Argentina

8. There have been no drawings under the IMF programme since last May, originally because of the Argentine failure to eliminate arrears, but the breakdown may now be more serious. Argentina was meeting performance criteria comfortably early in the year, but no longer seems to be doing so. The IMF will obviously need to reassess prospects in discussions with the new Government so it may be some while before drawings are resumed.

9. It would be interesting to have Mr Preston's views on the commercial banks' attitude in relation to their own $1.5 billion facility. Disbursement of the first $500M is scheduled for 30 November. Will it go ahead?

Brazil

10. The meeting with Mr Preston is the same day as the IMF Board meeting on Brazil, and it is also the first of two days discussion on official debt relief in the Paris Club. We expect a satisfactory conclusion on both.

11. We trust that the IMF Managing Director will have been able to satisfy himself on the availability of external finance.

(a) It is reported that the commercial bank syndication has produced at least $5.8 billion towards the target of $6.5 billion. This meets Mr de Larosiere's "critical mass" of 90%. Mr Preston may have further details at the meeting.

(b) We believe the IMF are satisfied on the question of official export credits. (This was settled in bilateral discussions in the margins of G10 last week, but it is most unlikely that the IMF, or anyone else, will release any details.

12. The long negotiations with the IMF and the successive versions of the wage deindexation law before the Brazilian congress finally approved it, have left a programme that may not be as tough as originally envisaged. But the Brazilian Authorities show a clear

determination to come to grips with their problems and this is crucial. Our reservations will not prevent our Executive Director giving his approval.

13. Subject, of course, to the progress of discussion in the Paris Club we expect to play our full part in a generous restructuring of the official medium and long term debt. We are still on cover for shortterm.

Poland

14. Official talks on Polish debt relief were broken off after martial law was declared in 1981. The commercial banks continued with their own negotiations and they continue to press ahead. Agreements have already been reached for the years up to and including 1983. A meeting in Vienna has already been arranged for 16 December to discuss 1984 and perhaps 1985 as well. The bulk of the banks' exposure has already been restructured and the amounts due in these and subsequent years are relatively small.

15. Official talks have just restarted, but not in a very encouraging way. The Poles opened with unacceptable conditions about IMF membership and new credits (in addition to anything they would effectively get through restructuring/recycling interest). But talks have not broken down and the Creditors Group will be meeting again in the new year. They are bound to be long and difficult negotiations, but we would hope to secure some net repayment and proper agreements for the future.

16. It is good that the US Authorities have suspended their political objections to these negotiations. Martial law has been lifted and other improvements have been made. Of course there are still problems with Poland and more widely with general East/West relations, but it is in Western interests to get the debt restructuring negotiations back on the road.

Yugoslavia

17. Western creditor countries met in Geneva last Friday (18 November) with the IMF and the Yugoslavs. The purpose was ostensibly to review progress in 1983 following the Western

support package assembled this year, but it is also necessary to look forward to next year. Two working groups are being set up to consider debt restructuring and prospects for 1984. The Groups will be working towards a support package for Yugoslavia in 1984. We expect it to be rather smaller than the 1983 package and for the official element to concentrate more directly on debt service payments due. As before, the commercial banks will also be expected to make their own contribution to the final package.

18. We hope the IMF programme for 1984 will require Yugoslavia to make realistic economic adjustment themselves, keeping to a minimum the need for external finance, and hopefully removing the need for any further support in 1985.

Other briefing

19. More detailed assessments of the general debt scene and the circumstances of particular problem countries have been given in other recent briefing, in particular the reports of Mr Unwin's debt monitoring group, the most recent of which was sent to No 10 on 7 November.

(attached)

ANNEX B

Overseas participation in the privatisation programme

Our working presumption is that equity in privatised companies will only be marketed overseas if there are clear advantages in doing so. The advantages might arise for example if:

(i) there was not sufficient capacity in the London market

(ii) there were commercial advantages to the company concerned in having an overseas listing.

It is not likely that overseas opportunities will often arise (but for example the 1979 BP sale was sold on Wall Street so a precedent does exist). It is right to be cagey about future opportunities but speculation normally centres on British Telecom, British Airways, and Jaguar.

(i) British Telecom Morgan Stanley are advising Kleinwort Benson on the feasibility of selling BT stock in the USA. You know the present position.

(ii) British Airways There has been speculation that part of a British Airways flotation would be arraged in the US market. (Airline stocks had been doing well there earlier this year and KLM have raised money in the US.)

However the present position is that a US tranche is not being considered although all possibilities are continually under review. You are recommended to be non-committal on the prospects for a US isssue but willing to listen to any case that Morgan's advance.

(iii) Jaguar Prime responsibility for disposing of Jaguar rests with BL. No information is yet available on mechanics of any possible sale.

SECRET AND PERSONAL

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The Rt Hon Nigel Lawson MP
The Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

AS spoken (to MO'M)

24 November 1983

Dear Nigel,

Following the Cabinet discussion on 10 November I put very firmly to the Chairman of the Electricity Council the Government's view that the Council should make a 3% price increase, contributing £210m to the EFL of the industry in 1984/85. I also told him that the Government was setting the EFL for the Electricity Council for 1984/85 at £740m, including £210m from this price increase.

Philip Jones undertook to convey to the Electricity Council the Government's view, and I know that he put the view firmly to them on 17 November. As a result of that I have now received the attached letter from him. On receipt of this letter I asked my officials to discuss with the Electricity Council what was meant by using their best endeavours to achieve the EFL of £740m set by the Government as from the Government's point of view it was essential that that figure was obtained. The Council can already see their way to obtaining the bulk of the £210m that will be required. They also pointed out that as an industry whenever they have promised to use their best endeavours to obtain a target they have always delivered.

I think, however, it is important that we carefully monitor the performance of the industry in the early part of next year in order to make quite certain that the EFL figure will be reached. I think we should also seek an undertaking from Philip Jones that if it became clear as the year proceeded the EFL would not be achieved, then a price increase would take place in order to secure the figures placed upon them by the Government.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Yours ever
Peter

PETER WALKER

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