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PART B

Part B

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Chancellor's (Lawson) Papers :
Collaboration Between European Community Countries on the Economy

DD's: 25 Years

[Signature]

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FROM: N L WICKS
DATE: 10 JULY 1989
Ext : 4369

MR C D POWELL

THE BICENTENNIAL CELEBRATIONS AND THE PARIS ECONOMIC SUMMIT

You may be interested to have the following information which Attali gave Sherpas at the weekend on the arrangements for the Bicentennial celebrations. Some of this is, I think, not new.

i. The Presidents of Yugoslavia, Mali, Cameroon, Niger and Cyprus have now been added to the guest list. President Menem of Argentina was not now coming.

ii. The Presidents of Mexico, Philippines, Egypt, Bangladesh and a group of Latin nations had asked the French to arrange a joint meeting between Summit Heads and the Heads attending the Revolutionary Celebrations. Attali said that the French had declined to organise such a meeting on the basis that the Revolutionary Celebrations and the Summit were separate. The Presidents of Senegal, Egypt and Venezuela and the Prime Minister of India had asked the French to use the occasion to announce a North/South Summit. The first three had indicated that they could well raise this issue in any bilaterals with the Summit Seven though Mr Gandhi had, apparently, said that he would not raise this if there was no consensus for the proposal. Attali told Sherpas that the French had replied that they would not raise this question at the Summit. It was up to the guests to raise it, if they wanted. The French would simply take note.

iii. The Presidents of Gabon, Congo and the Cameroon had given notice that they would wish to raise at their bilaterals with Summit Heads the issue of public sector (presumably Paris Club) debt.

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iv. The Bicentennial Celebrations had given the French Protocol nightmares, not least of which was the fact that according to international precedence, President Bush was the most junior of the Presidents attending. Gallic ingenuity had solved this conundrum by dividing the world into five regions, into alphabetical order: Africa, America (North), America (South), Asia and Europe. Allotting protocol precedence to the first in each group, followed by the second and so on. This had the convenient result of putting President Bush second in protocol order after President Houphouet-Boigny!

v. President Mitterrand hoped that the Heads would use their intervention at the first session on Friday to give their priorities for the Summit as well as dealing with world economic issues. I will provide a paragraph or so as supplement to the speaking notes which I sent to you last week. Attali said that the President's present intention was to call speakers at this session in international protocol order - which, I think, puts Mrs Thatcher at No 3 after President Mitterrand and President Bush (which seems satisfactory).

I am sending a copy of this minute to Stephen Wall (FCO), Alex Allan (HMT) and to Trevor Woolley (Cabinet Office).

N.L.W.

N L WICKS

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FROM: A C S ALLAN

DATE: 10 July 1989

Handwritten initials 'PW' in the top right corner of the page.

MR N L WICKS

PARIS ECONOMIC SUMMIT: SHERPAS' THEMATIC PAPER

The Chancellor has seen the thematic paper attached to your letter of 5 July to Charles Powell. He had the following comments:

- (i) we should strongly support the US in objecting to the words on the Common Fund and on the 0.7 per cent ODA target; (para 25).
- (ii) he believes we should also support the US compromise on exchange markets in paragraph 14. At the very least, we should take a low profile. To oppose them would raise renewed questions about differing attitudes within the UK Government to "managed floating" etc;
- (iii) he is very reluctant to agree to the words "and the provision of new money" in the second sentence of paragraph 42. This imparts a moral hazard which we have hitherto resolutely avoided;
- (iv) do we really want to endorse debt for nature swaps (paragraph 50)? What will this lead to?

Handwritten signature 'ACSA' in the bottom right corner of the page.

A C S ALLAN

HM Treasury



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py

N L Wicks CVO CBE
Second Permanent Secretary

C D Powell Esq
10 Downing Street
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Ch
*[NLL has already
shown you this
I believe]*

*John -
I have written
to Newgate
the main points
bits.*

10 July 1989

Dear Charles

PARIS ECONOMIC SUMMIT: DRAFT OF THE ECONOMIC DECLARATION

At the weekend the Sherpas discussed the first draft of a possible communique for the Economic Summit. The outcome of their discussion is attached. Of course, this draft is very much of a cockshy. The final version will depend on the Heads' discussion and could be very different from the text attached. But Attali, sensibly, believes it helpful to have language to hand on what are sometimes controversial or technical issues, in case it is needed.

The draft bears all the hallmarks of a text drafted by a Committee under French chairmanship. It is too long and in places convoluted and obscure. But it contains passages which we can strongly support and nothing, I think, inimical to our interests. The Sherpas will discuss the text again on Thursday evening and during the Summit itself as the Heads' discussion proceeds. It would be helpful to have any particular points the Prime Minister would like me to make in these further discussions.

Some explanation of the draft is as follows.

(i) Introduction (paragraphs 1-2): this sets the scene; wordy but unobjectionable.

(ii) International Economic Situation (paragraphs 3-9): this passage reflects the two camps - those, the UK, Canadians and Germans, who regard inflation as the most pressing international economic problem; and those, particularly the US and the French, and supported by the Italians and the Japanese, who put the priority on the reduction of the external imbalances. Paragraph 4 is a strong, and early, statement of our view about the importance of controlling inflation. The US and French take comfort from the qualification to inflation "where it has increased", seeming to believe that this weakens the paragraph's message

as it affects them. But in fact inflation has increased for all G7 members since the last Summit. Paragraph 7 includes a reference to structural reform in Japan and Germany on which there is more useful material in paragraph 14.

(iii) International Monetary Developments and Co-ordination (paragraphs 10-13): paragraph 11 caused much debate. The French hanker after a return to a worldwide system of fixed exchange rates. The US, with Italian and French support, suggested at one stage that the Heads should ask Finance Ministers to make recommendations to the next Summit on steps to improve the co-ordination process. This met opposition from Germany, Japan, Canada (I think) and ourselves. Paragraph 11 is the outcome, effectively conceding to the view of Germany, Japan and ourselves. I doubt whether this will be reopened at the Summit.

Most Sherpas opposed insertion of a favourable reference to President Mitterrand's plan for a fund financed by SDRs to help third world debtors. But the French insist on some reference in the text to SDRs. Hence the reference in paragraph 12; this is simply factual and has nothing to do with the French SDR fund.

(iv) Improving Economic Efficiency (paragraphs 14-16): there are useful references in paragraph 14 to reform of financial markets strengthening competition policies and to distribution and transportation policies. These are areas where we think the Germans and Japanese, as the case may be, should reform their economies. The Canadians were unsuccessful in including a reference to agricultural reform. Only the US and UK supported them. We will try again later.

Paragraphs 15 and 16 contain references to two French hobby horses, the need to increase savings and to combat insider trading.

(v) Trade Issues (paragraphs 17-21): discussions on trade are in a lull between last April's Mid-Term Review and the completion of the GATT round itself. The purpose of the paragraphs is to give political impetus to the continuing negotiations and to send a strong message against restrictive trade practices, unilateral action, bilateralism etc, like the US Super 301 procedure. We will try to toughen up the passage in further discussions. The US wish to omit the passage in square brackets in paragraph 18; they believe it gives developing countries a let out from the disciplines of the GATT round. We alone have some sympathy for their position. Paragraph 21 represents an uneasy compromise, but one acceptable to us, on export credit subsidies, though the US, Canada and ourselves would have preferred a stronger version, eg asking the OECD to complete their work by the next Ministerial.

(vi) General Problems of Development (paragraphs 22-24) and the Situation in the Poorest Countries (paragraphs 25-28): no problems here. There is a reference in paragraph 22 to the UN aid target, but it helpfully does not mention the 0.7 per cent of GNP figure.

(vii) Strengthened Debt Strategy for the Heavily Indebted Countries (paragraphs 29-31): these paragraphs restate the current debt strategy as it has emerged from recent discussions in the IMF and World Bank. Only the French want to go further now. The US rightly argue that any

hint about the availability of extra public sector money would simply distract the developing countries and the bankers.

(viii) Environment (paragraphs 32-50): this is by far the longest section reflecting the French wish to give prominence to the environment. The text meets all our interests, despite one or two objectionable features. Paragraph 36 contains useful words on the economics of environmental protection, which reflect the Prime Minister's interest in this aspect and the paper I circulated earlier in the year to the Sherpa group. The square brackets in paragraph 38 on the ozone layer and CFCs contain US words reflecting their hesitations on the Montreal protocol. The Germans may try again at the Summit to strengthen the next sentence about ozone depleting substances not covered by the Montreal protocol. This causes us problems. We are seeing whether those problems are so insuperable as to prevent us supporting stronger language. The plug for nuclear power in paragraph 40 is the best so far achievable in the face of Italian and German reluctance. Paragraph 44 gives a useful boost to our initiative for a framework convention on climate change. The last part of paragraph 45 reflects US concern on oil spills. Paragraph 46 about international law on the environment is an Italian hobby horse, which according to my Italian colleague is dear to the hearts of De Mita and Andreotti. The Italians wanted some form of Summit commitment to establish an International Law for the Environment analogous to the International Law for the Sea. After great difficulty and some Italian chagrin, it was watered down to paragraph 46. We can expect them to return to the issue at the Summit. The last sentence of paragraph 47 "Some of us have agreed ..." refers to the French ideas for a new environmental institution. It has the support of all delegations, except the US and ourselves. Paragraph 48 on bioethics reflects Delors' interest in this issue. Paragraph 49 on flooding in Bangladesh fully meets the Prime Minister's undertaking to President Ershad to have this matter discussed at the Summit.

(ix) Drug Issues (paragraphs 51 and 52): this contains some good language which meets our interests, including support for the conference on drug demand reduction which we are hosting in 1990. The one point of disagreement, in the last inset, concerns the terms of reference for the study by experts. The US favours the language in square brackets which provides a comprehensive remit to consider virtually all aspects of the drug problems. Others prefer the study to concentrate on the narrower issue of money laundering. We are in the latter camp, but could probably go along with the US text.

The Prime Minister will be provided with briefing on all these points. But if she has particular points at this stage, it would be very helpful to have them.

There was no discussion of the Thematic Paper which I sent you on 6 July. So that version can be taken as the final edition.

I am sending copies of this letter to Stephen Wall (FCO), Alex Allan (HMT) and to Sir Robin Butler.

Yours sincerely

Nigel Wicks

N L WICKS

SUMMIT OF THE ARCH

ECONOMIC DECLARATION

1) We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities have met in Paris, for the fifteenth annual Economic Summit. The Summit of the Arch initiates a new round of Summits to succeed those begun at Rambouillet in 1975 and at Versailles in 1982. The round beginning in 1982 has seen one of the longest periods of sustained growth since the Second World War. These Summits have permitted effective consultations, offered the opportunity to launch initiatives and to strengthen international cooperation.

2) This year's world economic situation presents three main challenges:

- The choice and the implementation of measures needed to maintain balanced and sustained growth, counter inflation, create jobs and promote social justice. These measures should also facilitate the adjustment of external imbalances, promote international trade and investment, and improve the economic situation of developing countries.

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- The development and the further integration of developing countries into the world economy. Whilst there has been substantial progress in many developing countries, particularly those implementing sound economic policies, the debt burden and the persistence of poverty, often made worse by natural disasters affecting hundreds of millions of people, are problems of deep concern which we must continue to face in a spirit of solidarity.

- The need to safeguard the environment for future generations. This calls for a concerted international response and for the adoption, worldwide, of policies based on sustainable development.

INTERNATIONAL ECONOMIC SITUATION

3) Growth has been sustained by focusing policies on improving the efficiency and flexibility of our economies and by strengthening our cooperative efforts and the coordination process. In the medium term, the current buoyant investment seen during this period should pave the way for an increased supply of goods and services and help reduce the dangers of inflation. The outlook is not, however, without risks.

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4) Until now, the threat of inflation in many countries has been contained, thanks to the concerted efforts of governments and monetary authorities. But continued vigilance is required and inflation, where it has increased, will continue to receive a firm policy response so that it will be put on a downward path.

5) While some progress has been made in reducing external imbalances, the momentum of adjustment has recently weakened markedly: further progress in adjusting external imbalances through cooperation is crucial.

6) In countries with fiscal and current account deficits, including the United States of America, Canada and Italy, further reductions in budget deficits are needed. Action will be taken to bring them down. This may help reduce the savings-investment gap and external imbalances, contribute to countering inflation and encourage greater exchange rate stability in a context of decreasing interest rates.

7) Countries with external surpluses, including Japan and Germany, should continue to pursue appropriate macroeconomic policies and structural reforms that will encourage non-inflationary growth of domestic demand and facilitate external adjustment.

8) All our countries share the responsibility in the sound development of the world economy as a whole. Over the medium term, deficit countries have to play a key role in global adjustment through their external adjustment and increased exports; surplus countries have to contribute to sustaining global expansion through policies providing favourable conditions for growth of domestic demand and imports.

9) The emergence of the newly industrializing economies and the initiation of a dialogue with them are welcome. We call on those with substantial surpluses to contribute to the adjustment of external imbalances and the open trade and payments system. To that end, they should permit exchange rates to reflect their competitive position, implement GATT commitments and reduce trade barriers.

INTERNATIONAL MONETARY DEVELOPMENTS AND COORDINATION

10) Under the Plaza and Louvre agreements, our countries agreed to pursue, in a mutually reinforcing way, policies of surveillance and coordination aimed at improving their economic fundamentals and at fostering stability of exchange rates consistent with those economic fundamentals.

There has been progress in the multilateral surveillance and coordination of economic policies with a view to ensuring internal consistency of domestic policies and their international compatibility. The procedures to be used have been more clearly defined and improved in cooperation with the International Monetary Fund.

11) The coordination process has made a positive contribution to world economic development and it has also contributed greatly to improving the functioning of the International Monetary System. There has also been continued cooperation in exchange markets.

It is important to continue, and where appropriate, to develop this cooperative and flexible approach to improve the functioning and the stability of the International Monetary System in a manner consistent with economic fundamentals. We therefore ask the Finance Ministers to continue to keep under review possible steps that could be taken to improve the coordination process, exchange market cooperation, and the functioning of the International Monetary System.

12) We welcome the decision to complete the work on the ninth review of the International Monetary Fund quotas with a view to a decision on this matter before the end of the year.

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We note that the question of a resumption of S.D.R. allocation remains under consideration in the Executive Board of the International Monetary Fund.

13) Within the European Community, the European Monetary System has contributed to a significant degree of economic policy convergence and monetary stability.

IMPROVING ECONOMIC EFFICIENCY

14) We will continue to promote measures in order to remove inefficiencies of our economies. These inefficiencies affect many aspects of economic activity, reduce potential growth rates and the prospects for job creation, diminish the effectiveness of macroeconomic policies, and impede the external adjustment process. In this context, tax reforms, modernisation of financial markets, strengthening of competition policies and reducing existing rigidities are necessary. So are the improvement of education and vocational training, transportation and distribution systems and further policies aimed at giving more flexibility and mobility to the labour market and reducing unemployment. Within the European Community, the steady progress towards the implementation by 1992 of the program contained in the Single

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Act has already given a strong momentum to economic efficiency.

15) The decline of saving in some of our countries in this decade is a cause for concern. This lower level of saving can contribute to high real interest rates and therefore hamper growth. Inadequate saving and large fiscal deficits are associated with large external deficits. We recommend, within the framework of policy coordination, policies to encourage saving and remove hindrances where they exist.

16) Financial activities are being increasingly carried out with new techniques on a worldwide basis. As regards insider trading, which could hamper the credibility of financial markets, regulations vary greatly among our countries. These regulations have been recently, or are in the process of being, strengthened. International cooperation should be pursued and enhanced.

TRADE ISSUES

17) World trade developed rapidly last year. Yet protectionism remains a real threat. We strongly reaffirm our determination to fight it in all its forms. We shall fulfill the Punta del Este standstill and rollback commitments which, inter alia, require the avoidance of any trade restrictive or

distorting measure inconsistent with the provisions of the General Agreement and its instruments. We agree to make effective use of the improved GATT dispute settlement mechanism and to make progress in negotiations for further improvements. We will avoid any discriminatory or autonomous actions, which undermine the principles of the GATT and the integrity of the multilateral trading system. We also are pledged to oppose the tendency towards unilateralism, bilateralism, sectoralism and managed trade which threatens to undermine the multilateral system and the Uruguay Round negotiations.

18) The successful negotiation of the Trade Negotiations Committee of the Uruguay Round in Geneva last April, thereby completing the mid-term review, is a very important achievement. It gives a clear framework for future work in all sectors including the pursuit of agricultural reform in the short term as well as in the long term. It also gives the necessary framework for substantive negotiations in important sectors not yet fully included in GATT disciplines, such as services, trade related investment measures and intellectual property.

Developing countries participated actively in these negotiations and contributed to this success. All countries should make the most constructive contribution possible

[consistent with their respective stages of economic development].

We express our full commitment to making further substantive progress in the Uruguay Round in order to complete it by the end of 1990.

19) We note with satisfaction the entry into force of the Free Trade Agreement between Canada and the US, as well as more recent initiatives to intensify the close economic relations between the European Community and EFTA countries. It remains our policy that these and other developments in regional cooperation, should be trade-creating and complementary to the global liberalisation process.

20) It is the firm intention of the European Community that the trade aspects of the single market program should also be trade-creating and complementary to the global liberalization process.

21) We note with satisfaction the progress that has been made in strengthening the multilateral disciplines on trade and aid distorting export credit subsidies. This effort must be pursued actively and completed in the competent bodies of the OECD with a view to improving present guidelines at the earliest possible date.

GENERAL PROBLEMS OF DEVELOPMENT

22) We shall help developing countries by opening the world trading system, by the continuation of their support for structural adjustment and diversification in commodity dependent countries and by encouraging them to create a favourable environment for transfers of technology and capital flows.

We underline the continuing importance of official development assistance and welcome the increased efforts of some of our countries in this respect. We note the targets already established by international organizations for the future level of official development assistance and stress the importance of overall financial flows to development.

We underline simultaneously the importance attached to the quality of the aid, the evaluation of the projects and the programs financed.

23) We urge developing countries to implement sound economic policies. A vital factor will be the adoption of financial and fiscal policies which attract inward investment, encourage growth and the return of flight capital.

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24) We note with satisfaction that there has been substantial progress in the multilateral aid initiative for the Philippines that was given special attention in the Toronto economic declaration.

THE SITUATION IN THE POOREST COUNTRIES

25) The enhancement of the International Monetary Fund Structural Adjustment Facility, the World Bank special program of assistance for the poorest and most indebted countries and the fifth replenishment of the African Development Fund are all important measures benefiting those countries having embarked upon an adjustment process. We stress the importance attached to a substantial replenishment of International Development Association resources.

26) As we urged last year in TORONTO, the Paris Club reached a consensus in September 1988 on the conditions of implementation of significant reduction of debt service payments for the poorest countries. Thirteen countries have already benefitted by this decision.

27) We welcome the increasing grant element in the development assistance as well as the steps taken to convert loans into grants. Flexibility in development aid as much as in debt rescheduling is required.

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28) We attach great importance to the efficient and successful preparation of the next general conference of the United Nations on the least developed countries, which will take place in Paris in 1990.

STRENGTHENED DEBT STRATEGY FOR THE HEAVILY INDEBTED COUNTRIES

29) Although our approach to the debt problems has produced significant results, serious challenges remain: in many countries the ratio of debt service to exports remains high, financing for growth promoting investment is scarce, and capital flight is a key problem. An improvement in the investment climate must be a critical part of efforts to achieve a sustainable level of growth without excessive levels of debt. These improvements of the current situation depend above all on sustained and effective adjustment policies in the debtor countries.

30) To address these challenges, we are strongly committed to the strengthened debt strategy. This will rely, on a case-by-case basis, on the following actions:

- borrowing countries should implement, with the assistance of the Fund and the Bank, sound economic policies, particularly designed to mobilize savings, stimulate investment and reverse capital flight;

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- banks should increasingly focus on voluntary, market-based debt and debt service reduction operations, as a complement to new lending;

- the International Monetary Fund and World Bank will support significant debt reduction by setting aside a portion of policy-based loans;

- limited interest support will be provided, through additional financing by the International Monetary Fund and the World Bank, for transactions involving significant debt and debt service reduction. For that purpose the use of escrow accounts is agreed;

- continued Paris Club rescheduling and flexibility of export-credit agencies;

- strengthening of the international financial institutions capability for supporting medium-term macroeconomic and structural adjustment programs and for compensating the negative effects of export shortfalls and external shocks.

31) In the framework of this strategy:

- we welcome the recent decisions taken by the two institutions to encourage debt and debt service reduction and to provide adequate resources for these purposes;

- we urge debtor countries to move ahead promptly to develop strong economic reform programs that may lead to debt and debt service reductions in accordance with the guidelines defined by the two Bretton Wood institutions;

- we encourage banks to take realistic and constructive approaches in their negotiations with the debtor countries. In particular we urge them to negotiate temporary waivers of existing lending provisions that inhibit debt and debt service reduction. We stress that official creditors should not substitute for private lenders. Our governments are prepared to consider as appropriate tax, regulatory and accounting practices with a view to eliminating unnecessary obstacles to debt and debt service reductions.

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ENVIRONMENT

32) There is growing awareness throughout the world, of the necessity to preserve better the global ecological balance. Scientific studies have revealed the existence of serious threats to our environment such as the depletion of the stratospheric ozone layer, excessive emissions of carbon dioxide and other greenhouse gases which could lead to future climate changes. We note with great concern the growing pollution of air, lakes, rivers, oceans and seas; acid rain, dangerous substances; and the rapid desertification and deforestation. Such environmental degradation endangers species and undermines the well-being of individuals and societies.

Decisive action is urgently needed to understand and protect the earth's ecological balance. We will work together to achieve the common goals of preserving a healthy and balanced global environment in order to meet shared economic and social objectives and to carry out obligations to future generations.

33) We urge all countries to give further impetus to scientific research on environmental issues, to develop necessary technologies and to make clear evaluations of the economic costs and benefits of environmental policies.

The persisting uncertainty on some of these issues should not unduly delay our action.

In this connection, we ask all countries to combine their efforts in order to improve observation and monitoring on a global scale.

34) We believe that international cooperation should also be enhanced in the field of technology and technology transfer in order to reduce pollution or provide alternative solutions.

35) We believe that industry has a central role in preventing pollution at source, in waste minimization, in energy conservation, and in the design and marketing of cost-effective clean technologies. The agricultural sector must also contribute to tackling problems such as water pollution, soil erosion and desertification.

36) Environmental protection is integral to issues such as trade, development, energy, agriculture and economic planning. Therefore, environmental considerations must be taken into account in economic decision-making. In fact good economic policies and good environmental policies are mutually reinforcing.

In order to achieve sustainable development, we shall ensure the compatibility of economic growth and development with the protection of the environment. Environmental protection and related investment should contribute to economic growth. In this respect, intensified efforts for technological breakthrough are important to reconcile economic growth and environmental policies.

Clear assessments of the costs, benefits and resource implications of environmental protection should help governments to take the necessary decisions on the mix of price signals (e.g., taxes or expenditures) and regulatory actions, reflecting where possible the full value of natural resources.

We encourage the World Bank and regional development banks to integrate environmental considerations into their activities. International organisations such as the OECD and the United Nations and its affiliated organizations, will be asked to develop further techniques of analysis which would help governments assess appropriate economic measures to promote the quality of the environment. We expect the 1992 UN Conference on Environment and Development to give additional momentum to the protection of the global environment.

37) To help developing countries deal with past damage and to encourage them to take environmentally desirable action, economic incentives may include the use of aid mechanisms and specific transfer of technology. In special cases ODA debt forgiveness and debt for nature swaps may play a useful role for the environmental protection.

We also emphasize the necessity to take into account the interests and needs of developing countries in sustaining the growth of their economies and the financial and technological requirements to meet environmental challenges.

38) The depletion of the stratospheric ozone layer gives particular cause for concern.

We welcome the HELSINKI conclusions related, among other issues, to the complete abandonment of the production and consumption of chloro-fluorocarbons covered by the MONTREAL protocol as soon as possible and not later than the end of the century [assuming the development of safe substitutes]. Attention should also be given to those ozone-depleting substances not covered by the Montreal protocol. We shall promote the development and use of suitable substitute substances and technologies. More emphasis should be placed on projects that provide alternatives to chloro-fluorocarbons.

39) We advocate common efforts for the reduction of emissions of carbon dioxide and other greenhouse gases, which threaten to induce climate change, endangering the environment and ultimately the economy. We strongly support the work undertaken by the Intergovernmental Panel on Climate Change, on this issue.

We need to strengthen the worldwide network of observatories for greenhouse gases and support the World Meteorological Organisation initiative to establish a global climatological reference network to detect climate changes

40) We agree that increasing energy efficiency could make a substantial contribution to these goals. We urge international organizations concerned to encourage measures, including economic measures, to improve energy conservation and, more broadly, efficiency in the use of energy of all kinds and to promote relevant techniques and technologies.

While we are committed to maintaining the highest safety standards for nuclear power plants and to strengthening international cooperation in safe operation of power plants and waste management, we recognize that nuclear power also plays an important role in limiting output of greenhouse gases.

41) Deforestation also affects the atmosphere and must be prevented at a global level. We call for the adoption of sustainable forest management practices, with a view to preserving the scale of world forests. The relevant international organizations will be asked to complete reports on the state of the world's forests by 1990.

42) While recognizing the sovereign rights of developing countries to make use of their natural resources, we encourage, through a sustainable use of tropical forests, the protection of all the species therein and the traditional rights to land and other resources of local communities. We welcome the German initiative in this field as a basis for progress.

To this end, we recommend a greater and quicker implementation of the Tropical Forest Action Plan which was adopted in 1986 in the framework of the Food and Agricultural Organization. We appeal to both consumer and producer countries, which are united in the International Tropical Timber Organization, to join their efforts to ensure better conservation of the forests. We express our readiness to assist the efforts of nations with tropical forests through financial and technical cooperation, and in international organizations.

43) Temperate forests, lakes and rivers must be protected against the effects of acid pollutants such as sulphur dioxides and nitrogen oxides. It is necessary to pursue actively the bilateral and multilateral efforts to this end.

44) The increasing complexity of the issues related to the protection of the atmosphere calls for innovative solutions. New instruments may be contemplated. The conclusion of a framework or umbrella convention on climate change to set out general principles or guidelines would be a useful way both to mobilize and rationalize the efforts made by the international community. We welcome the work under way by the United Nations Environment Program, in cooperation with the World Meteorological Organization, drawing on the work of the Intergovernmental Panel on Climate Change and the results of other international meetings. Specific protocols containing concrete commitments could be fitted into the framework as scientific evidence requires and permits.

45) We condemn indiscriminate use of oceans as dumping grounds for polluting waste. There is a particular problem with the deterioration of coastal waters. To ensure the sustainable management of the marine environment, we recognize the importance of international cooperation in preserving it and conserving the living resources of the sea. We call for relevant bodies of the United Nations to prepare a report on the state of the world's oceans.

We express our concern that national, regional and global capabilities to contain and alleviate the consequences of maritime oil spills be improved. We urge all countries to make better use of the latest monitoring and clean-up technologies. We ask all countries to adhere to and implement fully the international conventions for the prevention of oil pollution of the oceans. We also ask the International Maritime Organization to put forward proposals for further preventive action.

46) We are committed to ensuring full implementation of existing rules for the environment. In this respect, we note the initiative of the Italian government to host in 1990 a forum on international law for the environment with scholars, scientific experts and officials, to consider the need for a digest of existing rules and to give in-depth consideration to the legal aspects of environment at the international level.

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47) We advocate that existing environment institutions be strengthened within the United Nations system. In particular, the United Nations Environment Program urgently requires strengthening and increased financial support. Some of us have agreed that the establishment within the United Nations of a new institution may also be worth considering.

48) We have taken note of the report of the sixth conference on bioethics held in Brussels which examined the elaboration of a universal code of environmental ethics based upon the concept of the "human stewardship of nature".

49) It is a matter of international concern that Bangladesh, one of the poorest and most densely populated countries in the world, is periodically devastated by catastrophic floods.

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We stress the urgent need for effective, coordinated action by the international community, in support of the Government of Bangladesh, in order to find solutions to this major problem which are technically, financially, economically and environmentally sound. In that spirit, we take note of the different studies concerning flood alleviation, initiated by France, Japan, the US and the United Nations Development Program, which have been reviewed by experts from all our countries. We welcome the World Bank's agreement, following those studies, to coordinate the efforts of the international community so that a sound basis for achieving a real improvement in alleviating the effects of flood can be established. We also welcome the agreement of the World Bank to chair, by the end of the year, a meeting to be held in the United Kingdom by invitation of the Bangladesh Government, of the countries willing to take an active part in such a program.

50) We give political support to projects such as the joint project to set up an observatory of the Saharan areas, which answers the need to monitor the development of that rapidly deteriorating, fragile, arid region, in order to protect it more effectively.

DRUG ISSUES

51) Faced with the growing dimensions of drug problems, we stress the urgent need for decisive action, both on a national and an international basis. We urge all countries, especially those where drug production, trading and consumption are large, to join our efforts to counter drug production, to reduce demand, and to carry forward the fight against drug trafficking itself and the laundering of its proceeds.

52) Accordingly, we resolve to take the following measures within relevant fora:

- Greater emphasis on bilateral and United Nations programs for the conversion of illicit cultivation in the producer countries. The United Nations Fund for Drug Abuse Control (UNFDAC), and other United Nations and multilateral organizations should be supported, strengthened and made more effective. These efforts could include particular support for the implementation of effective programs to stop drug cultivation and trading as well as developmental and technical assistance.

- Strengthen the role of the United Nations in the war against drugs through an increase in its resources and through reinforced effectiveness of its operation.

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- Intensify the exchange of information on the prevention of addiction, and rehabilitation of drug addicts.

- Support the international conference planned for 1990 on cocaine and drug demand reduction.

- Strengthen the efficiency of the cooperative and mutual assistance on these issues, the first steps being a prompt adhesion to, ratification and implementation of the Vienna Convention on illicit traffic in narcotic drugs and psychotropic substances.

- Conclude further bilateral or multilateral agreements and support initiatives and cooperation, where appropriate, which include measures to facilitate the identification, tracing, freezing, seizure and forfeiture of drug crime proceeds.

- Convene a special group of experts from Summit Participants and other countries interested in these problems to assess the results of cooperation already undertaken in order [to stem the flow of illegal drugs. It is of particular importance that the group consider means] to prevent the utilization of the banking system and financial institutions for the purpose of money laundering, to consider additional preventive efforts,

09/07/89
17:29

including revisions of laws and regulations so as to enhance multinational judicial assistance. The first meeting of that group will be called by France.

53) International cooperation against AIDS

We take note of the creation of an International Ethics committee on AIDS which met in Paris in May 1989, has decided at the Summit of Venice (June 1987). It assembled the Summit Participants and the other members of the EC, together with the active participation of the World Health Organization.

54) Next Economic Summit

We have accepted the invitation of the President of the United States to meet next year in the United States of America.

09/07/89
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DATE: 10 JULY 1989
EXT: 4430

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CHANCELLOR

Sir P Middleton
Mr Wicks

ARRANGEMENTS FOR FINANCE MINISTERS AT THE SUMMIT

1. The attached letter from M Beregovoy, together with the useful schematic agenda (also attached) set out the involvement of finance ministers in the Summit. Trichet gave us some more details over the weekend.

2. The main session for finance ministers and deputies is on the first day, Friday, at Bercy, the new headquarters of the Tresor. It is scheduled to last from 4.30 pm to 8.30 pm (with only a 15 minute break). I expect there will be only two seats per delegation at those sessions. It will be followed by a working dinner. The present plan, though this is flexible, is for ministers and deputies to take working lunches and dinners together. After the working dinner on Friday, finance ministers and deputies will report to Heads and Sherpas, in advance of the plenary sessions on the second day, Saturday.

3. There are complications over German and Japanese representation. The Germans will probably field both Waigel and Haussmann at the finance ministers' sessions (Tietmayer is the German Sherpa and there is no German financial sous-sherpa). The Japanese MITI minister will be at the Summit: he is expected to join the plenary for the discussion on trade; and the finance ministers' dinner on the Friday evening.

4. The lunch for finance ministers on the third day, Sunday, may be simply a social occasion, but could be used with advantage to:

- (a) find a solution to any remaining problems on the economic parts of the draft declaration, in advance of the final plenary that afternoon;

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(b) agree a common line for the press, above all on exchange rates.

H.P.E.

H P EVANS

CONFIDENTIAL

Paris, July 7th

*Le Ministre d'Etat,
Ministre de l'Economie, des Finances
et du Budget*

Dear Colleague,

It will be my pleasure to welcome you in Paris for the Summit of the Arch, with our colleagues of the G.7.

Between the 14th and the 17th of July, we shall have a series of meetings and meals, some with the Heads of State or Government, others between us.

We shall begin on Friday, July 14, at 4.30 pm, with a meeting at the Ministry of Economy, Finance and Budget, in its new building, rue de Bercy. We shall then review all the questions on the agenda of the Summit, and will continue during the dinner I will offer at the same place at 8.30 pm.

Our first items will include a review of the international economic situation, the state of the coordination among the seven and the evolution of the International Monetary System, the progress on reforms aimed at improving economic efficiency, and trade issues. ~~other~~ ~~the~~ issues.

The subjects of the second part of the meeting will be the development problems in the poorest and middle income countries, and particularly the debt problem on which discussions and precise proposals have taken place during the recent months. We shall also make progress in the definition of the principles we will apply for the ninth review of quotas of the IMF, that will have to be decided before the end of the year, in order to be able to take convergent positions on this issue in the further discussions at the board of the IMF.

During the working dinner, we will discuss issues related to the laundering of assets of illicit origin, as well as environmental problems.

On Saturday, July 15, from 10.15 to 12.30, we shall participate to the plenary session with the Heads of State or Government, in the Arche de la Défense.

We shall then have a lunch there. During this lunch, we shall more specifically prepare the afternoon plenary session, which will begin at 3 pm.

During the evening, we shall have dinner, also together, in Bercy, at 8 pm. I will propose you, in due time, an agenda for this working dinner, in view of the progress achieved by the Heads of State or Government.

On Sunday, July 16, the plenary session will begin at 10 am, and will end at 12.30. We shall have our last lunch together in the Arche de la Défense at 1 pm, before the plenary session of the afternoon, from 3 pm to 5 pm.

At 5.15, the President of the Republic will read the communiqué in the presence of the Heads of delegations in the Arche de la Défense.

The Summit will end with a dinner offered by the President of the Republic and Madame François Mitterand at the Elysée Palace in honour of the members of the delegations and their wives.

I am looking forward to seeing you in Paris in a few days.

With my highest personal regards.

Pierre BEREGOVOY

SUMMIT OF THE ARCH (14-16 JULY, 1989)

PROGRAMME OF THE MINISTERS OF FINANCE

JULY 14, Friday

16 h 30 - Working session of the Ministers of Finance, at the Ministry of Economy, Finance and Budget (Bercy).

20 h 30 - Dinner hosted by the Minister of State, Minister of Economy, Finance and Budget (Bercy), in honor of the Ministers of Finance at the Ministry of Economy, Finance and Budget (Bercy).

JULY 15, Saturday

From 9 h 45 - Arrival of delegations at the Arche de la Défense.
Group photo at the Arche de la Défense.

10 h 15 - Plenary session

12 h 30 - End of plenary session.

13 h - Lunch offered by the Minister of State, Minister of Economy, Finance and Budget for the Ministers of Finance at the Arche de la Défense.

15 h - Plenary session (continuing)

20 h - Dinner offered by the Minister of State, Finance and Budget, for the Ministers of Finance at the Ministry of Economy, Finance and Budget (Bercy).

JULY 16, Sunday

From 9 h 45 - Arrival of delegations at the Arche de la Défense.

10 h 00 - 12 h 30 - Plenary session.

13 h - Lunch offered by the Minister of State, Minister of Economy, Finance and Budget for the Ministers of Finance at the Arche de la Défense.

15 h - 17 h - Plenary session

17 h 15 - Reading of the joint communique by the President of the Republic, in the presence of the Heads of delegation at the Arche de la Défense.

20 h 30 - Dinner offered by the President of the Republic and Mrs François Mitterrand at the Elysée Palace in honour of the members of Summit delegations and their spouses.

JULY 17, Monday

Departure of delegations.

AGENDA OF THE XVth SUMMIT OF THE INDUSTRIALISED COUNTRIES

	<u>Heads of Delegation</u> 14/7/89	<u>Ministers of Foreign Affairs</u>	<u>Ministers of Finance</u>
<u>First Day</u>			
17:00-18:30	Restricted opening meeting World economic situation	Separate meeting	Separate meeting
Media 20:00	Briefing by the Summit spokesman		
20:30	Working dinner World political situation	Working dinner	Working dinner
Media 24:00	Briefing by the Summit spokesman		
<u>Second Day</u>			
15/7/89			
10:00-10:15	Restricted meeting : adoption of the political declarations		
Media 10:30	Reading of the political declaration to the media by the French Minister of Foreign Affairs.		
10:15-12:30	Plenary meeting Review of the general economic situation, trade		
Media 13:00	Briefing by the Summit spokesman		
13:00	Working lunch Debt	Working lunch	Working lunch
15:00-17:00	Plenary meeting debt		
Media 18:00	Briefing by the Summit spokesman		
18:30	Informal meeting Environment		
Media 20:30	Briefing by the Summit spokesman		
20:00	Working dinner Environment	Working dinner	Working dinner
Media 23:00	Briefing by the Summit spokesman		
<u>Third Day</u>			
16/7/89			
10:00-12:30	Plenary meeting Discussion of the economic declaration		
13:00	Luncheon	Luncheon	
15:00-16:30	Plenary meeting Adoption of the economic declaration		
Media 17:00	Reading of the economic declaration by the President of the French Republic		
17:30	Press Conference of the Heads of Delegation		
20:30	Final dinner		

~~ppp~~ (or BF)

BF
21/7

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FROM: P.B. GILDERSLEEVES CCTA
DATE: 11 JULY 1989

PS/CHANCELLOR
PS/PAYMASTER GENERAL

cc: Sir Peter Middleton
Mr J Anson
Mr H Phillips
Mr C D Butler
Mr A Healey
Mr D E Thomas
Mr L Parker (Cabinet
Office)

MEETING ON IT SECURITY - BONN 12 JUNE 1989

1. I attach a short resume of what transpired in Bonn on 12th June 1989. As you know it was my original intention to combine this report with the reaction of the Cabinet Office to the Chancellor's question that involving the Commission in our discussions, might be construed as an extension of the Commission's competence. I have been informed that the question is still being considered by the lawyers and that a reply should be forthcoming within a few days. This being the case I consider that my report should wait no longer.
2. The meeting which was attended by delegates from the UK (DTI, CESG and CCTA), France, Germany and Holland primarily concerned itself with taking reports from members on progress in establishing national programmes, procedures and criteria for evaluating security products and secure systems. Where these programmes already exist, for example within Germany and the UK, the meeting considered ways in which differing national criteria might be aligned to provide a standardised European approach.
3. The meeting also heard reports from NATO concerning progress within that forum towards the production of guidelines on procedures for testing, evaluating and implementing secure systems. The aim is again to try and harmonise the national criteria of member nations where these exist. However, perhaps the most important item considered by the meeting was for the future.

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4. We were shown a publication entitled "Draft outline for the preparation of an action in the field of Information Security in Europe" which had been prepared by Dr Huber of the European Commission. This publication although emanating from the Commission did not apparently reflect its official position, nevertheless its short-form title is the CEC "Green Book". Unfortunately copies were not available to us in Bonn and we have only just received one and begun to examine it.
5. At the meeting it was stated that the intention of the Commission in preparing the Green Book was to encourage debate within the Community on Information Security issues in order to develop a consensus on the appropriate steps needing to be taken. In Bonn, discussions were centred on how this document should be handled and how our reaction to it should be publicised and in what form. Members were agreed however that co-ordination of IT Security matters should be handled by member states and not by the Commission.
6. It was agreed, following a suggestion by Germany, that representatives of the four nations present in Bonn should meet with Herr Huber in Brussels on 11th July to determine a course of action concerning the Green Book and which could be recommended to the next full meeting of the four nation group. This is scheduled for 29th September in Paris. The UK will be represented at the meeting in Brussels by Mr Casey, Head of IED6, DTI, and the Director of CESG.

P. B. GILDERSLEEVES

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Foreign and Commonwealth Office

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14/7

13 July 1989

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Jean Alex,

New Irish Government

Mr Haughey announced his new Government yesterday, 12 July. The attached annotated extract from the reporting telegram from Dublin gives the details.

The Prime Minister has written to the Taoiseach, and the Foreign Secretary is sending messages to the incoming and outgoing Ministers of Foreign Affairs. You may wish to consider messages from your Minister. Messages should be sent under flying seal through the diplomatic bag to the Embassy in Dublin, who will arrange delivery. The correct form of address for all Irish Ministers is Mr So-and-So TD, Minister for

I am copying this letter to the Private Secretaries to the Home Secretary, the Secretaries of State for Defence, Employment, Northern Ireland, Environment, Trade and Industry, Education and Science, Transport, Social Security and Energy, the Minister for Agriculture, Fisheries and Food and the Legal Secretary to the Law Officers.

Yours ever,

[Handwritten signature: R. H. T. Gozney]

(R H T Gozney)
Private Secretary

Alex Allan Esq
PS/Chancellor of the Exchequer
HM Treasury

SUMMARY

1. MR HAUGHEY ELECTED TAOISEACH BY 84 VOTES TO 79. HE HAS CONCEDED 2 (TWO) CABINET SEATS TO THE PROGRESSIVE DEMOCRATS (PDS) IN ORDER TO FORM AN ALLIANCE WITH THEM. AN AGREED PROGRAMME FOR A 4 YEAR GOVERNMENT CONTAINS AN ANODYNE SECTION ON NORTHERN IRELAND.

DETAIL

5. WHEN THE DAIL RESUMED ON THE AFTERNOON OF 12 JULY, THE TANAISTE, MR LENIHAN, PROPOSED MR HAUGHEY AS TAOISEACH, MR O'MALLEY (PD LEADER) SAID IT WAS TIME TO PUT ASIDE PARTY DIFFERENCES IN THE INTERESTS OF THE ELECTORATE'S WISH FOR A STABLE GOVERNMENT TO TACKLE THE COUNTRY'S PROBLEMS. THE PDS WOULD BE 'PARTNERS IN AN ALLIANCE' WITH FIANNA FAIL (FF). HE PAID TRIBUTE TO MR HAUGHEY'S 'COURAGE AND SKILL' IN THE NEGOTIATIONS. THE MOTION WAS THEN CARRIED BY 84 VOTES TO 79. BESIDES FF, MR HAUGHEY WAS SUPPORTED BY THE PDS AND FOXE, THE INDEPENDENT FOR A NEW HOSPITAL IN ROSCOMMON.

3. AFTER A 3 HOUR ADJOURNMENT MR HAUGHEY PRESENTED THE ALLIANCE GOVERNMENT AND OUTLINE PROGRAMME. IT COMPRISES:

TAOISEACH AND MINISTER FOR GAELTACHT: CHARLES HAUGHEY (FF)

TANAISTE AND MINISTER FOR DEFENCE : BRIAN LENIHAN (FF) (ex FOREIGN AFFAIRS)

FOREIGN AFFAIRS : GERARD COLLINS (FF) (ex JUSTICE)

FINANCE : ALBERT REYNOLDS (FF)

MARINE : JOHN WILSON (FF) (ex TOURISM AND TRANSPORT)

AGRICULTURE AND FOOD : MICHAEL O'KENNEDY (FF)

INDUSTRY AND COMMERCE : DESMOND O'MALLEY (PD) (NEW)

LABOUR : BERTIE AHERN (FF)

ENERGY : BOBBY MOLLOY (PD) (NEW)

SOCIAL WELFARE : MICHAEL WOODS (FF)

JUSTICE AND COMMUNICATIONS : RAY BURKE (FF) (ex INDUSTRY AND COMMERCE)

ENVIRONMENT : PADRAIG FLYNN (FF)

HEALTH : RORY O'HANLON (FF)

EDUCATION : MARY O'ROURKE (FF)

TOURISM AND TRANSPORT : SEAMUS BRENNAN (FF) (NEW)

4. BESIDES THE TWO PD NEWCOMERS, O'MALLEY AND MOLLOY, BRENNAN HAS BEEN PROMOTED INTO THE CABINET. NOONAN (DEFENCE), SMITH (ENERGY) AND BRADY (MARINE) HAVE BEEN DROPPED. JOHN MURRAY REMAINS AS ATTORNEY-GENERAL. THE MINISTERS OF STATE HAVE YET TO BE APPOINTED.

UNCLASSIFIED
SAVING TELEGRAM

FROM BONN

FRAME ECONOMIC

TO FCO TELNO 9 SAVING OF 14 July 1989. Info. Brussels, Luxembourg, The Hague, Paris, Rome, UKRep Brussels, UKDEL OECD, UKMis Geneva, all Consulates-General in the Federal Republic and West Berlin, Washington, Tokyo, Vienna.

FRG ECONOMY

SUMMARY

1. Draft 1990 Federal budget allows for spending to increase by 3.4% to DM 301.35 billion. Federal borrowing to increase to DM 33.67 billion, but it is expected to fall in subsequent years. (Paras. 7 to 9)
2. Unemployment continues to fall and remains under 2 million at 1.91 million. Vacancies continue to climb. (Para. 10)
3. The May survey of the business climate recorded a further improvement but the consumer climate index fell. New orders fell by 3%, mainly through seasonal factors, although foreign demand remained high. Production also fell for the same domestic reasons while the two-monthly comparison shows a sharp increase year-on-year, indicating the underlying strength of output. Construction activity continued to fall from recent high levels and there were indications of skilled labour shortages. (Paras. 11 to 14)
4. Retail turnover rose 3.1% in May compared to a year earlier but private consumption is still expected to contribute no more than 2% growth during the year. Inflation, cost of living index, was revised upwards for June to 3.1%, the same as in May. (Paras. 15 to 17)
5. The growth of the money supply continued to slow with M3 rising by 5.4% on Q4 1988. Interest rates were nevertheless raised by 0.5%. On the foreign exchanges, the dollar took centre stage, falling sharply below DM 1.90. German stock markets remained strong and figures for the first half of the year show turnover markedly higher than the same period last year. (Paras. 18 to 22)
6. The current account surplus rose in May to DM 8.6 billion, while the surplus on visible trade grew to DM 10.5 billion. The reverse of strong capital outflows following the withdrawal of the domestic withholding tax, served to bring the capital account almost to balance. FRG imports from the UK in the twelve months to March rose by 6.4% while exports to the UK increased by 18% to give a trade gap in favour of the FRG of DM 24.4 billion. (Paras. 23 to 27)

FRAME ECONOMIC
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MR RATFORD.

DETAIL

DRAFT 1990 FEDERAL BUDGET

7. The draft 1990 Federal budget was approved by Cabinet on 5 July. Overall Federal spending will increase by 3.4%. Within that the rate of increase for individual ministerial votes differs appreciably. The two largest spending ministries, Labour and Social Affairs and Defence, rise by 4.4% and 3.3% respectively. But the Post and Telecommunications budget increases by a massive 353%, DM 286.8 million in nominal terms, in order to cope with additional investment needed following the reorganisation of the Bundespost.

8. On the revenue side, total revenue will increase from DM 263.5 billion this year to DM 267.7 billion, with the Federal share of tax revenue alone rising from DM 241.4 billion to DM 242.1 billion. Federal borrowing in 1990 will reach DM 33.7 billion compared with DM 27.8 billion this year. In the five year financial plan, agreed at the same time as the budget, borrowing is expected to fall gradually.

FINANCE PLAN 1989-1993					
	Plan 89	Draft 90	1991	1992	1993
In DM billion					
I. Expenditure	291.31	301.35	311.4	320.0	329.0
% increase on previous year	+ 5.8	+ 3.4	+ 3.3	+ 2.8	+ 2.8
II. Revenue	263.49	267.68	279.2	292.5	303.4
1. Tax revenue ...	241.40	242.07	253.5	266.8	277.7
2. Admin revenue .	22.09	25.61	25.7	25.7	25.7
of which:					
- Bundesbank ..	5.00	7.00	7.0	7.0	7.0
- Privatisation	0.20	0.50	-	-	-
- Mint revenue	0.80	0.90	0.8	0.8	0.8
3. Borrowing Requirement ...	27.83	33.67	32.2	27.5	25.6

Source: BMF

9. Introducing the budget, the Federal Finance Minister, Waigel, emphasised the strong performance of the economy. The opposition claimed rather lamely that the budget was unconstitutional because of the increased borrowing. The draft budget will be debated in the Bundestag after the summer break before moving on to the committee stage for line-by-line examination.

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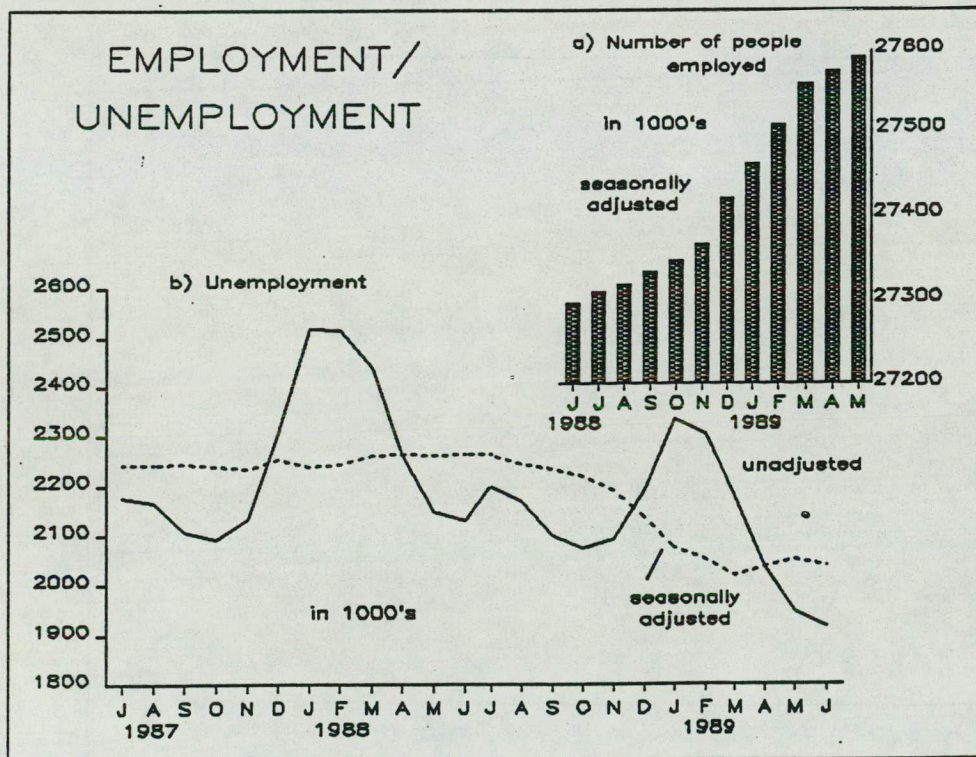
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BOUR AND SOCIAL AFFAIRS

10. Unemployment remained below 2 million in June, falling by 32,275 or 2% to 1,915,189. This represents a fall on a year earlier of 216,200 or 10%. Average unemployment in the first half of the year was 2,142,200, some 208,800 lower than in the corresponding period a year earlier. The unemployment rate in June eased to 7.4% from 7.6% in May. Although rising on the preceding month, the number of short-time workers is still markedly down on last year's levels. The number of vacancies registered at the end of the month continued to climb. Seasonally adjusted employment figures for May show a continuation of the upward trend.

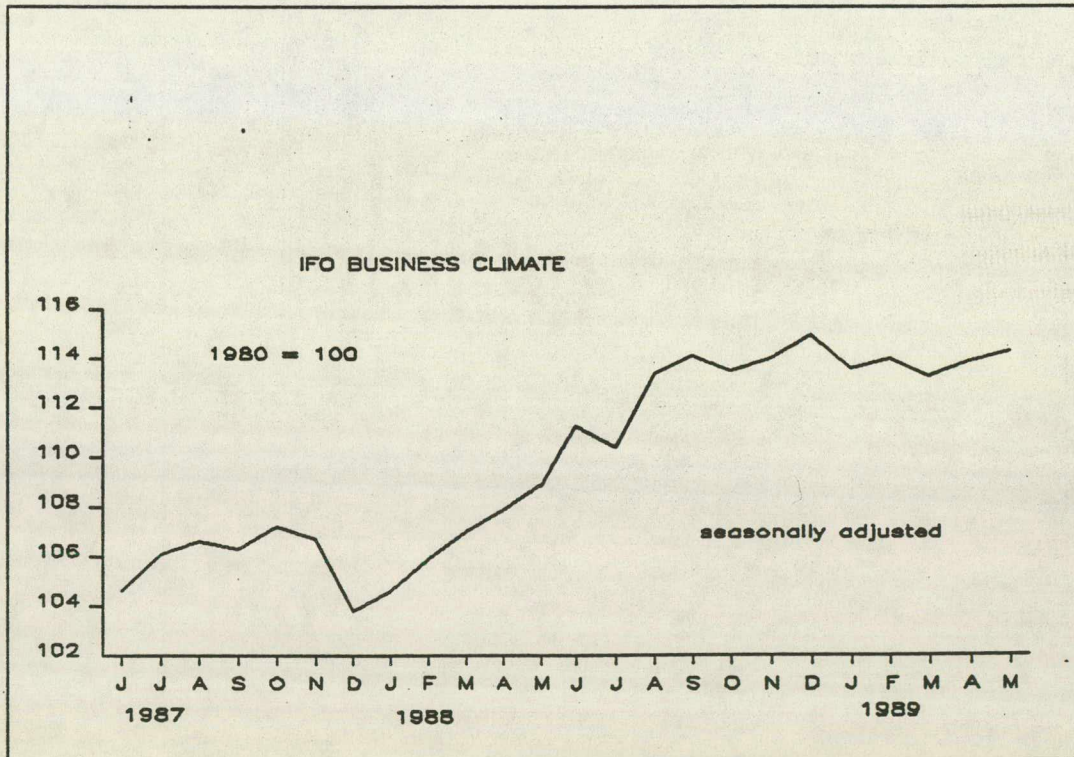
** UNEMPLOYMENT **	June 88	May 89	June 89
a) Unemployment total - rate (%)	2,131,406 (8.3%)	1,947,464 (7.6%)	1,915,189 (7.4%)
b) Adjusted total	2,265,000	2,050,000	2,039,000
c) Short-time working	190,002	96,723	139,647
d) Unfilled Vacancies	201,157	249,327	256,579
e) Total men in a)	1,110,602	1,015,387	985,391
f) Total women in a)	1,020,804	932,077	929,798



BUSINESS CLIMATE

11. The IFO survey recorded a further slight improvement in May, up to 114.3 from 113.9 in April (1980=100). Export prospects improved further. Current production plans indicate a clear upward trend. The present price climate is described as calm. Optimism in the construction sector continues to grow with increasing signs of labour shortages. The GfK consumer climate index fell 0.9% in May to stand 0.8% down on a year earlier. The abolition of the withholding tax triggered a sudden surge in savings but prospects for consumer activity in the second half of the year are nevertheless described as encouraging.

** Ifo : BUSINESS CLIMATE **						
seasonally adjusted						
	1984	1985	1986	1987	1988	1989
January	107.7	104.9	109.2	102.9	104.6	113.6
February	108.4	102.8	107.5	102.4	105.9	114.0
March	105.2	102.2	105.1	103.0	107.0	113.3
April	103.1	104.0	106.4	103.7	107.9	113.9
May	100.3	104.9	106.0	102.9	108.9	114.3
June	99.4	104.1	108.8	104.6	111.3	
July	102.2	106.7	108.0	106.1	110.4	
August	102.3	107.6	108.1	106.6	113.4	
September	102.5	108.4	108.5	106.3	114.1	
October	103.4	111.2	107.0	107.2	113.5	
November	104.0	111.3	107.3	106.7	114.0	
December	103.8	110.3	106.9	103.8	115.0	



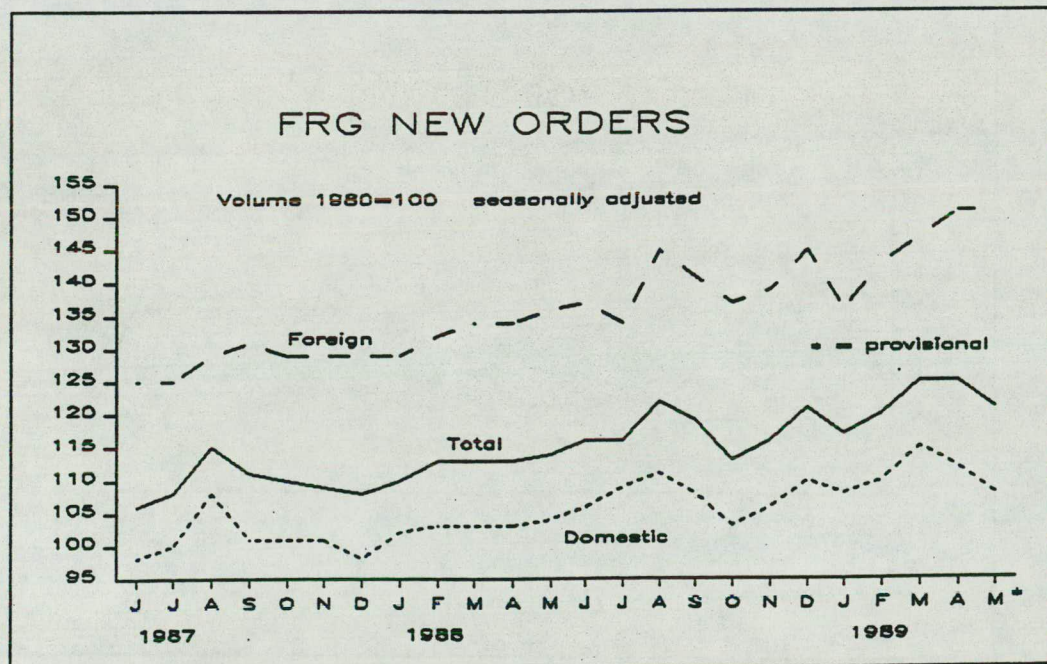
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NEW ORDERS

12. Provisional new order figures show a 3% decline in seasonally adjusted terms. As with other indicators for May, much of the decline is attributed to the frequency of public holidays during the month. This is confirmed by the 3.5% drop in domestic orders while orders from abroad managed to maintain their recent high level. The two-monthly comparison, April/May on February/March, shows an overall increase of 0.5% with domestic orders easing by 2% while foreign demand moved up 4%. Compared to the corresponding period a year earlier, overall orders were 9.1% higher in volume terms with domestic orders rising by 6.8% and foreign orders by 12.5%. Demand is most lively in the capital goods sector where orders in April/May were 13.1% higher than a year earlier.

seasonally adjusted	NEW ORDERS (1980=100)					
	Total		Domestic		Foreign	
	Value	Volume	Value	Volume	Value	Volume
1988 Feb	135	112	124	103	158	132
Mar	136	113	124	103	161	134
Apr	136	113	124	103	162	134
May	138	129	126	104	164	136
1988 Feb	150	120	136	110	178	143
Mar	156	125	143	115	184	147
Apr	156	125	140	112	190	151
May*	152	121	135	108	189	151
<u>Quarterly</u>						
Q188	135	112	123	103	157	131
Q288	138	114	126	105	164	135
Q388	144	118	133	109	171	140
Q488	145	117	131	106	174	141
Q189	151	121	138	111	177	142

* = provisional

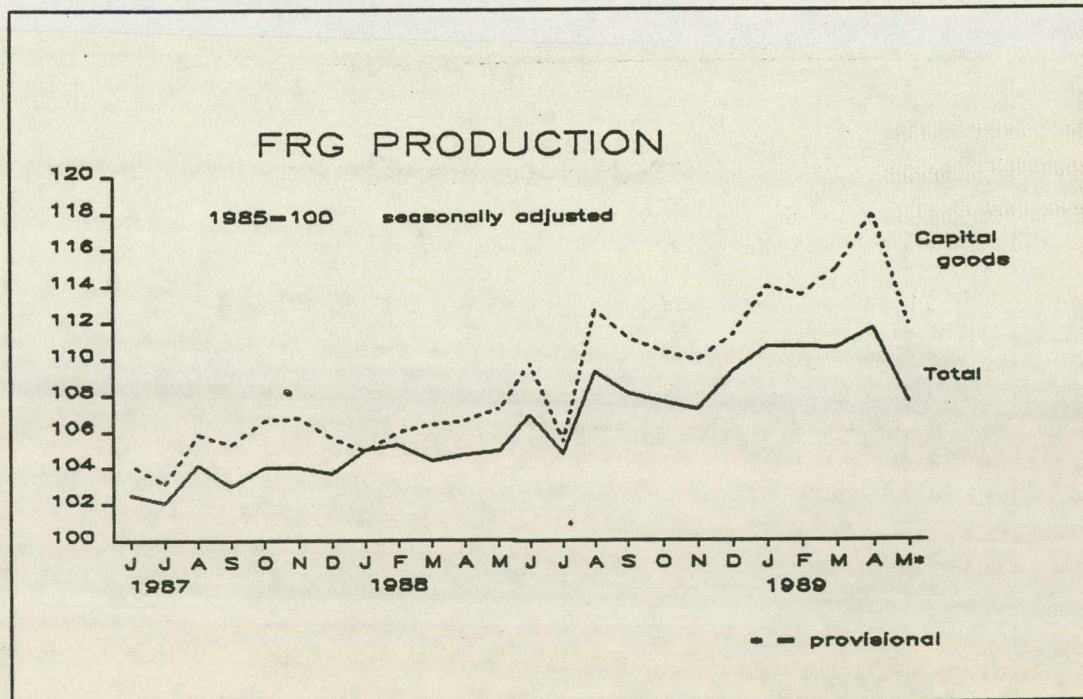


PRODUCTION

13. Total production fell by 3.5% in May. The abrupt decline is attributed by the Economics Ministry to special factors such as the high number of public holidays. Manufacturing output also eased by 3.5% while construction activity slowed by 5.5%. The two-monthly comparison, which serves better to eliminate special factors, shows a moderate 0.5% increase in manufacturing output with a similar rise recorded in the capital goods sector. The year-on-year comparison illustrates the underlying strength of production despite the apparent setback in May with manufacturing output 5.6% higher. Capital goods output was 7.7% up on a year earlier while the consumer goods sector recorded a 5% rise.

seasonally adjusted	PRODUCTION (1985=100)					
	Total	Manufacturing sector	Basic & producer goods	Capital goods	Consumer goods	Construction
1988 Feb	105.3	104.8	104.2	106.0	105.1	121.2
Mar	104.4	104.9	103.0	106.4	106.0	102.8
Apr	104.7	104.8	102.8	106.6	105.1	110.7
May	104.9	105.4	103.6	107.2	104.6	110.1
1989 Feb	110.7	110.0	107.1	113.5	109.2	137.4
Mar	110.6	111.1	107.9	115.0	108.4	128.2
Apr	111.7	112.9	106.7	118.0	111.1	109.1
May*	107.6	108.8	104.3	111.9	108.9	103.3
<u>Quarterly</u>						
Q188	105.0	105.0	103.4	106.1	105.9	115.0
Q288	105.4	106.0	103.7	107.8	106.1	110.1
Q388	107.3	107.8	106.9	109.9	106.2	108.7
Q488	108.1	108.8	108.7	110.5	107.2	107.8
Q189*	110.7	110.6	108.1	114.1	108.7	132.9

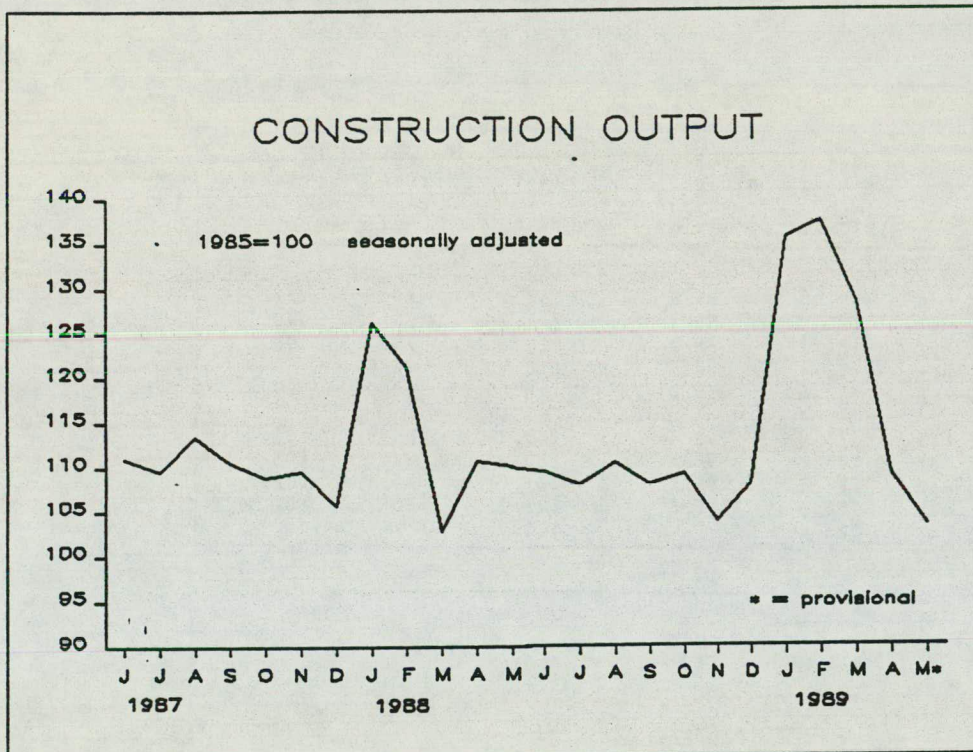
* = provisional



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CONSTRUCTION

14. Construction output dropped back further in May, in part affected by the high number of holidays during the month. Activity fell by 5.5%. In April/May output was a full 20% down on the exceptionally high level recorded in February/March but was only 3.3% lower than in the corresponding two-month period a year earlier. The Construction Association expects overall construction volume to grow by 5% in 1989, following 4.5% growth in 1988. The industry has recently bemoaned a severe lack of skilled labour, numbered at around 100,000. The hope that resettlers could fill the gap has not as yet been fulfilled. Construction demand is reported to be high with firms remaining optimistic for the summer.



PRIVATE CONSUMPTION

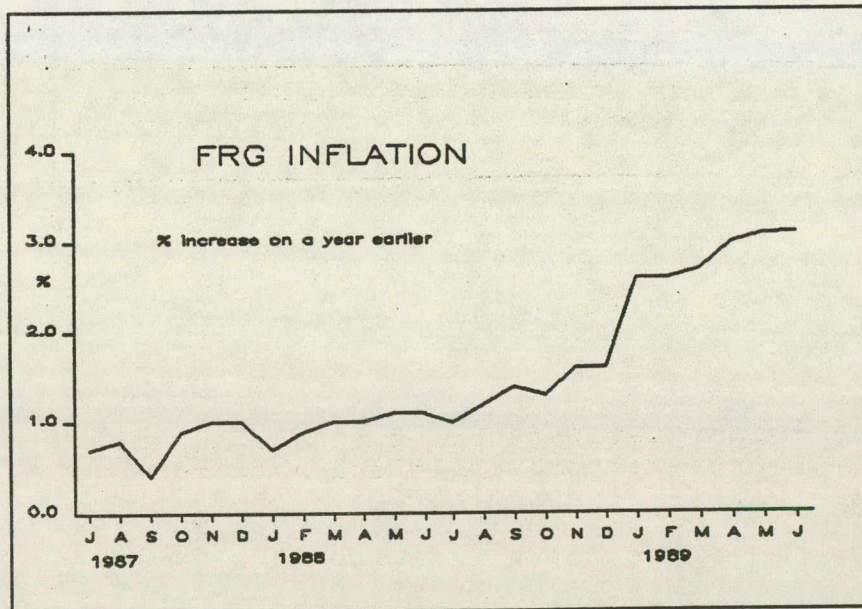
15. Retail trade turnover figures, the leading indicator for the development of private consumption, show turnover in May 3.1% up on a year earlier, in real terms a rise of 0.6%. In the first five months of the year nominal turnover was 4.2% up on the corresponding period 1988, a real increase of 1.8%. This would seem to confirm earlier forecasts that private consumption growth over the year as a whole is unlikely to exceed 2% real although the Kiel Institute recently forecast 3% growth for this year, slowing to 2.5% in 1990.

PRICES

16. Following a provisional announcement that the annual rate of inflation in June had eased to 2.9%, the Federal Statistical Office was obliged to revise the figure upwards to 3.1% leaving the inflation rate unchanged on its May level. The moving annual average for the first half of the year currently stands at 2.9% and now seems certain to end above 3% for the year as a whole. The year-on-year rise in the index excluding oil products climbed to 2.5% in June from 2.2% in June.

17. Retail prices rose by 0.4% on the preceding month with the annual rate reaching 2.3% in June after 2.1% in May. Other price indicators are for May. The annual rise in industrial producer prices eased to 3.4% from 3.5% in April. Both import and export prices also recorded a slight fall in the annual rate of increase, down to 7.1% and 3.7% respectively.

PRICES						
		Cost of living 1980=100	Industrial producer prices 1985=100	Retail prices 1980=100	Import prices 1985=100	Export prices
1988	Feb	121.8	95.4	118.3	79.5	97.9
	Mar	121.9	95.5	118.2	79.4	98.1
	Apr	122.2	95.8	118.6	79.7	98.6
	May	122.4	96.0	118.7	80.0	98.9
	Jun	122.6	96.3	119.0	80.9	99.4
1989	Feb	125.0	98.4	120.2	84.0	101.6
	Mar	125.2	98.7	120.4	84.8	102.0
	Apr	125.9	99.2	121.0	85.5	102.3
	May	126.2	99.3	121.2	85.7	102.6
	Jun	126.4		121.7		



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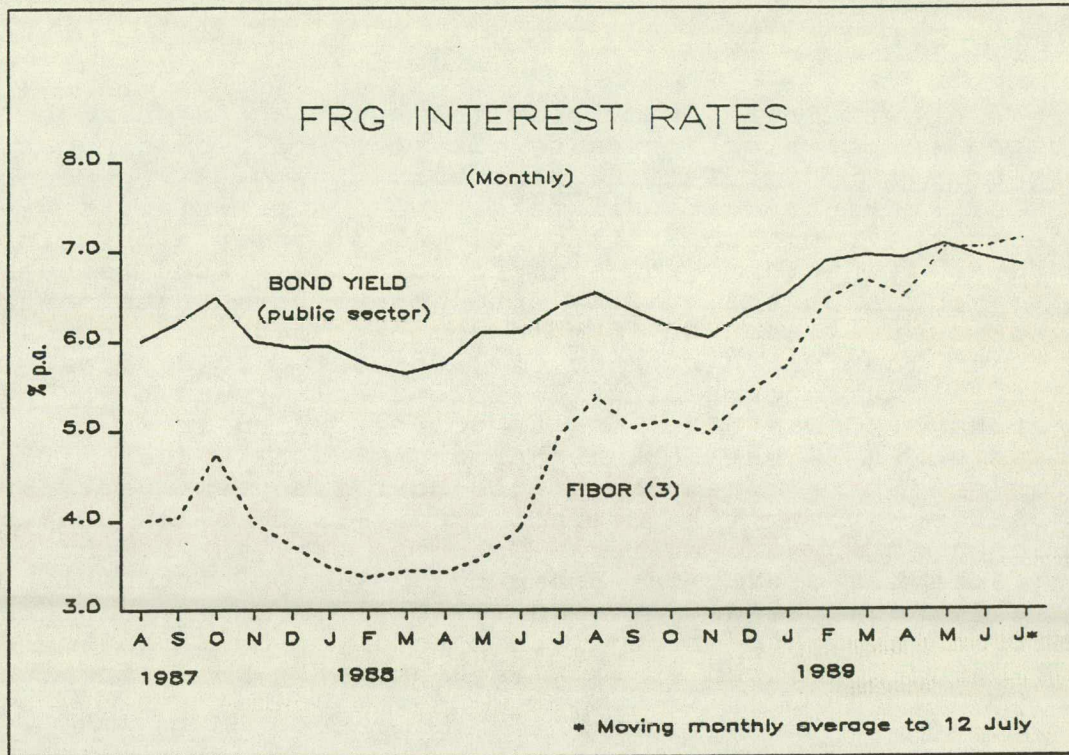
MONEY SUPPLY

18. M3 growth in May was lower than usual. In seasonally adjusted terms, sight deposits continued to expand moderately while money in circulation, statutory notice savings deposits and short-term deposits all fell. More attractive interest rates at the long-end and the removal of uncertainty with regard to withholding tax seem to have led to the reshuffling of previous excess liquidity into longer-term investments. The M3 measure based on five random bank reporting dates shows growth on the fourth quarter of 1988 easing to 5.4% after 6.2% in April, thus approaching the target of "around 5%". At the end of May, M3 was 5% up on its corresponding level a year earlier while M2 was 7.5% higher and M1 5.5% higher. Private sector credit remained the single most important contributor to monetary growth with overall credit at DM 6.8bn practically unchanged on a year earlier. Over the last six months total private sector credit has risen by 7.5% at a seasonally adjusted annual rate. As seen in April, monetary capital formation was again strong with a total of DM 9.5bn long-term funds being deposited at banks against only DM 5.4bn a year

INTEREST RATES

19. The Central Bank Council decided on 29 June to raise interest rates and to revert to a fixed rate of 6.6% for securities repurchase transactions. The Lombard Rate now stands at 7% and the Discount Rate at 5%. In addition the Bundesbank provided additional liquidity to the market at its regular funding operations on 5 and 12 July. Market interest rates responded by falling back. Call money fell below 7% and FIBOR settled at 7.05%. At the long end, yield on public sector bonds outstanding continued to fall, easing below 6.8% when the Bundesbank made clear its intention not to squeeze liquidity further. Nevertheless, dealers report some remaining underlying pressure for high interest rates.

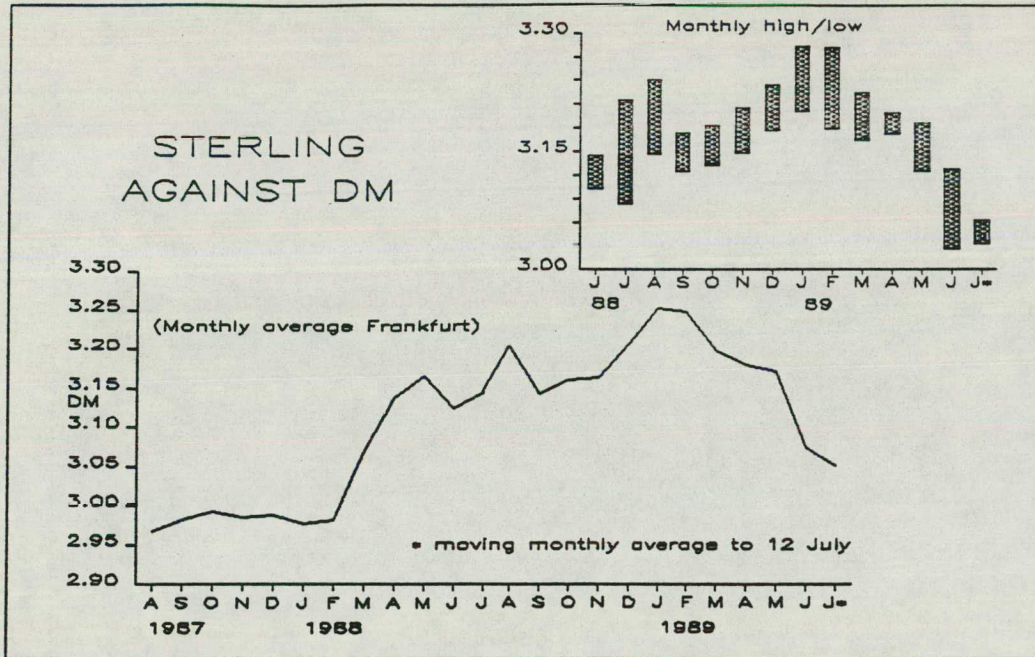
FRG INTEREST RATES						
	BOND YIELD (Average) (3 months)	FIBOR	CALL MONEY	ONE MONTH	THREE MONTH	SIX MONTH
15-Jun-89	6.89	7.00	6.40 - 6.45	6.55 - 6.70	6.85 - 7.00	7.00 - 7.15
16-Jun-89	6.85	6.95	6.40 - 6.45	6.55 - 6.70	6.85 - 7.00	7.00 - 7.15
19-Jun-89	6.87	6.95	6.40 - 6.45	6.55 - 6.70	6.85 - 7.00	6.95 - 7.10
20-Jun-89	6.84	6.95	6.40 - 6.45	6.55 - 6.70	6.85 - 7.00	6.95 - 7.10
21-Jun-89	6.85	6.95	6.35 - 6.45	6.55 - 6.65	6.80 - 6.95	6.90 - 7.05
22-Jun-89	6.85	6.90	6.30 - 6.35	6.50 - 6.65	6.80 - 6.95	6.90 - 7.05
23-Jun-89	6.87	6.90	6.30 - 6.40	6.50 - 6.65	6.80 - 6.90	6.90 - 7.00
26-Jun-89	6.87	6.90	6.40 - 6.50	6.50 - 6.65	6.80 - 6.90	6.90 - 7.00
27-Jun-89	6.89	6.95	6.45 - 6.50	6.55 - 6.65	6.80 - 6.90	6.90 - 7.00
28-Jun-89	6.90	7.05	6.50 - 6.55	6.65 - 6.75	6.95 - 7.05	7.05 - 7.15
29-Jun-89	6.90	7.05	6.50 - 6.60	6.70 - 6.80	6.95 - 7.05	7.05 - 7.15
30-Jun-89	6.90	7.20	6.95 - 7.10	6.85 - 7.15	6.95 - 7.20	7.00 - 7.30
03-Jul-89	6.88	7.20	6.95 - 7.05	6.95 - 7.05	7.05 - 7.20	7.10 - 7.25
04-Jul-89	6.85	7.20	6.90 - 7.00	6.95 - 7.05	7.00 - 7.10	7.10 - 7.25
05-Jul-89	6.83	7.15	6.80 - 6.90	6.90 - 7.00	6.95 - 7.10	7.05 - 7.20
06-Jul-89	6.83	7.10	6.75 - 6.85	6.85 - 6.95	6.90 - 7.05	6.95 - 7.10
07-Jul-89	6.84	7.10	6.80 - 6.90	6.90 - 7.00	6.90 - 7.05	6.95 - 7.10
10-Jul-89	6.81	7.10	6.85 - 6.95	6.90 - 7.00	6.90 - 7.05	6.75 - 7.10
11-Jul-89	6.80	7.05	6.90 - 7.00	6.90 - 7.00	6.90 - 7.05	6.95 - 7.10
12-Jul-89	6.78	7.05	6.80 - 6.90	6.90 - 7.00	6.90 - 7.05	6.95 - 7.10
Average 89	6.85	6.58				
Jul 89	6.83	7.12	6.84 - 6.94	6.91 - 7.01	6.94 - 7.08	6.98 - 7.15
Jun 89	6.92	7.02	6.43 - 6.51	6.60 - 6.72	6.89 - 7.01	7.01 - 7.14
High 89	7.16	7.40				
	22-May	30-May				
Low 89	6.38	5.50				
	02-Jan	02-Jan				



EXCHANGE RATES

20. The dollar continued to be the centre of attention, rising strongly at first before weakening sharply following the Bundesbank decision to raise interest rates by 0.5 per cent and the possibility of lower US interest rates. The Bundesbank President, Pöhl, expressed satisfaction following the dollar's fall through DM 1.90. Market analysts generally feel that the dollar will now stay below that level for the medium term. The D-Mark is expected to strengthen against most major currencies.

EXCHANGE RATES						
1989	Frankfurt Midday Fixing			Index (end 1988=100)		
	DM/£	DM/\$	DM/YEN	£	\$	YEN
15-Jun-89	3.071	2.0402	1.3510	95.8	114.6	95.3
16-Jun-89	3.064	2.0045	1.3665	95.6	112.6	96.4
19-Jun-89	3.057	1.9843	1.3685	95.4	111.5	96.5
20-Jun-89	3.068	1.9712	1.3740	95.7	110.7	96.9
21-Jun-89	3.052	1.9894	1.3730	95.2	111.7	96.9
22-Jun-89	3.051	1.9561	1.3875	95.2	109.9	97.9
23-Jun-89	3.038	1.9524	1.3955	94.8	109.7	98.4
26-Jun-89	3.033	1.9519	1.3935	94.6	109.6	98.3
27-Jun-89	3.043	1.9569	1.3850	94.9	109.9	97.7
28-Jun-89	3.074	1.9651	1.3780	95.9	110.4	97.2
29-Jun-89	3.049	1.9574	1.3705	95.1	109.9	96.7
30-Jun-89	3.026	1.9525	1.3580	94.4	109.7	95.8
03-Jul-89	3.033	1.9352	1.3580	94.6	108.7	95.8
04-Jul-89	3.052	1.9240	1.3590	95.2	108.1	95.9
05-Jul-89	3.054	1.9113	1.3645	95.3	107.4	96.3
06-Jul-89	3.063	1.8904	1.3895	95.5	106.2	98.0
07-Jul-89	3.062	1.8881	1.3525	95.5	106.1	95.4
10-Jul-89	3.044	1.8644	1.3425	94.9	104.7	94.7
11-Jul-89	3.049	1.8774	1.3470	95.1	105.5	95.0
12-Jul-89	3.054	1.8798	1.3400	95.3	105.6	94.5
AVERAGES:						
- moving annual	3.179	1.8917	1.4170			
- July 89	3.051	1.8963	1.3566			
- June 89	3.075	1.9809	1.3758			
HIGH 89	3.284	2.0402	1.4615			
LOW 89	3.026	1.7620	1.3400			

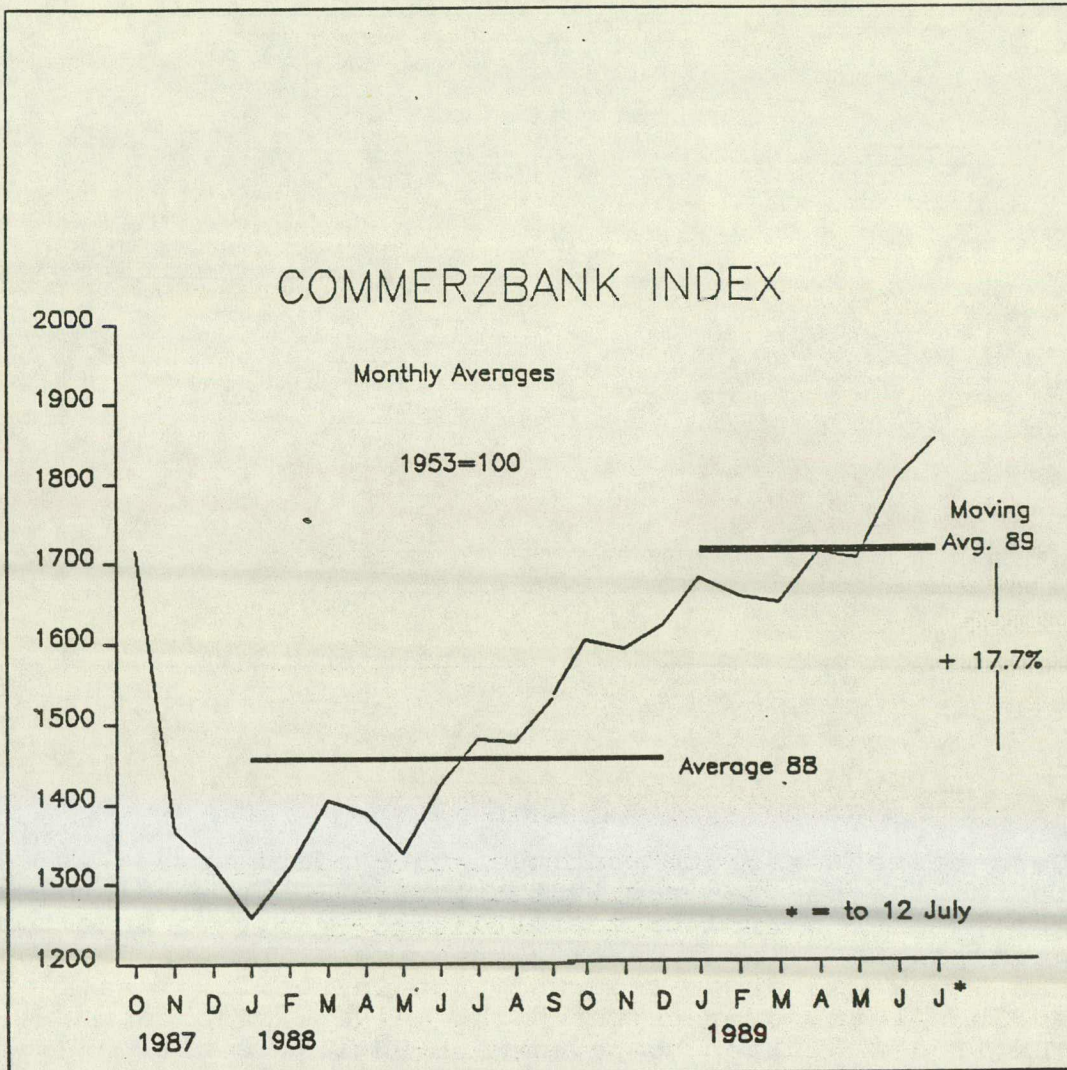


STOCK MARKETS

21. German stock markets continued to perform strongly. All the main indices reached new 1989 highs on 10 July before falling back in a period of consolidation. Foreign investors once again played a large part in the rise. The Association of German Stock Exchanges reported that in the first half of the year, total turnover on the eight markets reached a record DM 1150.2 billion compared with DM 1197.2 billion in the same period last year.

22. Legislation to amend the Stock Exchange Law was approved by the lower house, the Bundestag. It removes the legal impediments to futures and options trading and means that the German Futures Exchange (DTB), a totally electronic market, can open on schedule in January 1990.

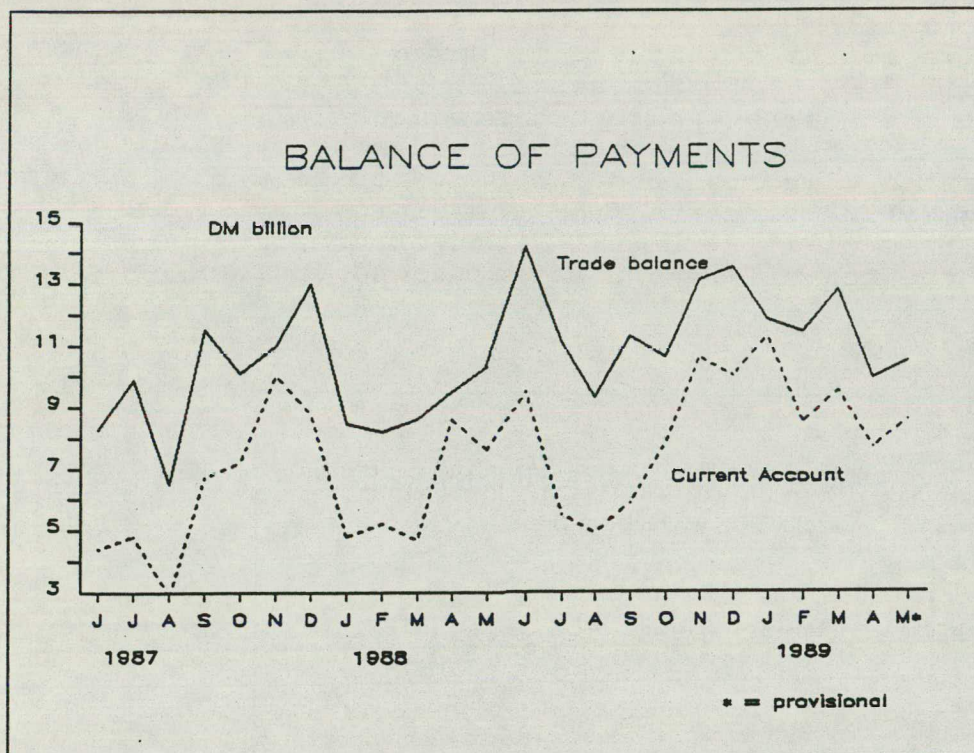
FRG STOCK MARKET INDICATORS			
1989	FAZ (End58=100)	CBI (1953=100)	DAX (30.12.87=1000)
15-Jun-89	598.01	1776.1	1426.66
16-Jun-89	599.09	1779.8	1426.54
19-Jun-89	608.31	1808.5	1456.99
20-Jun-89	617.18	1837.9	1472.11
21-Jun-89	615.05	1829.5	1474.61
22-Jun-89	618.56	1844.2	1483.83
23-Jun-89	619.11	1844.3	1491.20
26-Jun-89	617.12	1844.6	1487.75
27-Jun-89	614.45	1830.1	1477.89
28-Jun-89	617.83	1849.4	1491.39
29-Jun-89	618.44	1842.3	1491.93
30-Jun-89	613.00	1825.0	1473.72
03-Jul-89	616.50	1834.8	1492.33
04-Jul-89	626.70	1864.0	1505.67
05-Jul-89	620.20	1844.1	1495.75
06-Jul-89	615.81	1830.2	1493.29
07-Jul-89	623.30	1854.1	1510.63
10-Jul-89	628.34	1868.2	1512.78
11-Jul-89	622.31	1850.7	1508.49
12-Jul-89	625.15	1860.1	1503.93
MOVING AVERAGE	573.79	1709.6	1370.00
HIGH 89	628.34	1868.2	1512.78
LOW 89	535.78	1595.7	1271.70



CURRENT ACCOUNT

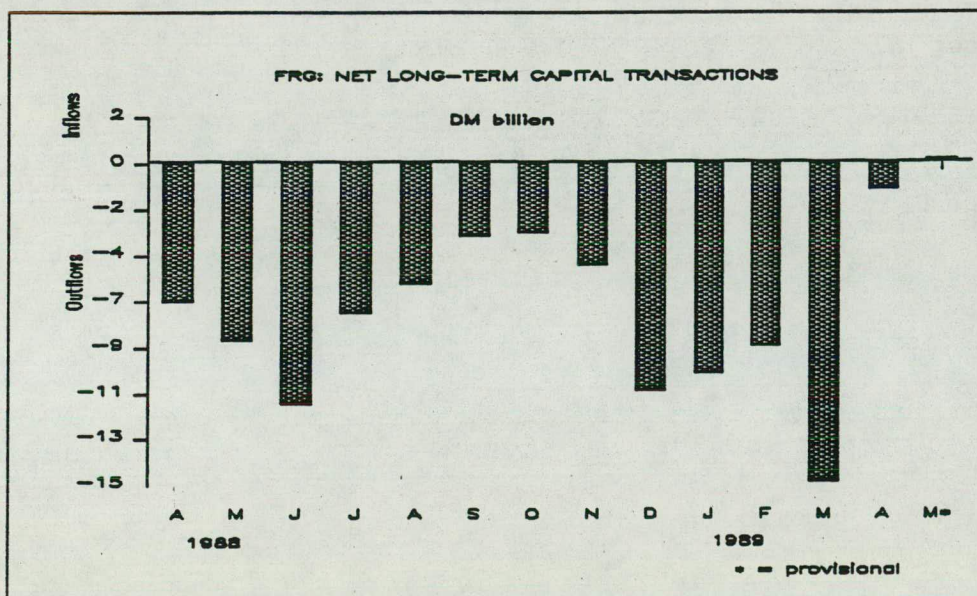
23. The current account surplus in May rose to DM 8.6bn compared with around DM 7.5bn in both April of this year and May 1988. In seasonally adjusted terms the surplus actually fell from April to May although the figure for the first five months of the year (DM 45bn) was well up on the preceding five month period (DM 35bn). The foreign trade surplus edged up to DM 10.5bn in May from DM 9.9bn in April. While exports rose by 7% in nominal terms on a year earlier, imports were 8.5% higher. In seasonally adjusted terms imports in the two months April/May were 4% up on the previous two-month period while exports merely maintained their high level. The deficit on services in May rose to DM 1.4bn from DM 1bn in April influenced by the traditional upturn in outgoing tourist expenditure abroad at this time of year. The deficit on transfer payments at DM 3.1bn was only slightly lower than in the previous month.

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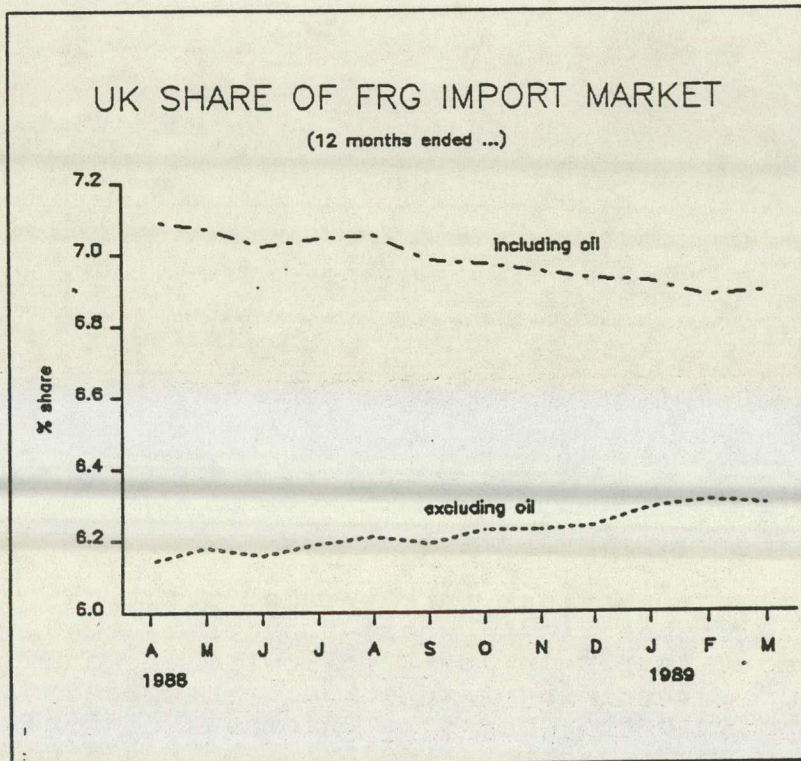
CAPITAL ACCOUNT

24. Overall capital transactions in May ended practically in balance. Securities transactions, where the strong outflows of past months fell back sharply in April following the announcement of the retraction of withholding tax, actually recorded net inflows amounting to DM 0.5bn. Domestic purchases of foreign securities, which in April had totalled DM 4.7bn, came to a standstill in May.



FRG/UK TRADE (12 months ended March)

25. In the twelve months to the end of March 1989 FRG imports from the UK totalled DM 31.5 billion, 6.9% of total FRG imports. A year earlier the UK market share had stood at 7.2%. While total FRG imports in the twelve-month period rose by 10.6% over the preceding period, imports from the UK recorded a rise of only 6.4%. Excluding oil FRG imports from the UK rose by 13.6% compared with a rise of 11.3% in total non-oil imports so that the UK share of the non-oil import market edged up from 6.2% to 6.3%.



26. FRG exports to the UK rose by 18% to DM 55.9 billion compared with a 12.8% rise in total FRG exports. The proportion of FRG exports destined for the UK climbed from 9% to 9.4%. In the month of March alone, FRG exports to the UK reached a record level of DM 5.1 billion.

27. The trade gap in favour of the FRG rose from DM 17.8 billion to DM 24.4 billion.

MALLABY

FRG STATISTICAL SUMMARY

	1987	1988	%change	01 88	04 88	01 89	% change on prev.	
				seasonally adjusted			ctr/month	year
1. EXPENDITURE ON GNP								
(current prices)								
				Dmbn				
a) Gross National Product	2,020.1	2,121.5	5.0	523.7	538.8	559.6	3.9	6.9
b) Private consumption	1,113.8	1,157.2	3.9	286.6	292.5	299.7	2.5	4.6
c) Government consumption	397.2	409.7	3.1	100.8	103.3	103.9	0.6	3.1
d) Fixed Capital Formation	391.1	420.3	7.5	105.6	106.1	118.2	11.4	11.9
- Machinery & Equipment	170.5	184.9	8.4	45.1	47.5	49.2	3.6	9.1
- Construction	220.6	235.4	6.7	60.5	58.6	69.0	17.7	14.0
e) Change in stocks	6.9	14.6		0.8	7.1	-1.2		
f) Exports of goods & services	638.3	685.2	7.3	165.7	177.7	188.5	6.1	13.8
f) Imports of goods & services	527.2	565.5	7.3	135.8	147.9	149.5	1.1	10.1
g) Net exports	111.1	119.7		29.9	29.8	39.0		
2. EXPENDITURE ON GNP								
(constant prices)								
a) Gross National Product	1,643.2	1,699.8	3.4	422.5	428.1	440.4	2.9	4.2
b) Private consumption	924.7	949.2	2.6	236.5	238.5	239.6	0.5	1.3
c) Government consumption	328.3	334.2	1.8	82.9	83.8	83.2	-0.7	0.4
d) Fixed Capital Formation	331.3	352.8	6.5	89.4	88.3	98.1	11.1	9.7
- Machinery & Equipment	141.3	154.2	9.1	37.8	39.4	40.6	3.0	7.4
- Construction	190.0	198.6	4.5	51.6	48.9	57.5	17.6	11.4
e) Change in stocks	9.9	13.8		1.2	6.5	-1.1		
f) Exports of goods & services	550.2	580.4	5.5	142.0	148.8	156.2	5.0	10.0
f) Imports of goods & services	501.2	530.6	5.9	129.5	137.8	135.6	-1.6	4.7
g) Net exports	49.0	49.8		12.5	11.0	20.6		
3. DISTRIBUTION OF NATIONAL INCOME								
a) National Income	1,568.8	1,651.6	5.3	408.0	419.8	434.9	3.6	6.6
b) Gross wage & salary income	1,081.9	1,123.3	3.8	278.1	284.7	291.9	2.5	5.0
- as % of National Income	69.0	68.0		68.2	67.8	67.1		
c) Gross entrepreneurial & property income	486.9	528.3	8.5	129.9	135.1	143.0	5.8	10.1
- as % of National Income	31.0	32.0		31.8	32.2	32.9		
4. INCOME OF HOUSEHOLDS								
a) Gross wages & salaries	901.8	935.5	3.7	231.7	237.2	243.4	2.6	5.0
b) Disposable income	1,285.2	1,332.8	3.7	330.2	339.6	345.5	1.7	4.6
c) Savings as a % of b)	13.4	13.6		13.2	13.9	13.3		
1980=100								
5. PRODUCTIVITY								
a) In the economy as a whole								
i) GNP per working person (1980 prices)	112.1	115.3	2.9	114.8	115.7	118.4	2.3	3.1
ii) wage and salary costs per production unit	115.6	115.9	0.3	115.5	116.6	116.1	-0.4	0.5
b) In industry								
i) output per employed person	101	105	4.0	1985=100				
				Mar 88	Feb 89	Mar 89		
				104	107	107	0.0	2.9
ii) wage and salary costs per production unit	107	107	0.0	107	108	107	-0.9	0.0
May 88 Apr 89 May 89								
6. Industrial production								
a) Total	102.6	106.3	3.6	104.9	111.7	107.6	-3.7	2.6
b) Manufacturing industry	102.7	106.9	4.1	105.4	112.9	108.8	-3.6	3.2
i) Producer goods	99.3	105.7	6.4	103.6	106.7	104.3	-2.2	0.7
ii) Capital goods	105.0	108.7	3.5	107.2	118.0	111.9	-5.2	4.4
iii) Consumer goods	103.3	106.4	3.0	104.6	111.1	108.9	-2.0	4.1
c) Construction	106.2	108.6	2.3	110.1	109.1	103.3	-5.3	-6.2
7. NEW ORDERS (volume)								
1980=100								
a) Total	108	116	7.4	114	125	121	-3.2	6.1
i) Capital goods	111	120	8.1	117	134	115	-14.2	-1.7
ii) Consumer goods	101	106	5.0	104	111	109	-1.8	4.8
b) Domestic	100	106	6.0	104	112	108	-3.6	3.8
i) Capital goods	105	111	5.7	108	122	119	-2.5	10.2
ii) Consumer goods	95	99	4.2	97	102	100	-2.0	3.1
c) Foreign	125	137	9.6	136	151	151	0.0	11.0
i) Capital goods	122	134	9.8	132	153	152	-0.7	15.2
ii) Consumer goods	137	148	8.0	144	166	166	0.0	15.3

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	1987	1988	%change	Jun 88	May 89	Jun 89	% change on prev. month ve	
8. UNEMPLOYMENT (1000's)								
a) i) Unemployed	2,228.8	2,236.7	0.4	2,131.4	1,947.5	1,915.2	-1.7	-10.1
ii) as a % of the working population	8.9	8.7		8.4	7.6	7.4		
b) Short-time workers	278.0	206.7	-25.6	190.0	96.7	139.6	44.4	-26.5
c) Vacancies	171.0	189.9	11.1	201.2	249.3	256.6	2.9	27.5
<u>1980=100</u>								
9. PRICES								
a) Cost of living of all private households	121.0	122.4	1.2	122.6	126.2	126.4	0.2	3.1
b) Retail prices	117.8	118.5	0.6	119.0	121.2	121.7	0.4	2.3
				<u>May 88</u>	<u>Apr 89</u>	<u>May 89</u>		
c) Wholesale prices	117.8	118.5	0.6	105.4	111.9	112.2	0.3	6.5
d) Producer prices of industrial products	95.1	96.3	1.3	<u>1985=100</u>				
e) Export prices	115.5	118.3	2.4	96.0	99.2	99.3	0.1	3.4
f) Import prices	94.4	95.2	0.8	98.9	102.3	102.6	0.3	3.7
				80.0	85.5	85.7	0.2	7.1
10. BALANCE OF PAYMENTS								
DM bn								
a) Visible trade								
i) exports	527.4	567.8	7.7	47.6	53.5	51.0	-4.7	7.1
ii) imports	409.6	439.8	7.4	37.3	43.6	40.5	-7.1	8.6
iii) balance	117.8	128.0		10.3	9.9	10.5		
b) Supplementary trade items	-1.5	-1.7		0.1	0.2	-0.2		
c) Services	-7.1	-10.5		0.6	1.0	1.4		
d) Transfers	-28.3	-30.8		-3.4	-3.3	-3.1		
e) Current account	80.9	85.0		7.6	7.8	8.6		
11. NET FOREIGN RESERVES (+/-)	31.9	-32.5		-2.9	-0.3	-6.0		
12. Money Stock (change in year/month)								
				<u>May 88</u>	<u>Apr 89</u>	<u>May 89</u>		
M1	27.0	40.8		3.7	-3.7	0.0		
M2	35.5	49.5		3.6	2.4	-2.2		
M3	62.6	76.1		6.2	0.9	-3.0		
13. MONETARY CAPITAL FORMATION	70.7	42.6		2.5	4.2	9.7		
14. INTEREST RATES								
a) Yield on bonds outstanding (public sector) (%pa)	5.8	6.1		<u>Jun 88</u>	<u>May 89</u>	<u>Jun 89</u>		
b) Bank Rates: (previous level)				6.1	7.0	6.9		
Since 30.06.89 Discount Rate:	5.0	(4.5)						
Since 30.06.89 Lombard Rate:	7.0	(6.5)						
15. FRG/UK TRADE (DM million)								
				<u>Mar 88</u>	<u>Feb 89</u>	<u>Mar 89</u>		
a) FRG imports from UK	29,393.6	30,460.8	3.6	2,769.0	2,695.4	2,850.6	5.8	2.9
- UK share of total	7.2	6.9		6.7	6.9	6.7		
b) FRG exports to UK	46,632.4	52,873.1	13.4	4,509.3	4,646.4	5,143.0	10.7	14.1
- UK share of total	8.8	9.3		9.0	9.2	9.3		
c) FRG/UK Trade Balance (FRG deficit: -)	17,238.8	22,412.3		1,740.3	1,951.0	2,292.4		
16. EXCHANGE RATES								
				<u>Jun 88</u>	<u>May 89</u>	<u>Jun 89</u>		
a) DM/£	2.941	3.124	6.2	3.125	3.172	3.075	-3.1	-1.6
b) DM/\$	1.798	1.759	-2.2	1.7557	1.9503	1.9809	1.6	12.8
c) DM/YEN	1.2436	1.3707	10.2	1.3784	1.4117	1.3758	-2.5	-0.2

Sources: Federal Statistical Office, Wiesbaden
Deutsche Bundesbank, Frankfurt
Discrepancies in totals due to rounding 118/32/6

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FRG: DETAILED STATISTICAL ANNEX

	<u>Table</u>
Gross National Product (Real)	1a
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Economic Section
British Embassy, Bonn

Date: 14/07/89

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Table 1a

EXPENDITURE ON GNP (real)

	GNP	Private Consumption	Gov't Consumption	Mach. & Eqpt	Buildings	Change in stocks	Net Exports	Exports (of goods & services)	Imports
values in DM million (1980 prices)									
<u>Annual</u>									
1981	1,485,300	836,380	303,290	121,810	197,880	-10700	36,640	456,730	420,090
1982	1,471,000	825,230	300,740	113,590	189,290	-9600	51,750	471,450	419,700
1983	1,498,900	839,600	301,440	119,900	192,540	-1500	46,920	469,010	422,090
1984	1,548,100	852,290	308,820	119,360	195,540	5,500	66,590	511,110	444,520
1985	1,578,100	863,980	315,310	130,530	184,550	-900	84,630	545,740	461,110
1986	1,614,700	893,390	323,210	135,850	189,550	4,500	68,200	545,880	477,680
1987	1,643,200	924,720	328,280	141,300	189,990	6,750	49,010	550,210	501,200
1988	1,699,800	949,190	334,160	154,200	198,600	13,870	49,780	580,400	530,620
1985 Q2	387,200	211,310	77,010	30,690	50,050	-3800	21,940	135,020	113,080
Q3	402,700	214,870	77,800	30,790	52,540	9,600	17,100	136,050	118,950
Q4	412,400	234,880	85,030	41,430	48,530	-23500	26,030	140,280	114,250
1986 Q1	381,000	208,240	77,080	28,770	33,440	13,600	19,870	132,960	113,090
Q2	400,100	221,710	79,510	33,830	51,410	-1200	14,840	137,810	122,970
Q3	411,400	221,880	80,400	31,610	53,450	11,400	12,660	133,710	121,050
Q4	422,200	241,560	86,220	41,640	51,250	19300	20,830	141,400	120,570
1987 Q1	389,300	214,290	79,030	30,580	32,510	20,690	12,200	132,670	120,470
Q2	403,200	228,450	80,240	34,620	51,630	-3130	11,390	135,310	123,920
Q3	418,200	230,010	81,210	34,140	54,450	10,650	7,740	134,840	127,100
Q4	432,500	253,020	87,800	44,060	51,400	-21460	17,680	147,390	129,710
1988 Q1	406,300	225,710	80,420	32,760	39,340	16,100	11,970	140,220	128,250
Q2	416,800	231,670	81,910	36,970	53,320	450	12,480	142,370	130,390
Q3	432,600	235,860	82,960	36,540	54,350	14,590	8,300	142,100	133,800
Q4	444,100	255,950	88,870	47,930	51,590	-17270	17,030	155,210	138,180
1989 Q1	423,200	228,580	80,720	35,230	43,590	15,190	19,890	154,070	134,180

Source: Federal Statistical Office, Wiesbaden

Table 1a (cont)

EXPENDITURE ON GNP (real)

	GNP	Private Consumption	Gov't Consumption	Mach. & Eqpt	Buildings	Change in stocks	Net Exports	Exports (of goods & services)	Imports
	% change on a year earlier (real)								
<u>Annual</u>									
1981	0.0	-0.5	1.8	-4.3	-5.1	x	x	8.2	-1.2
1982	-1.0	-1.3	-0.8	-6.7	-4.3	x	x	3.2	-0.1
1983	1.9	1.7	0.2	5.6	1.7	x	x	-0.5	0.6
1984	3.3	1.5	2.4	-0.5	1.6	x	x	9.0	5.3
1985	1.9	1.4	2.1	9.4	-5.6	x	x	6.8	3.7
1986	2.3	3.4	2.5	4.1	2.7	x	x	0.0	3.6
1987	1.8	3.5	1.6	4.0	0.2	x	x	0.8	4.9
1988	3.4	2.6	1.8	9.1	4.5	x	x	5.5	5.9
1985 Q3	2.9	2.5	3.0	3.8	0.0	x	x	9.0	4.3
Q4	1.7	2.5	2.5	8.3	-4.2	x	x	1.1	3.3
1986 Q1	1.4	2.6	2.1	4.2	0.0	x	x	-1.1	-1.5
Q2	3.3	4.9	3.2	10.2	2.7	x	x	2.1	8.7
Q3	2.2	3.3	3.3	2.7	1.7	x	x	-1.7	1.8
Q4	2.4	2.8	1.4	0.5	5.6	x	x	0.8	5.5
1987 Q1	2.2	2.9	2.5	6.3	-2.8	x	x	-0.2	6.5
Q2	0.8	3.0	0.9	2.3	0.4	x	x	-1.8	0.8
Q3	1.7	3.7	1.0	8.0	1.9	x	x	0.8	5.0
Q4	2.4	4.7	1.8	5.8	0.3	x	x	4.2	7.6
1988 Q1	4.4	5.3	1.8	7.1	21.0	x	x	5.7	6.5
Q2	3.4	1.4	2.1	6.8	3.3	x	x	5.6	5.2
Q3	3.4	2.5	2.2	7.0	-0.2	x	x	5.4	5.3
Q4	2.7	1.2	1.2	8.8	0.4	x	x	5.3	6.5
1989 Q1	4.2	1.3	0.4	7.5	-10.8	x	x	9.9	4.6

Source: Federal Statistical Office, Wiesbaden

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Table 1b

FRG - EXPENDITURE ON GNP (Nominal)

	GNP	Private Consumption	Gov't Consumption	Mach. & Eqpt	Buildings	Change in stocks	Net Exports	Exports (of goods & services)	Imports
Values in DM million (current prices)									
<u>Annual</u>									
1981	1,545,100	887,850	318,160	127,650	207,590	-11400	15,250	482,110	466,860
1982	1,597,100	918,050	326,190	124,900	201,990	-11500	37,470	517,540	480,070
1983	1,680,400	964,160	336,210	135,600	208,220	-1800	38,010	524,830	486,820
1984	1,769,900	1,003,570	350,230	137,580	217,050	6,600	54,870	590,780	535,910
1985	1,844,300	1,038,340	365,660	153,850	206,950	-700	80,200	647,480	567,280
1986	1,945,200	1,068,610	382,590	161,380	216,010	2,100	114,510	638,180	523,670
1987	2,020,100	1,113,830	397,180	170,490	220,600	6,880	111,120	638,310	527,190
1988	2,121,500	1,157,190	409,690	184,880	235,370	14,740	119,630	685,170	565,540
1985 Q2	446,600	254,900	85,210	36,250	55,870	-4900	19,270	160,780	141,510
Q3	468,900	258,600	87,720	36,400	58,820	11,100	16,260	162,030	145,770
Q4	498,400	281,570	109,560	48,830	54,620	-25700	29,520	166,380	136,860
1986 Q1	449,200	250,290	86,390	34,030	38,140	15,700	24,650	156,600	131,950
Q2	475,600	265,130	90,380	40,250	58,340	-4500	26,000	161,340	135,340
Q3	494,000	265,710	92,730	37,590	60,840	10,500	26,630	155,880	129,250
Q4	526,400	287,480	113,090	49,510	58,690	-19600	37,230	164,360	127,130
1987 Q1	472,800	256,840	89,310	36,240	37,840	24,360	28,210	153,220	125,010
Q2	490,700	275,670	94,150	41,240	59,730	-6310	26,220	156,240	130,020
Q3	509,700	277,470	95,850	40,580	63,110	11,230	21,460	156,750	135,290
Q4	546,900	303,850	117,870	52,430	59,920	-22400	35,230	172,100	136,870
1988 Q1	498,800	272,880	92,790	39,020	46,360	18,930	28,820	163,150	134,330
Q2	514,800	283,260	96,480	44,270	62,740	-1520	29,570	167,670	138,100
Q3	535,300	288,750	99,330	43,910	64,530	15,050	-23,730	168,620	144,890
Q4	572,600	312,300	121,090	57,680	61,740	-17720	37,510	185,730	148,220
1989 Q1	532,700	285,210	95,610	42,590	52,660	18,960	37,670	185,380	147,710

Source: Federal Statistical Office, Wiesbaden

Table 1b (cont)

FRG - EXPENDITURE ON GNP (Nominal)

	GNP	Private Consumption	Gov't Consumption	Mach. & Eqpt	Buildings	Change in stocks	Net Exports	Exports (of goods & services)	Imports
<u>Annual</u>	% change on a year earlier (nominal)								
1981	4.0	5.6	6.8	0.2	-0.4	x	x	14.2	9.8
1982	3.4	3.4	2.5	-2.2	-2.7	x	x	7.3	2.8
1983	5.2	5.0	3.1	8.6	3.1	x	x	1.4	1.4
1984	5.3	4.1	4.2	1.5	4.2	x	x	12.6	10.1
1985	4.2	3.5	4.4	11.8	-4.7	x	x	9.6	5.9
1986	5.5	2.9	4.6	4.9	4.4	x	x	-1.4	-7.7
1987	3.9	4.2	3.8	5.6	2.1	x	x	0.0	0.7
1988	5.0	3.9	3.1	8.4	6.7	x	x	7.3	7.3
1985 Q3	5.4	4.6	5.5	6.4	0.7	x	x	12.1	6.1
Q4	4.3	4.0	3.9	9.8	-3.1	x	x	2.4	0.9
1986 Q1	4.4	2.9	3.9	5.1	1.3	x	x	-1.1	-7.8
Q2	6.5	4.0	6.1	11.0	4.4	x	x	0.3	-4.4
Q3	5.4	2.7	5.7	3.3	3.4	x	x	-3.8	-11.3
Q4	5.6	2.1	3.2	1.4	7.5	x	x	-1.2	-7.1
1987 Q1	5.3	2.6	3.4	6.5	-0.8	x	x	-2.2	-5.3
Q2	3.2	4.0	4.2	2.5	2.4	x	x	-3.2	-3.9
Q3	3.2	4.4	3.4	8.0	3.7	x	x	0.6	4.7
Q4	3.9	5.7	4.2	5.9	2.1	x	x	4.7	7.7
1988 Q1	5.5	6.2	3.9	7.7	22.5	x	x	6.5	7.5
Q2	4.9	2.8	2.5	7.3	5.0	x	x	7.3	6.2
Q3	5.0	4.1	3.6	8.2	2.3	x	x	7.6	7.1
Q4	4.7	2.8	2.7	10.0	3.0	x	x	7.9	8.3
1989 Q1	6.8	4.5	3.0	9.1	13.6	x	x	13.6	10.0

Source: Federal Statistical Office, Wiesbaden

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Table 1c

INCOME OF HOUSEHOLDS

	Gross Wages & Salaries	Disposable Income	Savings Ratio	Average Earnings*
	DMbn	DMbn	%	1985=100
<u>Annual</u>				
1984	796.7	1150.5	12.8	96
1985	826.5	1192.3	12.7	100
1986	867.7	1246.3	13.4	105
1987	900.9	1292.6	13.4	110
1988	935.5	1332.8	13.4	114
<u>Quarterly</u>				
1985 Q3	207.3	298.4	12.2	100
Q4	210.0	301.0	12.6	102
1986 Q1	213.3	304.3	13.8	104
Q2	215.8	307.4	12.7	104
Q3	218.6	311.4	13.7	105
Q4	220.1	311.7	13.7	107
1987 Q1	221.1	314.8	14.4	108
Q2	225.7	320.6	12.9	110
Q3	226.7	323.3	13.3	111
Q4	228.8	327.3	13.0	112
1988 Q1	231.7	330.2	13.2	112
Q2	232.5	331.9	13.7	114
Q3	234.6	337.0	13.5	115
Q4	237.2	339.6	13.9	117
1989 Q1	243.4	345.5	13.3	118

* = wages & salaries per man-hour

Source: Deutsche Bundesbank (Reihe 4)

Table 2a

PRODUCTIVITY

	(a) IN THE ECONOMY AS A WHOLE		(b) IN INDUSTRY	
	GNP per working person	Wages & Salary costs per production unit	Output per employed person	Wage & Salary costs per production unit
<u>Annual</u>		1980=100		1985=100
1984	108.2	108.7	97	100
1985	109.6	110.6	100	100
1986	111.2	113.3	101	104
1987	112.3	115.4	101	107
1988	115.3	115.9	105	107
<u>Quarterly</u>				
1987 Q1	110.4	115.1	99	107
Q2	111.4	116.5	101	106
Q3	112.6	115.5	101	107
Q4	113.6	115.6	102	107
1988 Q1	114.8	115.5	103	107
Q2	114.5	115.9	104	107
Q3	115.6	115.7	106	106
Q4	115.7	116.6	106	107
1989 Q1	118.4	116.1	108	107
<u>Monthly</u>				
1988 Jan			102	107
Feb			103	107
Mar			104	107
Apr			104	108
May			103	107
Jun			106	106
Jul			101	110
Aug			109	102
Sep			107	106
Oct			105	107
Nov			106	109
Dec			108	106
1989 Jan			108	106
Feb			107	108
Mar			107	107

Source: Deutsche Bundesbank

* = provisional

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Table 2b INDUSTRIAL PRODUCTIONTable 2c NEW ORDERS

	INDUSTRIAL PRODUCTION			NEW ORDERS (Volume)		
	<u>Total</u>	<u>Manufacturing</u>	<u>Construction</u>	<u>Total</u>	<u>Domestic</u>	<u>Foreign</u>
		1985=100		1980=100		
<u>Annual</u>						
1984	96.5	95.5	108.6	103	95	119
1985	100.0	100.0	100.0	109	99	128
1986	102.4	102.5	106.4	108	101	123
1987	102.6	102.7	106.2	108	100	125
1988	106.3	106.9	108.1	116	106	137
<u>Quarterly</u>						
1987 Q1	100.5	101.0	93.7	105	97	119
Q2	103.1	103.0	111.2	107	99	124
Q3	103.0	103.0	111.0	110	103	129
Q4	104.0	104.1	108.8	109	100	129
1988 Q1	104.9	104.9	116.1	112	103	131
Q2	105.4	106.0	110.1	114	105	135
Q3	107.3	107.8	108.7	118	109	140
Q4	108.1	108.8	107.8	117	106	141
1989 Q1	110.7	110.6	132.9	121	111	142
<u>Monthly</u>						
1987 Oct	104.0	104.2	108.8	110	101	129
Nov	104.0	104.1	109.6	109	101	129
Dec	103.7	104.0	105.7	108	98	129
1988 Jan	105.0	104.6	126.3	110	102	129
Feb	105.3	104.8	121.2	113	103	132
Mar	104.4	104.9	102.8	113	103	134
Apr	104.7	104.8	110.7	113	103	134
May	104.9	105.4	110.1	114	104	136
Jun	106.9	107.6	109.5	116	106	137
Jul	104.8	104.9	107.9	116	109	134
Aug	109.3	110.6	110.4	122	111	145
Sep	108.1	108.7	107.9	119	108	141
Oct	107.6	108.3	109.2	113	103	137
Nov	107.2	107.9	103.7	116	106	139
Dec	109.3	110.1	108.0	121	110	145
1989 Jan	110.7	110.2	135.5	117	108	136
Feb	110.7	110.0	137.4	120	110	143
Mar	110.6	111.1	128.2	125	115	147
Apr	111.7	112.9	109.1	125	112	151
May*	107.6	108.8	103.3	121	108	151

Source: Deutsche Bundesbank * = provisional

Table 3

LABOUR MARKET (Details)

SEASONALLY ADJUSTED (1000's)				UNADJUSTED (actual totals)						
	(a) Employment	(b) Unemployed	(c) Rate %	(d) Unemployed	(e) Rate %	(f) Short-time workers	(g) Unfilled Vacancies	(h) Total men in (d)	(i) Total women in (d)	
1981				1,271,574	5.5	346,859	207,928	652,205	619,369	
1982				1,833,244	7.5	606,064	104,871	1,021,090	812,154	
1983				2,258,235	9.1	675,102	75,797	1,273,115	985,120	
1984				2,265,559	9.1	383,700	87,929	1,276,653	988,906	
1985				2,304,014	9.3	234,515	109,996	1,289,055	1,014,959	
1986				2,228,000	9.0	197,384	154,790	1,200,000	1,028,000	
1987				2,228,800	8.9	277,967	170,983	1,207,400	1,021,400	
1988				2,242,000	8.7	206,735	189,883	1,199,000	1,043,000	
Monthly										
1987	Jan	27,081	2,210	8.9	2,497,176	10.0	427,496	150,046	1,451,015	1,046,161
	Feb	27,089	2,206	8.9	2,487,818	10.0	382,173	164,784	1,453,923	1,033,895
	Mar	27,094	2,231	8.9	2,412,379	9.6	462,802	180,047	1,395,975	1,016,404
	Apr	27,112	2,223	8.8	2,215,916	8.8	301,861	179,239	1,216,281	999,635
	May	27,124	2,215	8.8	2,098,690	8.3	221,734	180,968	1,120,353	978,337
	Jun	27,131	2,234	8.9	2,096,918	8.3	184,012	182,169	1,107,235	989,683
	Jul	27,138	2,243	8.9	2,175,827	8.7	215,705	180,252	1,133,431	1,042,396
	Aug	27,146	2,242	8.9	2,164,618	8.6	175,094	177,425	1,119,201	1,045,417
	Sep	27,151	2,244	8.9	2,107,122	8.4	253,098	180,080	1,082,417	1,024,705
	Oct	27,159	2,240	8.9	2,092,725	8.3	288,554	171,063	1,071,974	1,020,751
	Nov	27,173	2,235	8.9	2,133,061	8.5	204,773	157,127	1,106,500	1,026,561
	Dec	27,193	2,255	9.0	2,308,230	9.2	218,298	148,284	1,255,775	1,052,455
1988	Jan	27,212	2,241	8.8	2,518,675	9.9	309,988	161,300	1,426,913	1,091,762
	Feb	27,227	2,245	8.8	2,516,508	9.9	350,321	174,015	1,434,134	1,082,374
	Mar	27,243	2,264	8.8	2,440,098	9.6	423,597	189,668	1,382,237	1,057,861
	Apr	27,254	2,266	8.9	2,261,672	8.9	260,848	193,065	1,218,789	1,042,883
	May	27,276	2,262	8.9	2,149,131	8.4	198,098	196,158	1,131,951	1,017,180
	Jun	27,297	2,265	8.9	2,131,406	8.4	190,002	201,157	1,110,602	1,020,804
	Jul	27,310	2,263	8.9	2,199,266	8.6	159,300	199,276	1,135,860	1,063,406
	Aug	27,319	2,245	8.8	2,167,109	8.5	133,386	199,759	1,112,339	1,054,770
	Sep	27,334	2,235	8.6	2,099,863	8.1	154,630	204,079	1,073,877	1,025,986
	Oct	27,348	2,218	8.6	2,074,346	8.0	98,109	196,406	1,057,811	1,016,535
	Nov	27,367	2,190	8.5	2,091,231	8.1	94,403	185,138	1,082,872	1,008,359
	Dec	27,422	2,135	8.3	2,190,496	8.5	108,130	178,572	1,180,055	1,010,441
1989	Jan	27,465	2,075	8.0	2,334,613	9.0	-170,804	196,246	1,298,952	1,035,661
	Feb	27,511	2,051	7.9	2,304,819	8.9	199,364	215,655	1,283,646	1,021,173
	Mar	27,561	2,017	7.8	2,178,164	8.4	185,918	232,546	1,190,906	987,258
	Apr	27,576	2,036	7.9	2,035,104	7.9	200,221	237,988	1,071,437	963,667
	May	27,592	2,050	7.9	1,947,464	7.6	96,723	249,327	1,015,387	932,077
	Jun		2,039		1,915,189	7.4	139,647	256,579	985,391	929,798

Source: Bundesanstalt für Arbeit
Deutsche Bundesbank

Table 4

PRICES

	Cost of Living 1980=100	%chg	Retail Prices 1980=100		Producer Prices of Industrial products 1985=100		Export Prices 1985=100		Import Prices 1985=100	
Annual										
1984	118.4	2.4	115.6	2.1	97.8	2.9	97.5	3.5	98.6	6.0
1985	121.0	2.2	117.5	1.6	100.0	2.2	100.0	2.8	100.0	1.4
1986	120.7	-0.2	117.3	-0.2	97.5	-2.5	98.2	-1.8	84.3	-15.7
1987	121.0	0.2	117.8	0.4	95.1	-2.5	97.3	-0.9	79.8	-5.3
1988	122.4	1.2	118.5	0.6	96.3	1.3	99.3	2.1	80.8	1.3
Monthly										
Jan-87	120.6	-0.8	117.5	-0.3	95.2	-4.7	96.9	-3.0	79.8	-17.8
Feb-87	120.7	-0.5	117.7	-0.1	94.9	-4.5	96.8	-2.5	79.1	-15.6
Mar-87	120.7	-0.2	117.7	0.1	94.9	-4.2	96.9	-2.4	79.3	-12.1
Apr-87	121.0	0.1	117.9	0.2	94.6	-3.9	97.0	-2.0	79.6	-9.8
May-87	121.1	0.2	118.2	0.4	94.7	-3.4	97.1	-1.7	79.7	-7.7
Jun-87	121.3	0.2	118.2	0.4	94.8	-3.3	97.2	-1.4	79.8	-4.9
Jul-87	121.3	0.7	118.0	0.7	95.1	-2.3	97.5	-0.8	80.3	-1.3
Aug-87	121.2	0.8	117.8	0.8	95.2	-2.0	97.5	-0.3	80.5	-1.0
Sep-87	120.9	0.4	117.5	0.5	95.1	-2.1	97.5	-0.2	80.1	-1.7
Oct-87	121.1	0.9	117.6	0.8	95.4	-0.3	97.7	0.4	80.5	0.1
Nov-87	121.1	1.0	117.6	0.7	95.4	0.0	97.5	0.3	79.4	-1.0
Dec-87	121.3	1.0	117.8	0.8	95.4	0.1	97.5	0.5	79.2	-0.9
Jan-88	121.5	0.7	118.0	0.4	95.4	0.2	97.8	0.9	79.4	-0.5
Feb-88	121.8	0.9	118.3	0.5	95.4	0.5	97.9	1.1	79.5	0.5
Mar-88	121.9	1.0	118.2	0.4	95.5	0.6	98.1	1.2	79.4	0.1
Apr-88	122.2	1.0	118.6	0.6	95.8	1.3	98.6	1.6	79.7	0.1
May-88	122.4	1.1	118.7	0.4	96.0	1.4	98.9	1.9	80.0	0.4
Jun-88	122.6	1.1	119.0	0.7	96.3	1.6	99.4	2.3	80.9	1.4
Jul-88	122.5	1.0	118.6	0.5	96.4	1.4	99.8	2.4	81.4	1.4
Aug-88	122.6	1.2	118.4	0.5	96.5	1.4	100.0	2.6	82.0	1.9
Sep-88	122.6	1.4	118.3	0.7	96.7	1.7	100.2	2.8	81.5	1.7
Oct-88	122.7	1.3	118.4	0.7	96.8	1.5	100.4	2.8	81.5	1.2
Nov-88	123.0	1.6	118.7	0.9	97.0	1.7	100.4	3.0	81.4	2.5
Dec-88	123.3	1.6	119.0	1.0	97.2	1.9	100.6	3.2	82.3	3.9
Jan-89	124.6	2.6	119.8	1.5	98.2	2.9	101.4	3.7	83.9	5.7
Feb-89	125.0	2.6	120.2	1.6	98.4	3.1	101.6	3.8	84.0	5.7
Mar-89	125.2	2.7	120.4	1.9	98.7	3.4	102.0	4.0	84.8	6.8
Apr-89	125.9	3.0	121.0	2.0	99.2	3.5	102.3	3.8	85.5	7.3
May-89	126.2	3.1	121.2	2.1	99.3	3.4	102.6	3.7	85.7	7.1
Jun-89	126.4	3.1	121.7	2.3						

Source: Federal^o Statistical Office, Wiesbaden

Table 5

MONETARY AGGREGATES

	Central Bank Money	Currency in circulation	Required Minimum Reserves on domestic liabilities	M1	M2	M3	Monetary Capital Formation
		% change	on previous year	% change			DM million
Annual							
1984	4.8	5.3	4.3	5.3	4.9	4.5	69,734
1985	4.6	3.6	5.6	5.5	4.8	5.3	74,988
1986	6.4	6.7	6.1	7.6	6.1	6.8	68,933
1987	8.1	9.4	6.7	7.7	5.9	6.1	70,723
1988	8.2	11.5	4.8	10.3	7.4	6.7	42,837
Monthly*							
1987 Apr	8.0	9.5	6.6	9.1	6.8	7.1	1,023
May	7.9	9.3	6.6	8.5	6.0	6.4	9,337
Jun	7.9	10.4	5.4	10.0	6.7	6.8	2,017
Jul	7.8	10.0	5.7	10.0	4.6	5.6	1,162
Aug	7.8	10.4	5.1	11.1	4.7	5.7	7,222
Sep	8.2	9.9	6.4	11.2	4.4	5.3	5,785
Oct	7.6	10.6	4.7	9.4	4.8	5.4	1,341
Nov	8.2	11.5	4.9	8.7	4.9	5.4	6,238
Dec	8.5	10.4	6.6	5.5	5.0	5.3	12,650
1988 Jan	7.8	12.0	3.6	7.1	6.2	5.9	7,073
Feb	9.0	13.0	4.9	10.3	6.7	6.5	281
Mar	9.0	13.4	4.6	9.1	7.1	6.8	3,294
Apr	8.4	12.1	4.7	10.6	7.1	7.2	2,530
May	8.3	11.6	4.9	11.8	7.0	7.3	5,422
Jun	7.9	11.4	4.2	14.9	7.2	7.5	1,913
Jul	8.7	11.4	5.8	12.7	5.2	6.0	-12
Aug	7.0	9.1	4.7	8.0	5.2	5.6	5,857
Sep	6.8	9.6	3.9	8.8	7.2	6.7	968
Oct	8.2	11.6	4.7	7.8	6.5	6.0	4,028
Nov	8.4	11.3	5.2	7.0	7.6	6.3	3,897
Dec	9.5	14.0	4.8	5.9	7.7	6.0	7,586
1989 Jan	10.3	16.9	3.4	10.2	10.3	7.5	813
Feb	12.1	18.5	5.4	9.9	11.0	7.6	5,051
Mar	10.2	15.9	4.2	9.0	11.1	6.9	4,184
Apr	9.3	13.6	4.6	5.6	10.9	6.2	

* = % change over last six months at an annual rate
 Source: Deutsche Bundesbank p = provisional

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Table 6

EXCHANGE AND INTEREST RATES

	3 month interbank*	Yield on outstanding public sector bonds	Discount Rate+	Lombard Rate+	DM Effective Exchange rate**	DM / \$	DM/£	DM/YEN
	% p. a	% p. a	% p. a	% p. a	End 72=100	Spot middle rate (Frankfurt)		
Annual								
1983		7.9	4.0	5.5	155.9	2.5552	3.871	1.0764
1984		7.8	4.5	5.5	153.8	2.8456	3.791	1.1974
1985	4.82	6.9	4.0	5.5	154.0	2.9424	3.785	1.2338
1986	4.64	5.9	3.5	5.5	168.2	2.1708	3.184	1.2915
1987	4.03	5.8	2.5	4.5	178.9	1.7982	2.941	1.2436
1988	4.34	6.1	3.5	5.5	177.4	1.7582	3.124	1.3707
Monthly								
1987	3.85	5.78	3.0	5.0	178.0	1.8470	2.973	1.2293
	4.00	6.00	3.0	5.0	177.4	1.8581	2.967	1.2589
	4.04	6.20	3.0	5.0	177.9	1.8129	2.981	1.2658
	4.74	6.48	3.0	5.0	178.1	1.8021	2.993	1.2572
	3.98	6.00	3.0	4.5	181.6	1.6812	2.985	1.2426
	3.72	5.93	2.5	4.5	181.9	1.6332	2.987	1.2728
1988	3.48	5.94	2.5	4.5	181.0	1.6517	2.977	1.2955
	3.37	5.73	2.5	4.5	179.8	1.6976	2.982	1.3135
	3.44	5.64	2.5	4.5	179.7	1.6780	3.071	1.3196
	3.43	5.75	2.5	4.5	179.1	1.6733	3.138	1.3378
	3.58	6.09	2.5	4.0	178.2	1.6934	3.166	1.3576
	3.93	6.10	2.5	4.5	177.0	1.7557	3.125	1.3784
	4.93	6.37	3.0	5.0	175.3	1.8440	3.145	1.3856
	5.37	6.53	3.5	5.0	174.2	1.8874	3.204	1.4116
	5.01	6.32	3.5	5.0	175.7	1.8669	3.143	1.3888
	5.10	6.14	3.5	5.0	175.9	1.8200	3.161	1.4119
	4.94	6.02	3.5	5.0	176.9	1.7497	3.163	1.4206
	5.38	6.30	3.5	5.5	176.3	1.7555	3.206	1.4207
1989	5.70	6.49	4.0	6.0	174.2	1.8304	3.253	1.4408
	6.43	6.86	4.0	6.0	173.8	1.8523	3.248	1.4501
	6.67	6.94	4.0	6.0	174.2	1.8653	3.199	1.4320
	6.90	6.48	4.5	6.5	174.4	1.8704	3.180	1.4163
	7.05	6.97	4.5	6.5	173.2	1.9503	3.172	1.4117
	7.02	6.92	5.0	7.0		1.9809	3.075	1.3758

* = FIBOR: Frankfurt interbank offered rate (introduced 12.8.85; 1985 = avg Sep-Oct)

+ = End of year/month

** = weighted against 18 industrial countries

Source: Deutsche Bundesbank

Table 7

FRG - CURRENT ACCOUNT

Values in DM billion

	Exports	Imports	Balance	Supplementary trade items	Services	Transfers	Current account
1981	396.9	369.2	27.7	-0.2	-10.7	-24.8	-8.0
1982	427.7	376.5	51.2	0.8	-13.7	-25.9	12.4
1983	432.3	390.2	42.1	3.3	-6.6	-25.2	13.6
1984	488.2	434.3	53.9	-1.1	4.7	-29.7	27.8
1985	537.2	463.8	73.4	-1.3	5.3	-28.9	48.5
1986	526.4	413.7	112.7	-1.5	0.9	-27.0	85.1
1987	527.4	409.6	117.8	-1.5	-7.1	-28.3	80.9
1988	567.8	439.8	128.0	-1.7	-10.5	-30.8	85.0
<u>Monthly</u>							
1987 Jul	45.5	35.6	9.9	-0.6	-2.2	-2.3	4.8
Aug	36.1	29.6	6.5	-0.2	-1.4	-2.0	2.9
Sep	45.8	34.3	11.5	-0.3	-2.0	-2.5	6.7
Oct	48.8	38.7	10.1	-0.3	0.1	-2.7	7.2
Nov	45.7	34.7	11.0	0.6	0.9	-2.5	10.0
Dec	48.5	35.5	13.0	-0.9	0.3	-3.6	8.8
1988 Jan	36.3	27.8	8.5	0.3	-1.9	-2.1	4.8
Feb	41.9	33.7	8.2	-0.4	-0.4	-2.2	5.2
Mar	50.1	41.5	8.6	-0.6	-1.0	-2.3	4.7
Apr	43.3	33.8	9.5	0.3	1.0	-2.2	8.6
May	47.6	37.3	10.3	0.0	0.6	-3.3	7.6
Jun	50.3	36.1	14.2	-0.9	-2.8	-1.1	9.4
Jul	47.1	36.0	11.1	-0.3	-2.9	-2.6	5.3
Aug	44.2	34.9	9.3	-0.4	-0.9	-3.1	4.9
Sep	47.5	36.2	11.3	-0.4	-2.4	-2.6	5.9
Oct	53.2	42.6	10.6	0.7	-0.1	-3.3	7.9
Nov	51.2	38.1	13.1	-0.2	1.5	-3.8	10.6
Dec	55.1	41.6	13.5	0.1	-0.9	-2.7	10.0
1989 Jan	50.4	38.6	11.8	0.0	0.6	-1.1	11.3
Feb	50.6	39.2	11.4	-0.6	0.9	-3.2	8.5
Mar	55.1	42.3	12.8	-0.5	0.0	-2.8	9.5
Apr	53.5	43.6	9.9	0.2	1.0	-3.3	7.8
May	51.0	40.5	10.5	-0.2	1.4	-3.1	8.6

Source: Deutsche Bundesbank

* = provisional

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Table 8

FRG: ECONOMIC FORECASTS

==== 1989 ====	Release Date	GNP	Private Consumption	Government Consumption	Capital formation		Exports (of goods & services)	Imports
					Mach & Eqpt	Buildings		
% change over previous year (real)								
Commerzbank	April 89	2.5	2.0	1.0	6.5	3.0	5.5	5.0
Ifo, Munich	April 89	2.8	2.0	1.0	7.0	4.0	6.0	6.0
Kiel Institute	April 89	2.5	2.5	1.0	9.5	3.5	5.0	6.0
Dresdner Bank	April 89	2.5	2.5	1.0	5.5	3.5	4.5	5.0
Hessische Landesbank	April 89	2.7	2.0	0.8	7.0	2.5	6.0	5.5
WestLB	April 89	2.4	2.0	1.0	9.0	2.9	5.6	5.8
BHF Bank	April 89	2.5	2.5	1.5	6.0	3.5	5.0	5.0
Average		2.6	2.2	1.0	7.2	3.3	5.4	5.5

Table 9

FRG/UK TRADE
(values in DM 1000)

	(a) Total imports from UK	UK share of FRG total	(b) Non-oil imports from UK	UK share of FRG total	(c) Total exports to UK	UK share of FRG total	(d) Trade Balance* (Incl. oil)
1980	22,859,721	6.70	16,046,733	5.40	22,917,269	6.54	57,548
1981	27,502,164	7.45	17,413,271	5.44	26,162,907	6.59	-1,339,257
1982	27,001,856	7.17	17,611,058	5.31	31,316,680	7.32	4,314,824
1983	27,137,696	6.95	18,770,607	5.33	35,400,882	8.19	8,263,186
1984	33,285,516	7.67	22,020,970	5.61	40,579,540	8.31	7,294,024
1985	37,163,945	8.01	26,360,816	6.22	45,967,428	8.56	8,803,483
1986	29,757,660	7.19	24,895,371	6.28	44,599,625	8.47	14,841,965
1987	29,393,615	7.18	24,158,307	6.14	46,632,447	8.84	17,238,832
1988	30,460,826	6.93	26,528,139	6.24	52,873,123	9.31	22,412,297
12 months ended:							
Mar 89	31,461,789	6.89	27,845,830	6.30	55,858,161	9.38	24,396,372
<u>Monthly</u>							
1987 Aug	2,075,531	7.01	1,724,579	6.13	3,234,242	8.95	1,158,711
Sep	2,685,804	7.83	2,189,342	6.66	3,928,307	8.58	1,242,503
Oct	2,662,862	6.89	2,191,591	5.88	4,384,878	8.99	1,722,016
Nov	2,437,778	7.02	2,112,156	6.32	4,154,397	9.09	1,716,619
Dec	2,522,133	7.11	2,112,165	6.16	4,056,248	8.37	1,534,115
1988 Jan	1,910,539	6.87	1,541,937	5.81	3,235,913	8.92	1,325,374
Feb	2,486,276	7.37	2,003,769	6.18	3,777,909	9.02	1,291,633
Mar	2,769,026	6.68	2,461,749	6.10	4,509,282	9.01	1,740,256
Apr	2,318,456	6.85	1,996,006	6.08	4,011,172	9.26	1,692,716
May	2,689,148	7.22	2,358,259	6.54	4,564,318	9.59	1,875,170
Jun	2,495,760	6.92	2,147,215	6.19	4,764,960	9.47	2,269,200
Jul	2,462,150	6.83	2,141,927	6.18	4,570,811	9.70	2,108,661
Aug	2,458,996	7.04	2,126,527	6.33	4,268,198	9.65	1,809,202
Sep	2,562,584	7.07	2,255,779	6.46	4,445,082	9.35	1,882,498
Oct	2,892,712	6.79	2,611,892	6.31	5,031,743	9.46	2,139,031
Nov	2,566,114	6.73	2,325,605	6.27	4,867,330	9.51	2,301,216
Dec	2,849,065	6.85	2,557,464	6.33	4,826,405	8.76	1,977,340
1989 Jan	2,620,797	6.79	2,428,394	6.45	4,718,667	9.36	2,097,870
Feb	2,695,377	6.87	2,426,709	6.41	4,646,431	9.18	1,951,054
Mar	2,850,630	6.74	2,470,043	6.03	5,143,044	9.33	2,292,414

* : - = FRG deficit

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUER	
REC.	17 JUL 1989 ✓
ACTION	Mr H.P. Evans
COPIES TO	Mr Gieve
	Mr Mountfield
16 July 1989	

Dear Stephen,

Py

ECONOMIC SUMMIT : STATEMENT

I attach a draft of the Prime Minister's statement for the House on 17 July on the outcome of the Paris Economic Summit. I should be grateful for any comments and suggestions by 1100 on Monday 17 July. The omission of any reference to the Bicentenary of the French Revolution, and to the Prime Minister's bilaterals with other Heads of Government is deliberate.

I should also be grateful for supplementaries.

I am copying this letter and enclosure to Alex Allan (HM Treasury).

Yours sincerely,
C.D. Powell

(C.D. POWELL)

Ch

A couple of comments

Impromptu note
Dear down
Mr Mountfield ✓

AA

[copy of Economic & East/West
declarations below for ref]

J.S. Wall, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER'S STATEMENT

ON THE

ECONOMIC SUMMIT

IN

PARIS

With permission, Mr. Speaker, I shall make a statement on the Economic Summit held in Paris from 14 to 16 July, which I attended with my Rt. Hon. and Learned Friend the Foreign Secretary and my Rt. Hon. Friend the Chancellor of the Exchequer.

The texts of the various Declarations issued at the Summit have been placed in the Library of the House.

Economic Situation

The Economic Declaration reaffirms the sound economic policies which have brought our countries an unprecedentedly long period of sustained economic growth.

It stresses our common commitment to bring down inflation.

It underlines the need for further ^{progress in} ~~action to~~
~~bring down~~ external imbalances.

And it emphasises the importance of [structural reforms aimed at] improving economic efficiency and flexibility

Open Markets

The Declaration also confirms our determination
to fight protectionism in all its forms
and to avoid any policies which would
undermine the prospects for the successful

completion of the Uruguay Round of
Multilateral Trade Negotiations by the end
of next year.

Developing Countries

The Declaration reaffirms the case by case
approach to debt problems, and welcomes
the recent decisions taken by the IMF and
the World Bank to encourage debt and debt

service reduction for middle-income countries.

It notes that the measures agreed at the last Economic Summit to help the poorest countries are being successfully implemented.

It

~~We~~ confirms that the most effective way to

deal with the problems of the developing

countries is through the existing international financial institutions, rather than by creating new bodies or structures.

Environment

The Declaration gives particular weight to the problems of the global environment and especially the ozone layer and the

greenhouse effect.

These are matters of deep and growing concern, because of the accumulating weight of scientific evidence.

The Summit endorsed the United Kingdom's call for a United Nations framework convention on global climate change.

It also underlined the need to make sure that

our policies on environmental protection are both scientifically and economically sound.

There is no incompatibility between economic growth and environmental protection - indeed the former is essential to create the wealth to finance measures to protect our environment.

The Declaration calls for the strengthening of existing international bodies dealing with the environment, particularly the United Nations Environmental Programme, rather than the creation of new ones.

It also gives strong support to the international effort to preserve the world's tropical forests, while

recognising the sensitivities and the
sovereignty of the developing countries
for whom these forests are an important
natural resource.

Drugs

The Declaration signals the very strong
determination of all seven governments to
tackle the drugs problem which has reached

such devastating proportions, particularly with the growing use of crack.

We agreed on a number of measures, in particular:

- first, greater help for efforts to counter illegal production of drugs;

- second, action to reduce demand for drugs,

and here I was able to draw attention to the International Conference which Britain will host next year on demand reduction and cocaine;

- third, the establishment of a financial action task force to investigate, and recommend measures to prevent money laundering;

- and fourth the conclusion of further bilateral agreements for the tracing, freezing and confiscation of the proceeds of drug trafficking and crime.

These problems can only be solved by growing international co-operation.

Political Issues

In our discussion of political and regional issues, we agreed to provide practical support for economic reform in Eastern Europe and particularly in Poland and Hungary.

We also agreed, at the United Kingdom's suggestion, to help meet Poland's urgent need for food.

We issued a strong condemnation of repression
in China.

Our statement also underlined that all
seven Summit countries share a common
interest in a stable and prosperous future
for Hong Kong; and confirmed the
importance of support from the
international community to maintain the
confidence of Hong Kong's people, which

has been badly shaken by recent events.

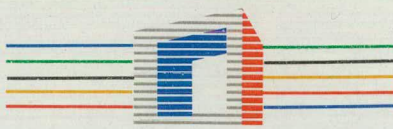
Conclusion

Mr. Speaker, this was an exceptionally friendly and worthwhile Summit.

Much credit is due to the skilfull chairmanship of President Mitterrand.

The desire to work together to resolve the problems of the world economy, the environment and drugs was very marked, and the United Kingdom is making a major and positive contribution to this.

I am sure the results of the Summit will be warmly welcomed both in this country and more widely.



SUMMIT OF THE ARCH

14-16 JULY 1989

16 July 1989

ECONOMIC DECLARATION

1) We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities, have met in Paris for the fifteenth annual Economic Summit. The Summit of the Arch initiates a new round of Summits to succeed those begun at Rambouillet in 1975 and at Versailles in 1982. The round beginning in 1982 has seen one of the longest periods of sustained growth since the Second World War. These Summits have permitted effective consultations and offered the opportunity to launch initiatives and to strengthen international cooperation.

2) This year's world economic situation presents three main challenges:

- The choice and the implementation of measures needed to maintain balanced and sustained growth, counter inflation, create jobs and promote social justice. These measures should also facilitate the adjustment of external imbalances, promote international trade and investment, and improve the economic situation of developing countries.

- The development and the further integration of developing countries into the world economy. Whilst there has been substantial progress in many developing countries, particularly those implementing sound economic policies, the debt burden and the persistence of poverty, often made worse by natural disasters affecting hundreds of millions of people, are problems of deep concern which we must continue to face in a spirit of solidarity.

- The urgent need to safeguard the environment for future generations. Scientific studies have revealed the existence of serious threats to our environment such as the depletion of the stratospheric ozone layer and excessive emissions of carbon dioxide and other greenhouse gases which could lead to future climate changes. Protecting the environment calls for a determined and concerted international response and for the early adoption, worldwide, of policies based on sustainable development.

INTERNATIONAL ECONOMIC SITUATION

3) Growth has been sustained by focusing policies on improving the efficiency and flexibility of our economies and by strengthening our cooperative efforts and the coordination process. In the medium term, the current buoyant investment seen during this period should pave the way for an increased supply of goods and services and help reduce the dangers of inflation. The outlook is not, however, without risks.

4) Until now, the threat of inflation in many countries has been contained, thanks to the concerted efforts of governments and monetary authorities. But continued vigilance is required and inflation, where it has increased,

will continue to receive a firm policy response so that it will be put on a downward path.

5) While some progress has been made in reducing external imbalances, the momentum of adjustment has recently weakened markedly. There needs to be further progress in adjusting external imbalances through cooperation.

6) In countries with fiscal and current account deficits, including the United States of America, Canada and Italy, further reductions in budget deficits are needed. Action will be taken to bring them down. This may help reduce the saving-investment gap and external imbalances, contribute to countering inflation and encourage greater exchange rate stability in a context of decreasing interest rates.

7) Countries with external surpluses, including Japan and Germany, should continue to pursue appropriate macroeconomic policies and structural reforms that will encourage non-inflationary growth of domestic demand and facilitate external adjustment.

8) All our countries share the responsibility for the sound development of the world economy. Over the medium term, deficit countries have to play a key role in global adjustment through their external adjustment and increased exports; surplus countries have to contribute to sustaining global expansion through policies providing favourable conditions for growth of domestic demand and imports.

9) The emergence of the newly industrializing economies and the initiation of a dialogue with them are welcome. We call on those with substantial surpluses to contribute to the adjustment of external imbalances and the open trade and payments system. To that end, they should

permit exchange rates to reflect their competitive position, implement GATT commitments and reduce trade barriers.

INTERNATIONAL MONETARY DEVELOPMENTS AND COORDINATION

10) Under the Plaza and Louvre agreements, our countries agreed to pursue, in a mutually reinforcing way, policies of surveillance and coordination aimed at improving their economic fundamentals and at fostering stability of exchange rates consistent with those economic fundamentals.

There has been progress in the multilateral surveillance and coordination of economic policies with a view to ensuring internal consistency of domestic policies and their international compatibility. The procedures to be used have been more clearly defined and improved in cooperation with the International Monetary Fund.

11) The coordination process has made a positive contribution to world economic development and it has also contributed greatly to improving the functioning of the International Monetary System. There has also been continued cooperation in exchange markets.

It is important to continue, and where appropriate, to develop this cooperative and flexible approach to improve the functioning and the stability of the International Monetary System in a manner consistent with economic fundamentals. We therefore ask the Finance Ministers to continue to keep under review possible steps that could be taken to improve the coordination process, exchange market cooperation, and the functioning of the International Monetary System.

12) We welcome the decision to complete the work on the ninth review of the International Monetary Fund quotas with a view to a decision on this matter before the end of the year.

We note that the question of a resumption of S.D.R. allocation remains under consideration in the Executive Board of the International Monetary Fund.

13) Within the European Community, the European Monetary System has contributed to a significant degree of economic policy convergence and monetary stability.

IMPROVING ECONOMIC EFFICIENCY

14) We will continue to promote measures in order to remove inefficiencies in our economies. These inefficiencies affect many aspects of economic activity, reduce potential growth rates and the prospects for job creation, diminish the effectiveness of macroeconomic policies and impede the external adjustment process. In this context, tax reforms, modernization of financial markets, strengthening of competition policies and reducing rigidities in all sectors including energy, industry and agriculture are necessary. So are the improvement of education and vocational training, transportation and distribution systems and further policies aimed at giving more flexibility and mobility to the labour market and reducing unemployment. Within the European Community, the steady progress towards the completion by the end of 1992 of the program contained in the Single Act has already given a strong momentum to economic efficiency.

15) The decline of saving in some of our countries in this decade is a cause for concern. This lower level of

saving can contribute to high real interest rates and therefore hamper growth. Inadequate saving and large fiscal deficits are associated with large external deficits. We recommend, within the framework of policy coordination, policies to encourage saving and remove hindrances where they exist.

16) Financial activities are being increasingly carried out with new techniques on a worldwide basis. As regards insider trading, which could hamper the credibility of financial markets, regulations vary greatly among our countries. These regulations have been recently, or are in the process of being, strengthened. International cooperation should be pursued and enhanced.

TRADE ISSUES

17) World trade developed rapidly last year. Yet protectionism remains a real threat. We strongly reaffirm our determination to fight it in all its forms. We shall fulfill the Punta del Este standstill and rollback commitments which, inter alia, require the avoidance of any trade restrictive or distorting measure inconsistent with the provisions of the General Agreement and its instruments. We agree to make effective use of the improved GATT dispute settlement mechanism and to make progress in negotiations for further improvements. We will avoid any discriminatory or autonomous actions, which undermine the principles of the GATT and the integrity of the multilateral trading system. We also are pledged to oppose the tendency towards unilateralism, bilateralism, sectoralism and managed trade which threatens to undermine the multilateral system and the Uruguay Round negotiations.

18) The successful negotiation of the Trade Negotiations Committee of the Uruguay Round in Geneva last April, thereby completing the mid-term review, is a very important achievement. It gives a clear framework for future work in all sectors including the pursuit of agricultural reform in the short term as well as in the long term. It also gives the necessary framework for substantive negotiations in important sectors not yet fully included in GATT disciplines, such as services, trade-related investment measures and intellectual property.

Developing countries participated actively in these negotiations and contributed to this success. All countries should make their most constructive contribution possible.

We express our full commitment to making further substantive progress in the Uruguay Round in order to complete it by the end of 1990.

19) We note with satisfaction the entry into force of the Free Trade Agreement between Canada and the US, as well as more recent initiatives to intensify the close economic relations between the European Community and EFTA countries. It remains our policy that these and other developments in regional cooperation, should be trade-creating and complementary to the multilateral liberalization process.

20) It is the firm intention of the European Community that the trade aspects of the single market program should also be trade-creating and complementary to the multilateral liberalization process.

21) We note with satisfaction the progress that has been made in strengthening the multilateral disciplines on trade and aid distorting export credit subsidies. This effort

must be pursued actively and completed in the competent bodies of the OECD with a view to improving present guidelines at the earliest possible date.

GENERAL PROBLEMS OF DEVELOPMENT

22) Development is a shared global challenge. We shall help developing countries by opening the world trading system and by supporting their structural adjustment. We shall encourage too economic diversification in commodity dependent countries and the creation of a favourable environment for transfers of technology and capital flows.

We underline the continuing importance of official development assistance and welcome the increased efforts of Summit participants in this respect. We note the targets already established by international organizations for the future level of official development assistance and stress the importance of overall financial flows to development.

We underline simultaneously the importance attached to the quality of the aid and to the evaluation of the projects and the programs financed.

23) We urge developing countries to implement sound economic policies. A vital factor will be the adoption of financial and fiscal policies which attract inward investment and encourage growth and the return of flight capital.

24) We note with satisfaction that there has been substantial progress in the multilateral aid initiative for the Philippines that was given special attention in the Toronto economic declaration.

25) Faced with the worrying economic situation of Yugoslavia, we encourage its government to implement a strong economic reform program that can command bilateral and multilateral support.

THE SITUATION IN THE POOREST COUNTRIES

26) The enhancement of the International Monetary Fund Structural Adjustment Facility, the World Bank special program of assistance for the poorest and most indebted countries and the fifth replenishment of the African Development Fund are all important measures benefiting those countries having embarked upon an adjustment process. We stress the importance attached to a substantial replenishment of International Development Association resources.

27) As we urged last year in TORONTO, the Paris Club reached a consensus in September 1988 on the conditions of implementation of significant reduction of debt service payments for the poorest countries. Thirteen countries have already benefitted by this decision.

28) We welcome the increasing grant element in the development assistance as well as the steps taken to convert loans into grants and we urge further steps to this end. Flexibility in development aid as much as in debt rescheduling is required.

29) We attach great importance to the efficient and successful preparation of the next general conference of the United Nations on the least developed countries, which will take place in Paris in 1990.

STRENGTHENED DEBT STRATEGY FOR THE HEAVILY INDEBTED COUNTRIES

30) Our approach to the debt problems has produced significant results, but serious challenges remain: in many countries the ratio of debt service to exports remains high, financing for growth promoting investment is scarce, and capital flight is a key problem. An improvement in the investment climate must be a critical part of efforts to achieve a sustainable level of growth without excessive levels of debt. These improvements of the current situation depend above all on sustained and effective adjustment policies in the debtor countries.

31) To address these challenges, we are strongly committed to the strengthened debt strategy. This will rely, on a case-by-case basis, on the following actions:

- borrowing countries should implement, with the assistance of the Fund and the Bank, sound economic policies, particularly designed to mobilize savings, stimulate investment and reverse capital flight;

- banks should increasingly focus on voluntary, market-based debt and debt service reduction operations, as a complement to new lending;

- the International Monetary Fund and World Bank will support significant debt reduction by setting aside a portion of policy-based loans;

- limited interest support will be provided, through additional financing by the International Monetary Fund and the World Bank, for transactions involving significant debt and debt service reduction. For that purpose the use of escrow accounts is agreed;

- continued Paris Club rescheduling and flexibility of export-credit agencies;

- strengthening of the international financial institutions capability for supporting medium-term macroeconomic and structural adjustment programs and for compensating the negative effects of export shortfalls and external shocks.

32) In the framework of this strategy:

- we welcome the recent decisions taken by the two institutions to encourage debt and debt service reduction which provide adequate resources for these purposes;

- we urge debtor countries to move ahead promptly to develop strong economic reform programs that may lead to debt and debt service reductions in accordance with the guidelines defined by the two Bretton Woods institutions;

- we urge banks to take realistic and constructive approaches in their negotiations with the debtor countries and to move promptly to conclude agreements on financial packages including debt reduction, debt service reduction and new money. We stress that official creditors should not substitute for private lenders. Our governments are prepared to consider as appropriate tax, regulatory and accounting practices with a view to eliminating unnecessary obstacles to debt and debt service reductions.

ENVIRONMENT

33) There is growing awareness throughout the world of the necessity to preserve better the global ecological balance. This includes serious threats to the atmosphere, which could lead to future climate changes. We note with great concern the growing pollution of air, lakes, rivers, oceans and seas; acid rain, dangerous substances; and the rapid desertification and deforestation. Such environmental degradation endangers species and undermines the well-being of individuals and societies.

Decisive action is urgently needed to understand and protect the earth's ecological balance. We will work together to achieve the common goals of preserving a healthy and balanced global environment in order to meet shared economic and social objectives and to carry out obligations to future generations.

34) We urge all countries to give further impetus to scientific research on environmental issues, to develop necessary technologies and to make clear evaluations of the economic costs and benefits of environmental policies.

The persisting uncertainty on some of these issues should not unduly delay our action.

In this connection, we ask all countries to combine their efforts in order to improve observation and monitoring on a global scale.

35) We believe that international cooperation also needs to be enhanced in the field of technology and technology transfer in order to reduce pollution or provide alternative solutions.

36) We believe that industry has a crucial role in preventing pollution at source, in waste minimization, in energy conservation, and in the design and marketing of cost-effective clean technologies. The agricultural sector must also contribute to tackling problems such as water pollution, soil erosion and desertification.

37) Environmental protection is integral to issues such as trade, development, energy, transport, agriculture and economic planning. Therefore, environmental considerations must be taken into account in economic decision-making. In fact good economic policies and good environmental policies are mutually reinforcing.

In order to achieve sustainable development, we shall ensure the compatibility of economic growth and development with the protection of the environment. Environmental protection and related investment should contribute to economic growth. In this respect, intensified efforts for technological breakthrough are important to reconcile economic growth and environmental policies.

Clear assessments of the costs, benefits and resource implications of environmental protection should help governments to take the necessary decisions on the mix of price signals (e.g., taxes or expenditures) and regulatory actions, reflecting where possible the full value of natural resources.

We encourage the World Bank and regional development banks to integrate environmental considerations into their activities. International organizations such as the OECD and the United Nations and its affiliated organizations, will be asked to develop further techniques of analysis which would help governments assess appropriate economic measures to promote the quality of the environment. We ask the OECD, within the context of its work on integrating environment and economic decision-making, to examine how selected environmental indicators could be developed. We expect the 1992 UN Conference on Environment and Development to give additional momentum to the protection of the global environment.

38) To help developing countries deal with past damage and to encourage them to take environmentally desirable action, economic incentives may include the use of aid mechanisms and specific transfer of technology. In special cases, ODA debt forgiveness and debt for nature swaps can play a useful role in environmental protection.

We also emphasize the necessity to take into account the interests and needs of developing countries in sustaining the growth of their economies and the financial and technological requirements to meet environmental challenges.

39) The depletion of the stratospheric ozone layer is alarming and calls for prompt action.

We welcome the HELSINKI conclusions related, among other issues, to the complete abandonment of the production and consumption of chloro-fluorocarbons covered by the MONTREAL protocol as soon as possible and not later than the end of the century. Specific attention must also be given to those ozone-depleting substances not covered by the Montreal protocol. We shall promote the development and use of suitable substitute substances and technologies. More emphasis should be placed on projects that provide alternatives to chloro-fluorocarbons.

40) We strongly advocate common efforts to limit emissions of carbon dioxide and other greenhouse gases, which threaten to induce climate change, endangering the environment and ultimately the economy. We strongly support the work undertaken by the Intergovernmental Panel on Climate Change, on this issue.

We need to strengthen the worldwide network of observatories for greenhouse gases and support the World Meteorological Organisation initiative to establish a global climatological reference network to detect climate changes

41) We agree that increasing energy efficiency could make a substantial contribution to these goals. We urge international organizations concerned to encourage measures, including economic measures, to improve energy conservation and, more broadly, efficiency in the use of energy of all kinds and to promote relevant techniques and technologies.

We are committed to maintaining the highest safety standards for nuclear power plants and to strengthening international cooperation in safe operation of power plants and waste management, and we recognize that nuclear power also plays an important role in limiting output of greenhouse gases.

42) Deforestation also damages the atmosphere and must be reversed. We call for the adoption of sustainable forest management practices, with a view to preserving the scale of world forests. The relevant international organizations will be asked to complete reports on the state of the world's forests by 1990.

43) Preserving the tropical forests is an urgent need for the world as a whole. While recognizing the sovereign rights of developing countries to make use of their natural resources, we encourage, through a sustainable use of tropical forests, the protection of all the species therein and the traditional rights to land and other resources of local communities. We welcome the German initiative in this field as a basis for progress.

To this end, we give strong support to rapid implementation of the Tropical Forest Action Plan which was adopted in 1986 in the framework of the Food and Agricultural Organization. We appeal to both consumer and producer countries, which are united in the International Tropical Timber Organization, to join their efforts to ensure better conservation of the forests. We express our readiness to assist the efforts of nations with tropical forests through financial and technical cooperation, and in international organizations.

44) Temperate forests, lakes and rivers must be protected against the effects of acid pollutants such as sulphur dioxide and nitrogen oxides. It is necessary to pursue actively the bilateral and multilateral efforts to this end.

45) The increasing complexity of the issues related to the protection of the atmosphere calls for innovative solutions. New instruments may be contemplated. We believe that the conclusion of a framework or umbrella convention on climate change to set out general principles or guidelines is urgently required to mobilize and rationalize the efforts made by the international community. We welcome the work under way by the United Nations Environment Program, in cooperation with the World Meteorological Organization, drawing on the work of the Intergovernmental Panel on Climate Change and the results of other international meetings. Specific protocols containing concrete commitments could be fitted into the framework as scientific evidence requires and permits.

46) We condemn indiscriminate use of oceans as dumping grounds for polluting waste. There is a particular problem with the deterioration of coastal waters. To ensure the sustainable management of the marine environment, we recognize the importance of international cooperation in preserving it and conserving the living resources of the sea. We call for relevant bodies of the United Nations to prepare a report on the state of the world's oceans.

We express our concern that national, regional and global capabilities to contain and alleviate the consequences of maritime oil spills be improved. We urge all countries to make better use of the latest monitoring and clean-up technologies. We ask all countries to adhere to and implement fully the international conventions for the prevention of oil pollution of the oceans. We also ask the International Maritime Organization to put forward proposals for further preventive action.

47) We are committed to ensuring full implementation of existing rules for the environment. In this respect, we note with interest the initiative of the Italian government to host in 1990 a forum on international law for the environment with scholars, scientific experts and officials, to consider the need for a digest of existing rules and to give in-depth consideration to the legal aspects of environment at the international level.

48) We advocate that existing environment institutions be strengthened within the United Nations system. In particular, the United Nations Environment Program urgently requires strengthening and increased financial support. Some of us have agreed that the establishment within the United Nations of a new institution may also be worth considering.

49) We have taken note of the report of the sixth conference on bioethics held in Brussels which examined the elaboration of a universal code of environmental ethics based upon the concept of the "human stewardship of nature".

50) It is a matter of international concern that Bangladesh, one of the poorest and most densely populated countries in the world, is periodically devastated by catastrophic floods.

We stress the urgent need for effective, coordinated action by the international community, in support of the Government of Bangladesh, in order to find solutions to this major problem which are technically, financially, economically and environmentally sound. In that spirit, and taking account of help already given, we take note of the different studies concerning flood alleviation, initiated by France, Japan, the US and the United Nations Development Program, which have been reviewed by experts from all our countries. We welcome the World Bank's agreement, following those studies, to coordinate the efforts of the international community so that a sound basis for achieving a real improvement in alleviating the effects of flood can be established. We also welcome the agreement of the World Bank to chair, by the end of the year, a meeting to be held in the United Kingdom by invitation of the Bangladesh Government, of the countries willing to take an active part in such a program.

51) We give political support to projects such as the joint project to set up an observatory of the Saharan areas, which answers the need to monitor the development of that rapidly deteriorating, fragile, arid region, in order to protect it more effectively.

DRUG ISSUES

52) The drug problem has reached devastating proportions. We stress the urgent need for decisive action, both on a national and an international basis. We urge all countries, especially those where drug production, trading and consumption are large, to join our efforts to counter drug production, to reduce demand, and to carry forward the fight

against drug trafficking itself and the laundering of its proceeds.

53) Accordingly, we resolve to take the following measures within relevant fora:

- Give greater emphasis on bilateral and United Nations programs for the conversion of illicit cultivation in the producer countries. The United Nations Fund for Drug Abuse Control (UNFDAC), and other United Nations and multilateral organizations should be supported, strengthened and made more effective. These efforts could include particular support for the implementation of effective programs to stop drug cultivation and trading as well as developmental and technical assistance.
- Support the efforts of producing countries who ask for assistance to counter illegal production or trafficking.
- Strengthen the role of the United Nations in the war against drugs through an increase in its resources and through reinforced effectiveness of its operation.
- Intensify the exchange of information on the prevention of addiction, and rehabilitation of drug addicts.
- Support the international conference planned for 1990 on cocaine and drug demand reduction.
- Strengthen the efficiency of the cooperative and mutual assistance on these issues, the first steps being a prompt adherence to, ratification and implementation of the Vienna Convention on illicit traffic in narcotic drugs and psychotropic substances.

- Conclude further bilateral or multilateral agreements and support initiatives and cooperation, where appropriate, which include measures to facilitate the identification, tracing, freezing, seizure and forfeiture of drug crime proceeds.

- Convene a financial action task force from Summit Participants and other countries interested in these problems. Its mandate is to assess the results of cooperation already undertaken in order to prevent the utilization of the banking system and financial institutions for the purpose of money laundering, and to consider additional preventive efforts in this field, including the adaptation of the legal and regulatory systems so as to enhance multilateral judicial assistance. The first meeting of this task force will be called by France and its report will be completed by April 1990.

54) International cooperation against AIDS

We take note of the creation of an International Ethics committee on AIDS which met in Paris in May 1989, as decided at the Summit of Venice (June 1987). It assembled the Summit Participants and the other members of the EC, together with the active participation of the World Health Organization.

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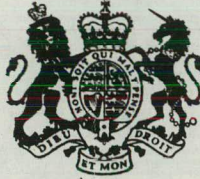
55) We take note of the representations that we received from various Heads of State or Government and organizations and we will study them with interest.

56) Next Economic Summit

We have accepted the invitation of the President of the United States to meet next year in the United States of America.

PWP

CH/EXCHEQUER	
REC.	18 JUL 1989
ACTION	Mr Nicks
CGPMS TO	PMG. EST Sir P. Middleton Mr H.P. Evans Mr R. C. Allen, Mr G. G. G. Mr Mellors, Ms Syme Mr Edmunds, Mr Tyne
From the Private Secretary	



10 DOWNING STREET

LONDON SW1A 2AA

18 July 1989

**PRIME MINISTER'S MEETING WITH THE CHAIRMAN OF
THE CHRISTIAN SOCIAL UNION**

The Prime Minister had a talk yesterday evening with Herr Waigel, Chairman of the Bavarian Christian Social Union (CSU) and Federal German Finance Minister. The German Ambassador and Sir James Spicer were also present.

German Political Situation

Herr Waigel said that the CSU had lost votes in the European elections, but kept the same number of seats. He did not read any great significance into the result, and expected the CSU to recapture the lost ground in the Federal elections of 1990.

EMU

Herr Waigel asked whether EMU and sterling's membership of the ERM would play a role in the next British elections. He believed that Britain, with its free market principles, would be a factor for stability within the EMS. He expressed interest in the content and timing of the alternative proposals for EMU which the United Kingdom had undertaken to produce.

The Prime Minister said that she had set out the United Kingdom's position on membership of the ERM at the Madrid European Council. She remained fundamentally opposed to stages 2 and 3 of the Delors report. When it came to the point, several other countries would be unable to accept them. We would produce alternative proposals, based on closer cooperation and on convergence of sound economic and monetary policies, in the autumn. Herr Waigel commented that you could only have EMU at the end of a very long preparatory phase.

Structured Reform in the German Economy

The Prime Minister went on to question how free the German economy really was. We noted continuing rigidities and restrictions, as well as high levels subsidies. Britain kept its markets much more open.

Herr Waigel said that very considerable reforms had been made in the last year or two. Subsidies had been very greatly reduced, particularly to the coal industry. The posts and telecommunications sector had been opened up to outside competition. There had been major reforms to pensions and health care.

Social Legislation in the European Community

The Prime Minister said that she was particularly concerned at the apparent determination of the high cost economies to impose extra burdens on others and reduce their competitiveness. The most recent example was the Commission's draft European Company Statute which attempted to impose practice of worker consultation on industry by qualified majority vote. Such provisions were alien to our traditions and inhibited the right of management to manage. It had taken ten years to get Britain's economy competitive and efficient, and to attract foreign investment. We did not now want other people's problems foisted on us. Nor were we prepared to accept the extra costs which would be imposed by a Social Charter. Of course there had to be basic standards for training and for health and safety at work. But standards of social services did not depend on any particular rights, but on how much wealth an economy could create. We would resist very strongly any attempt to impose a Social Charter or a particular pattern of industrial relations.

Herr Waigel said that he did not think there was any intention to impose. Germany followed a middle of the road line on these matters. Workers needed some assurance that the Single Market would not lead to any erosion of their benefits. He saw the Social Charter as setting only minimum standards. The Prime Minister said that it was wrong to deny others the right to compete and benefit from their comparative advantage. A Social Charter would only lead to demands for massive financial transfers from the northern to the southern member states. She wanted to make quite clear to Herr Waigel that we would not be dictated to in our industrial relations, and would use all the means available to us to prevent this happening.

I am copying this letter to Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry), Clive Norris (Department of Employment) and to Trevor Woolley (Cabinet Office).

(C. D. POWELL)

J. S. Wall, Esq.,
Foreign and Commonwealth Office.



FROM: J M G TAYLOR
DATE: 19 JULY 1989

[Handwritten signature]

MR KUCZYS (INLAND REVENUE)

cc PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Ilett
Mr Gilhooly
Miss Hay

[Handwritten initials]

Mr Isaac - IR
Mr Corlett - IR
PS/IR

FRENCH SCHEME FOR ENCOURAGING SAVINGS

... The Chancellor has seen the attached story from the 'Daily Telegraph'.

2. He would be grateful for a note setting out the details of this French scheme, and comparing it with our own personal pensions/PEP schemes.

[Handwritten signature]

J M G TAYLOR

THE British love to mock the French but Mr Lawson, Chancellor, has nothing to laugh about when it comes to comparing our approach to savings with theirs

The French have long taken the business of encouraging the small saver seriously. Gold-linked bonds were one early scheme, and while they proved ruinous for the French treasury, they have created an appetite far beyond anything seen here with privatisation.

The Loi Monory, which allows French investors to set off the capital cost of their savings against tax, is another popular device which British Chancellors have steadfastly refused to imitate.

The contrast between the two approaches was vividly demonstrated yesterday with another initiative from the French government to encourage the lower-paid to provide for their own retirement. Under the scheme, Frenchmen who put money aside for ten years can enjoy the proceeds completely tax free; indeed, if they earn too little to pay income tax their savings will attract a 25 p.c. credit from the government.

The saver can invest what he wants, when he wants, and where he wants subject only to a top limit of Fr600,000 (roughly £60,000). The scheme is called the Plan d'Epargne Populaire, but it makes our own PEP rules look

French set Lawson a savings lesson

particularly feeble. Come to that, it makes our Government's whole approach to retail savings look inept.

For at least the last 18 months, the biggest problem in the British economy has been too much spending and too little saving, so much so that the Government claims that it is reduced to doing the job for us. This is as absurd as Government running the country's great industries for us. We desperately need something simple and irresistible to encourage us to save, other than through bricks and mortar, which use the savings of others to enrich owners.

What do we get? We get the Capital Bond, which broke new ground in taxing holders on income they had yet to receive, while the Department of National Savings would rather we took our money elsewhere.

Proof of that, if it were needed, will be provided next month when savers will withdraw hundreds of millions of pounds as the 28th issue of National Savings matures. Much of that money will be spent, at a time when demand is still too high.

The director of National Savings said he viewed the prospect of net withdrawals "with equanimity". That is a depressing admission of

CITY COMMENT

defeat. Mr Lawson should stop sneering at the French and think instead of imitating them.

6/1.

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CITY COMMENT

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6/1.

RESTRICTED

Ch/ To note that you
concern about

Community competence
has been addressed.

FROM: P. GILDERSLEEVES
DATE: 19TH JULY 1989
EXT: 3250

TO: PS/CHANCELLOR
PS/PAYMASTER

DIS
CC: Sir P. Middleton
Mr Anson
Mr Phillips
Mr C. D. Butler
Mr A. Healey
Mr D. E. Thomas

COLLABORATION BETWEEN THE UK, GERMANY, FRANCE AND THE
NETHERLANDS ON IT SECURITY MATTERS

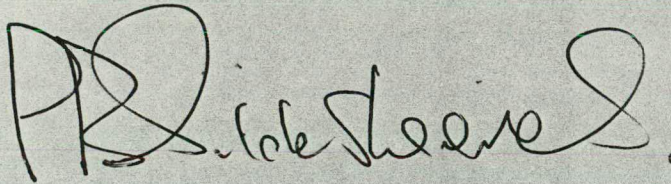
1. You will recall that those Government agencies within the UK concerned with developing standards for the evaluation of IT Security Systems and Products (DTI, CESG and the CCTA) have been having a series of meetings with officials from similar departments in the German, French and Dutch administrations with the aim of attempting the harmonisation of national criteria. One of the Group's early actions was to try and enlist the support of DG XIII of the European Commission in its endeavours.
2. On 19th June 1989, you minuted the Director CCTA expressing the Chancellor's concern that involving DG XIII in this way might represent an extension of Community competence; in which case it would be better to arrange for the Group's discussions to take place outside the Community framework.
3. The CCTA did not feel that it had sufficient background knowledge of the Treaty to comment on this point and you suggested that we send the papers and reports covering the activities of the Group to the Cabinet Office for an opinion. Their advice, based on the material supplied to them, is that as long as the involvement of the Community is strictly limited to work on commercial standards (as opposed to those bearing on national IT Security) then such work would appear to lie squarely within the Community's competence.

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They stress however that there is a need to ensure that the Community's activities do not spill over into areas reserved for member states' competence under for example, Article 23 of the Treaty (essential national security interests). You may be assured that members of the Group are acutely aware of this need and indeed it was made explicit by one of the German representatives at our recent meeting in Bonn.

4. It appears then that provided the Group is only working with the Commission in those areas concerning the development and harmonisation of methods and criteria which are used to evaluate the security functions of commercial IT Systems and Products then there is no extension of Community competence. As the UK involvement in the Group is being led by DTI with CESA and CCTA providing support, I believe this point is covered and the Chancellor can be reassured.



P. B. GILDERSLEEVES

RESTRICTED



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

19 July 1989

M Pierre Beregovoy
Minister of the Economy,
Finance and Budget
PARIS

A handwritten signature in dark ink, appearing to read "Nigel Lawson".

I am most grateful to you, and the French Government, for your generous hospitality and excellent organisation at the Sommet de l'Arche. That the proceedings went so smoothly was a great tribute to the preparatory work which had gone into making the Summit a success. It was also good to have a first opportunity to see your handsome new offices at Bercy.

I look forward to seeing you in Antibes in September.

A handwritten signature in dark ink, appearing to read "Nigel Lawson".

NIGEL LAWSON

~~DRAFT~~

W:

Please type
for signature

July 1989

M Pierre Berezgouvoy
Minister of the Economy,
Finance and Budget
PARIS

I am most grateful to you, and the French Government, for your generous hospitality and excellent organisation at the Sommet de l'Arche. That the proceedings went so smoothly was a great tribute to the preparatory work which had gone into making the Summit a success. It was also good to have a first opportunity to see your handsome new offices at Bercy.

I look forward to seeing you in Antibes in September.

NIGEL LAWSON



BRITISH EMBASSY

35, rue du Faubourg Saint-Honoré - 75383 Paris Cedex 08

Telephone : 42 66 91 42

J M G Taylor Esq
PS/Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Your reference

Our reference

Date 19 July 1989

Dear Jonathan,

COMMEMORATIVE COINS

1. Bérégovoy's cabinet have asked us to forward to the Chancellor, as a present from Bérégovoy, the enclosed presentation pack of gold coins symbolising Liberté, Egalité, Fraternité and the Rights of Man.

in the box marked,

Michael

M H Jay

*Letter from
Ch
=*
①
②

Jonathan
① Please find out from Michael Jay to whom Bérégovoy's cabinet a PS reply should be directed
② Can he desecrated estimate their value?

Alan

AAA/ P&T (a) do a suitable PS reply (b) spk.



RNP

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

20 July 1989

Neal Hammond Esq
Assistant Private Secretary to the
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

Dear Neal

... I should be grateful if you could forward the enclosed letter from the Chancellor of the Exchequer to M Pierre Beregovoy.

*Yours Sincerely
A A Dight*

A A DIGHT
Assistant Private Secretary



FROM: D I SPARKES
DATE: 21 JULY 1989

MR GILDERSLEEVES

cc PS/Paymaster General
Sir P Middleton
Mr Anson
Mr Phillips
Mr C D Butler
Mr A Healey
Mr D E Thomas

imp

**COLLABORATION BETWEEN THE UK, GERMANY, FRANCE AND THE NETHERLANDS
ON IT SECURITY MATTERS**

The Chancellor was grateful for your minute of 19 July concerning the consultations that are taking place between the Government Agencies of various EC countries on developing standards for the evaluation of IT security systems and products. He was glad to note that his concerns about Community competence have been addressed.

D.I.

DUNCAN SPARKES

Ch. Letters to Carli + Amato
(no' mt to Formica (!)) ? *ya post*

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or [unclear] no
Min for [unclear]
[unclear]

OUR TELNO 456: NEW ITALIAN GOVERNMENT

(COLLAR)

SUMMARY

1. ANDREOTTI'S GOVERNMENT SWORN IN ON 23 JULY. SKILLFUL POLITICAL TAPESTRY BY THE OLD MASTER. INITIAL PROSPECTS FOR ENDURANCE REASONABLE. PROBABLY NO SIGNIFICANT CHANGES IN POLICY OR CAPACITY TO CONFRONT PUBLIC DEBT OR OTHER KEY PROBLEMS.

DETAIL

2. ON 22 JULY, ANDREOTTI PRESENTED HIS LIST OF MINISTERS (GIVEN IN MIFT) TO PRESIDENT COSSIGA. THE MINISTERS SWORE THEMSELVES IN BEFORE THE PRESIDENT ON 24 JULY, BRINGING ANDREOTTI'S SIXTH ADMINISTRATION FORMALLY INTO BEING 65 DAYS AFTER DE MITA'S RESIGNATION. THE NEW CABINET WILL TOMORROW APPOINT SOME 60 UNDERSECRETARIES (ROUGHLY EQUIVALENT TO MINISTERS OF STATE) TO COMPLETE THE GOVERNMENT LIST. THE CONFIDENCE DEBATE IN PARLIAMENT, WHICH SHOULD BE A FORMALITY, WILL BE FROM 26-30 JULY.

3. THE NEW LINE-UP IS A CHARACTERISTICALLY SKILLFUL PIECE OF POLITICAL TAPESTRY BY ANDREOTTI, PUT TOGETHER WITH IMPRESSIVE SPEED FOLLOWING THE PARIS SUMMIT, RECONCILING MOST OF THE CONFLICTING DEMANDS OF THE COALITION PARTIES AND FACTIONS WITHIN THEM. THE FINAL HURDLE WAS A THREAT BY THE SOCIAL DEMOCRATS (PSDI) TO PULL OUT OVER THE INCLUSION OF ROMITA (REPLACING LA PERGOLA AS MINISTER FOR EC POLICY), WHO LED A GROUP OF PRO SOCIALIST DISSIDENTS OUT OF THE PSDI IN FEBRUARY. ANDREOTTI OVER-CAME THIS BY SECURING CRAXI'S ASSURANCE THAT ROMITA WOULD JOIN THE SOCIALIST GROUP IN PARLIAMENT.

4. THE RESULT COMBINES POLITICAL WEIGHT, EXPERIENCE AND CONTINUITY, ADDING UP TO A TEAM WITH CONSIDERABLE INITIAL CREDIBILITY. OUT OF THE 32 MEMBERS, 20 WERE IN THE DE MITA CABINET, AND 13 - INCLUDING MANY OF THE TECHNOCRATS SUCH AS FOREIGN TRADE MINISTER RUGGIERO - REMAIN IN THE SAME JOBS.

5. POSSIBLY THE MOST SIGNIFICANT INDIVIDUAL APPOINTMENT IS CARLI TO REPLACE AMATO AS TREASURY MINISTER. IMMENSELY RESPECTED AS GOVERNOR OF THE BANK OF ITALY FROM 1960-75, THERE IS PROBABLY NO ONE BETTER QUALIFIED TO LEAD A NEW ASSAULT ON THE PUBLIC DEBT, WHICH MUST REMAIN THE CENTRAL CHALLENGE FACING ANY ITALIAN GOVERNMENT. BUT HIS IS 76. AND, LONG OUT OF THE FRAY, HE WOULD BE MORE DITCHABLE THAN ANY SENIOR PARTY FIGURE WHEN THE GOING GETS ROUGH.

6. THE ENTRY INTO GOVERNMENT FOR THE FIRST TIME OF MARTELLI, CRAXI'S DAUPHIN, IS ALSO SIGNIFICANT. IT WAS OFTEN MARTELLI WHO LAUNCHED THE MOST VOCIFEROUS SOCIALIST ATTACKS ON THE DE MITA GOVERNMENT. HIS PRESENCE PROBABLY SIGNIFIES THAT CRAXI DOES NOT INTEND, AT LEAST FOR NOW, TO CONTINUE WITH THE DESTABILIZING TACTICS HE MAINTAINED AGAINST HIS OLD ADVERSARY DE MITA. THIS MAY OFFER BETTER PROSPECTS FOR THE NEW GOVERNMENT'S LIFE EXPECTANCY.

7. THE OTHER KEY SOCIALIST IS THE NEW FOREIGN MINISTER, DE MICHELIS. THIS WILL BE HIS FIRST DIRECT EXPERIENCE OF RUNNING FOREIGN POLICY, THOUGH HE HAS LONG BEEN ACTIVE IN FOREIGN AFFAIRS GROUPS SUCH AS THE ASPEN INSTITUTE AND HAS BEEN A FREQUENT VISITOR TO BRITAIN, THE UNITED STATES, AND OTHER WESTERN COUNTRIES. HE WAS A GUEST SPEAKER AT CHATHAM HOUSE LAST YEAR. PHYSICALLY GROSS, HE HAS GREAT ZEST AND CHARM. ONE OF THE FEW SENIOR SOCIALIST POLITICIANS DELIBERATELY TO HAVE KEPT A FOOT OUTSIDE CRAXI'S SHADOW, HE IS ALSO INTENSELY AMBITIOUS (HE RECENTLY HIRED A UK PUBLIC RELATIONS FIRM TO PROMOTE HIMSELF THROUGHOUT EUROPE). SIGNIFICANT CHANGE IN ITALIAN FOREIGN POLICY IS MOST UNLIKELY, PARTICULARLY SINCE ANDREOTTI WILL HIMSELF CONTINUE TO DOMINATE IT. IN HIS FIRST INTERVIEW AS FOREIGN MINISTER DE MICHELIS EMPHASISED CONTINUITY, AND THE CENTRALITY OF EUROPE FOR ITALIAN FOREIGN POLICY. ONE OF HIS PERSONAL THEMES IN PRIVATE IN RECENT MONTHS HAS BEEN CONCERN TO PREVENT ANY PARIS-BONN AXIS FROM BECOMING TOO DOMINATE.

8. THE MAIN LOSER UNDER ANDROTTI IS THE LEFT WING OF THE DC. THIS REFLECTS THE FACTION'S DECLINE WITHIN THE PARTY SINCE DE MITA LOST THE PARTY SECRETARYSHIP IN FEBRUARY (MY TELNO 144). IT HAS EMERGED WITH FIVE GOVERNMENT SEATS, DOWN FROM SEVEN (COUNTING THE PRESIDENCY OF THE COUNCIL AS DOUBLE). ITS LEADING EXPONENT IS NOW DEFENCE MINISTER MARTINAZZOLI, THE RESPECTED LEADER OF THE DC GROUP IN THE CHAMBER OF DEPUTIES AND FORMER MINISTER OF JUSTICE. AS FAR AS WE KNOW, HE HAS NO DIRECT EXPERIENCE OF DEFENCE ISSUES. ANDREOTTI IN ANY CASE REMAINS IN A STRONG POSITION TO OVERSHADOW THIS MINISTRY ON ALL THE KEY POL/MIL ISSUES. THE MOST NOTABLE (NEXT WORD UNDERLINED) INDIVIDUAL LOSERS, OUTGOING FINANCE AND BUDGET MINISTERS

COLOMBO AND FANFANI, ARE BOTH VETERANS FROM THE DC (BUT NOT THE PARTY LEFT).

9. THE SMALL PARTIES HAVE ALL DONE WELL TO RETAIN THEIR NUMERICAL STRENGTHS IN THE GOVERNMENT, DESPITE DECLINES IN FORTUNE SINCE THE FORMATION OF DE MITA'S GOVERNMENT. THE REPUBLICAN MINISTERS ARE UNCHANGED.

PROGRAMME

10. THE FULL PROGRAMME WILL NOT BE REVEALED UNTIL ANDREOTTI PRESENTS HIS GOVERNMENT TO PARLIAMENT. BUT MOST OF THE HEADINGS IN MY TUR SEEM LIKELY TO STAND. IN ADDITION, THERE WILL PROBABLY BE PROVISION FOR A POTENTIALLY SIGNIFICANT STREAMLINING OF LEGISLATIVE PROCEDURE TO ENABLE MOST BILLS TO PASS WITH THE APPROVAL OF ONLY ONE CHAMBER. THERE WILL ALSO BE A GENERAL COMMITMENT TO RESORT LESS TO GOVERNMENT BY EMERGENCY DECREE, HITHERTO INCREASINGLY NECESSARY BECAUSE OF THE LEGISLATIVE BLOCKAGE IN PARLIAMENT.

OUTLOOK

11. IT IS FAR TOO EARLY TO HAZARD A DETAILED PROGNOSIS FOR THIS GOVERNMENT. BUT DE MITA'S TWO KEY PROBLEMS, LIKE GORIA'S BEFORE HIM, WERE ALWAYS CRAXI'S CONTINUAL ASSAULTS AND MORE SUBTLE SUBVERSION FROM HIS OWN PARTY. THE COMPOSITION OF THE NEW TEAM NOW SUGGESTS THAT CRAXI IS READY FOR A PERIOD OF PEACE. AND UNLIKE DE MITA, AT LEAST IN RECENT MONTHS, ANDREOTTI HAS THE DC MAJORITY BEHIND HIM. FURTHERMORE, ALSO UNLIKE DE MITA, HE IS A COMPROMISE POLITICIAN, AND HAS MADE CLEAR THAT HE INTENDS TO AVOID EXCESSIVELY AMBITIOUS POLICY GOALS. ALL THIS POINTS TO AT LEAST A POTENTIAL FOR ENDURANCE. BUT EQUALLY, TO A CONTINUED INABILITY TO TAKE THE DIFFICULT POLITICAL DECISIONS NECESSARY FOR A SERIOUS ASSAULT ON THE PUBLIC DEBT OR OTHER KEY ISSUES OF REFORM.

12. THE FIRST MAJOR HURDLE WILL PROBABLY BE THE REGIONAL ELECTIONS IN APRIL 1990. IF HE CAN STEER SAFELY BEYOND THESE, ANDREOTTI WILL ALMOST CERTAINLY AIM TO STAY IN CHARGE WELL INTO 1991, AND PARTICULARLY THROUGHOUT ITALY'S EC PRESIDENCY IN THE SECOND HALF OF 1990. BUT HE WILL NEED LUCK AS WELL AS SKILL IN NEGOTIATING THE STORMS WHICH, WHATEVER THE DEGREE OF INITIAL COMMITMENT FROM ALL SIDES, ARE CERTAIN TO BLOW UP, PERHAPS MOST LIKELY ON THE DEBT AND ECONOMIC POLICY.

THOMAS

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MIPT: NEW ITALIAN GOVERNMENT
 (COLLAR)

1. ANDREOTTI'S SIXTH GOVERNMENT LINES UP AS FOLLOWS. WHERE
 PORTFOLIOS HAVE CHANGED HANDS, OUTGOING MINISTERS ARE IN BRACKETS.

PRESIDENT OF THE COUNCIL	ANDREOTTI, DC (DE MITA)
DEPUTY PRESIDENT OF THE COUNCIL	MARTELLI, PSI (DE MICHELIS)
FOREIGN AFFAIRS	DE MICHELIS, PSI (ANDREOTTI)
INTERNAL AFFAIRS	GAVA, DC
DEFENCE	MARTINAZZOLI, DC (ZANONE)
TREASURY	CARLI, DC (AMATO)
FINANCE	FORMICA, PSI (COLOMBO)
BUDGET	CIRINO POMICINO, DC (FANFANI)
FOREIGN TRADE	RUGGIERO, PSI
EC POLICY	ROMITA, PSI (LA PERGOLA)
INDUSTRY	BATTAGLIA, PRI
STATE HOLDINGS	FRACANZANI, DC
JUSTICE	VASSALLI, PSI
EDUCATION	MATTARELLA, DC (GALLONI)
PUBLIC WORKS	PRANDINI, DC (FERRI)
AGRICULTURE	MANNINO, DC
TRANSPORT	BERNINI, DC (SANTUZ)
POSTS AND TELECOMMUNICATIONS	MAMMI, PRI
LABOUR	DONAT CATTIN, DC (FORMICA)
MERCHANT NAVY	VIZZINI, PSDI (PRANDINI)
HEALTH	DE LORENZO, PLI (DONAT CATTIN)
ENVIRONMENT	RUFFOLO, PSI
TOURISM AND ENTERTAINMENT	CARRARO, PSI
CULTURAL HERITAGE	FACCHIANO, PSDI (BONO PARRINO)
UNIVERSITIES AND SCIENTIFIC RESEARCH	RUBERTI, PSI

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SOCIAL AFFAIRS
URBAN PROBLEMS
REGIONS AND INSTITUTIONAL
PROBLEMS
THE SOUTH
PUBLIC ADMINISTRATION
CIVIL PROTECTION
RELATIONS WITH PARLIAMENT

RUSSO JERVOLINO, DC
CONTE, PSI (TOGNOLI)
MACCANICO, PRI
MISASI, DC (GASPARI)
GASPARI, DC (CIRCINO POMICINO)
LATTANZIO, DC
STERPA, PLI (MATTARELLA)

THOMAS

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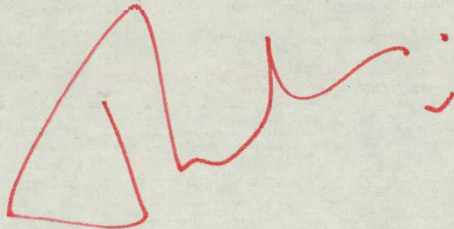
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FROM: N L WICKS
DATE: 28 July 1989
EXT : 4369

CHANCELLOR OF THE EXCHEQUER

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr H P Evans
Mr Odling-Smee
Mr Scholar
Mr Peretz
Mr Riley
Mr R I G Allen
Miss O'Mara
Mrs M E Brown
Mrs Chaplin
Mr Tyrie

COMMUNITY LOAN TO GREECE

Following the agreement of the 1.75 billion ECU community loan to Greece, the Monetary Committee consider from time to time the course of, and prospects for, the Greek economy. You should know the outcome of the Committee's latest consideration.

2. Prospects look very poor. There are several pointers to our worsening in the Greek inflation rate (from its present 13 per cent) in the remainder of the year and the policy stance remains lax and uncertain. The 1988 PSBR was 16.3 per cent and all the available information points to the likelihood of a substantial overshoot of the 15.8 per cent target for this year in the absence of early corrective action. The Commission judge that the public debt is on an unsustainable trajectory. Of the PSBR in the first four months of the year, only 12 per cent was financed by debt sales to the non-bank private sector against a full year target of 40 per cent and a figure of 33 per cent in the corresponding period of 1988. Monetary policy is continuing to carry a heavy burden.

3. All these problems are compounded by the political uncertainty and the inability of the coalition Greek Government to take remedial action. Decisions seem to be in limbo until the

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autumn and may well be delayed beyond that. All this led the Monetary Committee to be gloomy about Greece's ability to begin repayments of the Community loan in 1991.

4. The Monetary Committee decided that its Chairman should write a stern letter to the Greek Minister of Finance and Mr Beregovoy, as President of ECOFIN should also write a letter expressing concern on behalf of the whole of ECOFIN.

5. This is an issue which may well arise in the margins of the Antibes ECOFIN. We will provide briefing.

N.L.W.

N L WICKS

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FROM: J M G TAYLOR

DATE: 31 July 1989

A large, stylized handwritten signature in black ink, likely belonging to J. M. G. Taylor.

MR N L WICKS

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr H P Evans
Mr Odling-Smee
Mr Scholar
Mr Peretz
Mr Riley
Mr R I G Allen
Miss O'Mara
Mrs M Brown
Mrs Chaplin
Mr Tyrie

COMMUNITY LOAN TO GREECE

The Chancellor was grateful for your note of 28 July.

A small, handwritten signature or set of initials in black ink, possibly 'JMGT'.

J M G TAYLOR