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T.R.1.

CONFIDENTIAL
UNTIL 11.30 A.M MONDAY 13 APRIL
THEN UNCLASSIFIED

Nigel

FROM: **S BROOKS**
DATE: 10 APRIL 1987

CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Sedgwick
Mr Culpin
Mr S Davies o/r
Mr Gilhooly
Miss O'Mara
Mr Pickford
Mr Patterson
Mr Hefford
Mr Ward
Mr Cropper
Mr Ross Goobey
Mr Tyrie

PRODUCER PRICES FOR MARCH

The Producer Price Indices for March will be published at 11.30 am on Monday 13 April. The level of the output price index rose by 0.3 per cent between February and March, and the twelve month rate of change fell to 3.7 per cent in March from 4.2 per cent in February. Excluding the food, drink, and tobacco industries, the 12 month increase in the output price index in March was 4.2 per cent, the same as the revised February figure.

2. The decline in the twelve month rate for all manufactures reflects events last year. Output prices have increased steadily by about 0.3 per cent per month since last autumn, apart from January when the rise was 0.7 per cent.

CONFIDENTIAL
UNTIL 11.30 A.M MONDAY 13 APRIL
THEN UNCLASSIFIED

PRODUCER PRICES (PERCENTAGE CHANGE OVER A YEAR EARLIER)

	Output prices		Input Prices		
	All	All excl FDT*	All	All (Seasonally Adjusted	All excl FDT*
1985 Q3	5.6	6.5	-0.7	-0.7	1.2
Q4	5.1	5.9	-5.4	-5.5	-5.1
1986 Q1	5.0	5.0	-9.5	-9.7	-11.9
Q2	4.5	4.3	-9.4	-9.2	-12.4
Q3	4.4	4.0	-9.2	-9.1	-13.1
Q4	4.2	4.0	-3.9	-4.4	-5.6
1987 Q1	4.1	4.1	-1.9	-1.6	-1.6
December	4.2	4.0	-3.2	-3.9	-4.4
January	4.3	4.2	-2.2	-3.1	-2.3
February	4.2	4.2	-2.8	-1.8	-2.9
March	3.7	4.2	-0.7	-0.3	0.4

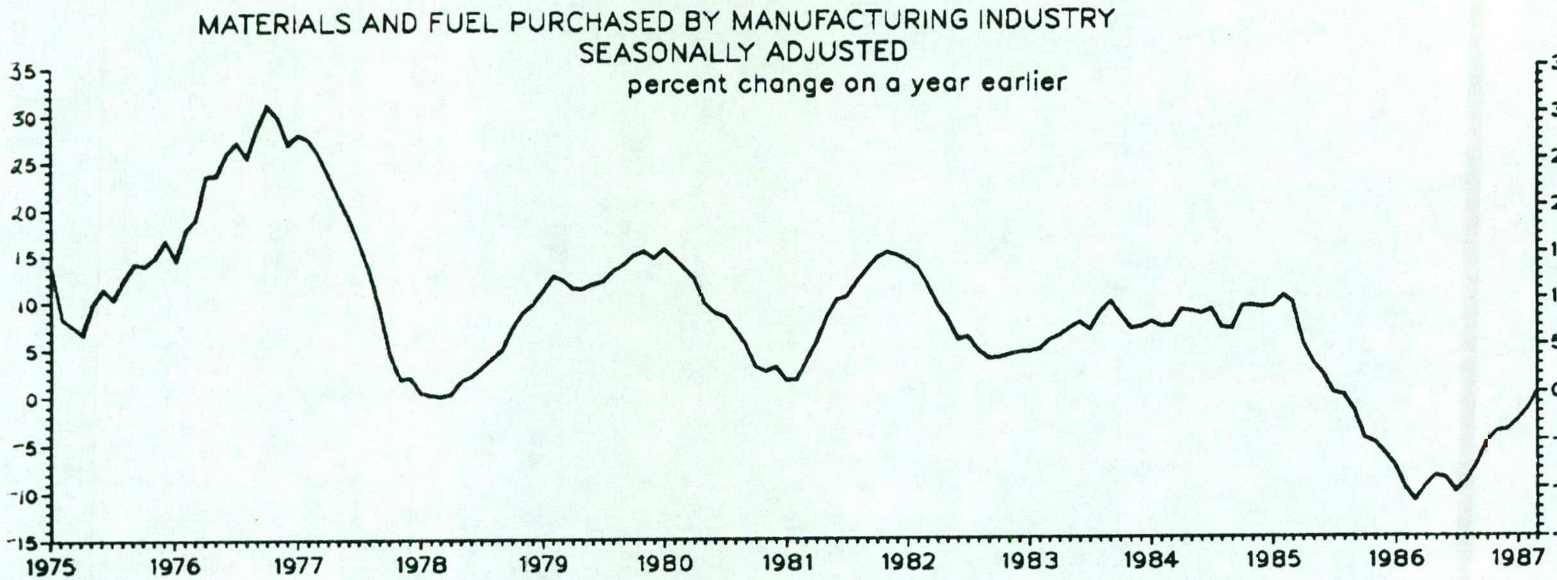
*Excluding the food, drink and tobacco industries.

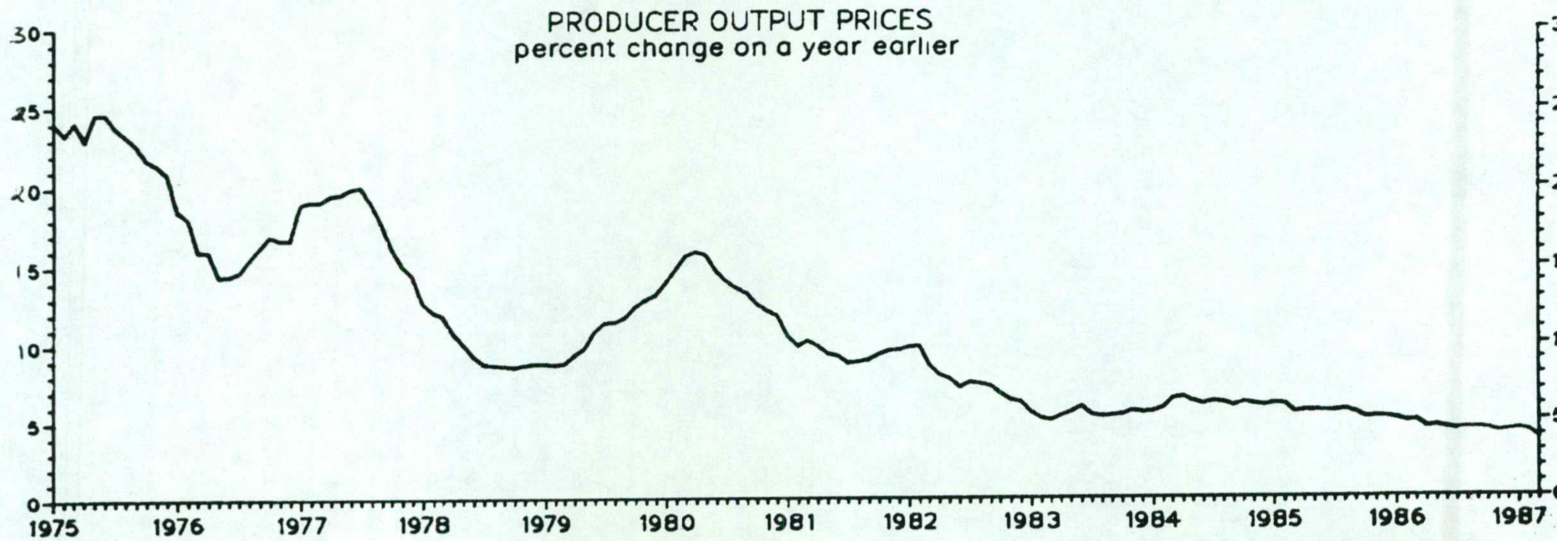
3. The producer price index for materials and fuels purchased by manufacturing industry fell 1.1 per cent between February and March, mainly because a seasonal fall in electricity prices and lower scheduled prices for petroleum products were only partly offset by rises in the prices of home produced manufacturing materials. The input price index is now 0.7 per cent below its level of a year ago. Excluding the food, drink and tobacco industries, the producer input price index fell by 2.1 per cent in March but was 0.4 per cent above its level in March 1986.

4. I attach two charts showing movements in producer input and output prices since January 1975.

S Brooks

S BROOKS
EA1 DIVISION
X 5401





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From Lord Houghton of Sowerby CH

Ch/ Shall I do 'x'? AWK 14/4

Yes pse — warmly. 2 You might also say that [illegible] shown — with cogency [illegible] [illegible] [illegible] a pleasant sense [illegible]

Done AWK 16/4

as from 110 Marsham Court
London
SW1P 4LA

13 April '87

Rt Hon Nigel Lawson MP
Chancellor of the Exch

Dear Chancellor

Civil Service Dispute

This, an entirely spontaneous and personal letter, is in earnest.

I hope that you will give the IRSF (and the CSU) every possible support in their moderate but now exposed position in this dispute.

Although the EC of the IRSF was evenly divided throughout, put his weight behind the moderate line & gave a decisive vote in the talks.

The IPCS has led the way & now the Federation has shown willingness to explore a Departmental

HOUSE OF LORDS

perspective. This is right but has been hard to achieve.

You will I know do your best to see that the IRSF can remain firm in its decision with every confidence.

Please ask your PPS to tell me that you have seen this letter but no reply is of course expected!

Yours sincerely

Douglas Houghton

3749/061

B

FROM: P D P BARNES
DATE: 13 April 1987

MR MICHAEL - IR

cc PS/Chancellor 2
PS/Financial Secretary
PS/Minister of State
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Isaac - IR
Mr Houghton - IR
Mr Cayley - IR
PS/IR

POST-BUDGET LOBBYING - COUNTER BRIEFS

Thank you for your minute of 8 April, which the Economic Secretary has seen. The Economic does not want to pursue this point further, since this clause will now be handled in the Finance Bill by the Financial Secretary. But he thought the Financial Secretary might find it useful if the management expenses deducted from taxable profits could be quantified.

2. I have spoken to the Financial Secretary's office who agreed that this would be useful, and would be grateful if you could provide a note for them.

PB

P D P BARNES
Private Secretary

MR 5/122

UNCLASSIFIED

CHANCELLOR OF THE EXCHEQUER

FROM: N G FRAY
DATE: 13 April 1987

MR S BROOKS

PRODUCER PRICES FOR MARCH

The Chancellor was grateful for your minute of 10 April, the contents of which he has noted.

Nigel Fray

N G FRAY

U

FROM: N G FRAY
DATE

MR S BROOKS

PRODUCER PRICES FOR MARCH

The Chancellor was grateful for your minute of 10 April, the contents of which he has noted.

N G FRAY

27:2

PERSONAL AND CONFIDENTIAL
Until 11.30am on Wednesday 15 April

FROM: PETER PATTERSON
DATE: 14 April 1987
cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Monck
Mr Sedgwick
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Dyer (+1 for No.10)
Mr Hudson
Mr Hunt
Mr MacAuslan
Mr Cropper
Mr Ross Goobey
Mr Tyrie
HB/01

1. MR S J DAVIES
2. CHIEF SECRETARY

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 15 APRIL

Summary Statistics (seasonally adjusted unless otherwise stated)

	Level	Change on previous period
	Thousands	
Unemployment		
Total (excl. school leavers) March	3,043	-30
Total (not seasonally adjusted) March: 'Headline Total'	3,143	-82
Vacancies March	211	+4
Employed Labour Force 1986Q4	24,127	+87
Manufacturing employment February	5,114	- 1
		Percentage change on previous year
Index of average earnings		
Whole economy February, underlying (actual)	7½ (7.4)	
Wage and salary costs per unit of output		
Whole economy 1986Q4		5.2
Manufacturing 3 months to February		1.8
Output per head		
Whole economy 1986Q4		2.9
Manufacturing 3 months to February		6.1

S/14

Unemployment

2. Seasonally-adjusted adult unemployment (excluding school leavers) fell sharply again between February and March, by 30,000 to 3,043,000 (11.0 per cent). The average monthly fall in the seasonally adjusted total is 25,000 over both the last three and six month periods.

3. The headline total fell by 82,000 to 3,143,000, 11.4 per cent of the working population. There was a fall of 75,000 among adults and nearly 8,000 among school leavers.

4. The stock of vacancies at Jobcentres (seasonally adjusted) increased in March by 3,500 to 211,000.

5. Points of interest:

(a) Seasonally adjusted total again lower than level two years ago (March 1985: 3,095,000). Now at lowest level since September 1984.

(b) Fall over last six months yet again largest six monthly fall since 1973.

(c) The seasonally adjusted total has fallen for eight months in succession, a fall of 180,000 in total, since last July.

(d) DE are again saying that the current trend is probably close to the average six-monthly fall of 25,000 a month.

(e) [NOT FOR USE: DE's assessment is that Restart has so far reduced the claimant count by just less than 10,000 per month over the past eight months, and that this appears to have been maintained in February and March. DE think availability testing probably had a substantial impact, of perhaps 20,000, in March.]

(f) Male unemployment (seasonally adjusted, adult) has fallen in each of the last 9 months by 104,000 in total. Female unemployment fell in March for the second month running, to maintain the general downward movement since last August.

(g) For the second month running, all regions saw a fall in unemployment in March, and over the past six months only Scotland has seen a small rise. Over the past year unemployment has fallen fastest in the North and Wales, and the only regions to experience a rise were Scotland and Northern Ireland.

(h) Seasonal influences will be slightly downward in April and so, assuming a continuation of the downward trend, it is likely that there will be a further fall in the headline total.

(j) The estimated effect of employment measures on the count is now broadly flat. Through most of 1986 they had been reducing the adult count by an extra 5,000 a month [UNPUBLISHED, NOT FOR USE: Employment measures are estimated to have reduced the adult count by 295,000 in February]

(k) The stock of vacancies increased by 3,500 in March to nearly 211,000, some recovery following falls in the previous three months. Inflows of notified vacancies, outflows and placings all recovered very sharply from falls in the previous two months, and are back to record levels since the series began in 1980. The stock of vacancies is some 24 per cent higher than a year earlier.

Assessment

6. DE's assessment is that the March fall in unemployment could well be wholly explained by Restart and availability testing. EA1 will be providing their usual assessment of the unemployment trend.

Employment

7. The new figures available this month relate to the employed labour force in the final quarter of 1986, and employees in manufacturing industries in February.

8. The employed labour force (employees in employment, the self-employed and HM Forces) is estimated to have increased by 87,000 in the fourth quarter of 1986, the largest increase since 1985Q1. This follows an increase of 54,000 in the third quarter, and continues the current upward trend started in March 1983, since when the employed labour force is estimated to have risen by 1,130,000. The increase of 176,000 in 1986 is less than the 236,000 rise in 1985, but the rate of increase strengthened during the course of 1986. The third and fourth quarter figures each include an assumed growth of 25,600 in self-employment (compared with the estimated average rise of 4,250 a quarter between June 1985 and June 1986).

9. The number of employees in service industries rose by 69,000 in the December quarter, and in construction by 12,000, but this was partly offset by falls of 4,000 in manufacturing and 9,000 in energy and water supply industries.

10. The rise in total employment in the fourth quarter was the fifteenth successive quarterly increase, the largest period of continuous employment growth for almost 30 years. The growth in the employed labour force between June 1983 and December 1986 is now over one million, made up as follows:

Thousands

Employees in Employment				Self Employed	Total
Males	Females		Total		
	Full time	Part time			
-37	+257	+413	+633	+458	+1088

11. Manufacturing employment is estimated to have fallen by 1,000 in February, following a decrease of 22,000 in January. The DE press notice emphasises the erratic nature of fluctuations in the monthly estimates, and points out that a clearer picture is given by the three month averages. [NOT FOR USE: DE think that the end-quarter figures, based on twice the sample size, will give more reliable estimates for January and February]. The average decrease of 9,000 a month in the three months ending February compares with an average decrease of 2,000 a month in the three months ending November 1986. However, it is less than the average monthly falls in the three-month periods ending between February 1986 and September 1986.

Other features

12. The underlying increase in average earnings in February remained at 7½ per cent, and has been little changed for four years.

13. Whole economy productivity rose very slightly between the third and fourth quarters of 1986, and 2.9 per cent higher than in 1985Q4. Manufacturing output per head in the three months to February was 0.7 per cent higher than in the three months to November, and 6.1 per cent higher than in the same period a year earlier. These figures reflect the upward revisions to manufacturing output series for 1986Q4 and January 1987, published on 14 April.

14. Whole economy unit wage costs in the fourth quarter of 1986 were 5.2 per cent higher than in the corresponding period in 1985. In manufacturing, higher productivity growth has reduced the rate of increase of unit wage costs to its lowest level since the second quarter of 1984.

PERSONAL AND CONFIDENTIAL
Until 11.30am on Wednesday 15 April

Manufacturing: Percentage increase over previous 12 months

	Average Earnings	Output per head	Wage and salaries per unit of output
1986Q1	7.9	0.1	7.9
Q2	7.5	0.7	6.8
Q3	7.1	3.5	3.6
Q4	8.0	6.1	1.9
3 months to February	8.1	6.1	1.8

Peter Patterson

PETER PATTERSON

-005/2768

CHIEF SECRETARY TO THE TREASURY

* We must discuss this as soon as I get back. I am v. unattracted to the idea of higher NICs, which would be a political own goal so far as the crucially important tax debate is concerned, quite apart from the fact that the link b/w NI contributions & NI benefits (& now with nurses/doctors' pay). N.

FROM: CHIEF SECRETARY

DATE: 14 April 1987

CHANCELLOR

cc Minister of State
Sir Peter Middleton
Mr Kemp

CST → CH/EX 14/4

REVIEW BODY REPORTS

You have asked officials for advice on the Review Body Reports. I have not yet received full details of the awards, but from very preliminary information I have received I have the following comments.

TSRB

I understand that the TSRB recommends increases averaging a little under 5 per cent. This should present no public expenditure problems, but may need careful handling depending on where we are on the Civil Service pay dispute.

AFPRB

I understand that this will come at under 7 per cent. This is very disappointing, as there are no recruitment and retention problems as I understand it. I would wish to insist that the Defence block absorbs the costs, although this will obviously add to the difficulties of defence generally.

Nurses and Doctors

The major problem for public expenditure is the reports for the NHS Groups. I am told that these will come out at just over 9 per cent for Nurses etc and just under 8 per cent for Doctors and Dentists. The latter is particularly disappointing, as again there are no recruitment and retention problems. Tentative estimates for the two, put to me, are that the bill for the NHS would be £650-700 million

Is nothing said abt staging?

in GB, once account is taken of the employers' superannuation and National Insurance costs. This is horrendous. We shall have to ask DHSS to absorb a substantial proportion of this, but clearly even so there will be a considerable shortfall. We could be faced with extra costs of some £300 million compared with £60 million last year - which I would be most reluctant to see taken on the Reserve. First, it is a very large sum and the Reserve is already under severe pressure. Second, taken together with last year it begins to establish a disturbing precedent, at least for Nurses pay, more probably for NHS generally and increasingly likely to be prayed in aid by other review body groups. Third, it could create difficulties for the current Civil Service Pay Dispute, and in the future for Local Authority demands that are higher than we would like.

My own view is that we should press strongly for this extra funding to come immediately via higher national insurance contributions.* This brings home directly to the public, who want higher pay for Nurses, that they must also find the means (although I do not take it into account too heavily, see yesterday's Today survey on Nurses pay). This would avoid the Exchequer bearing the cost. It helps to distinguish the Nurses as a special case. It would help us to argue that any future local authority settlement higher than we would wish should be financed purely from the rates.

I have asked Peter Kemp to look at all the problems that would be involved on this, and to report.

JM

JOHN MacGREGOR

* This could require legislation since the "health stamp" is already at its maximum and the NI Fund is in surplus.

TODAY EXTRACT 13/4

DIANA: Short stay

THE Princess of Wales flew home alone yesterday after spending less than 48 hours with Prince Charles and their children at Balmoral.

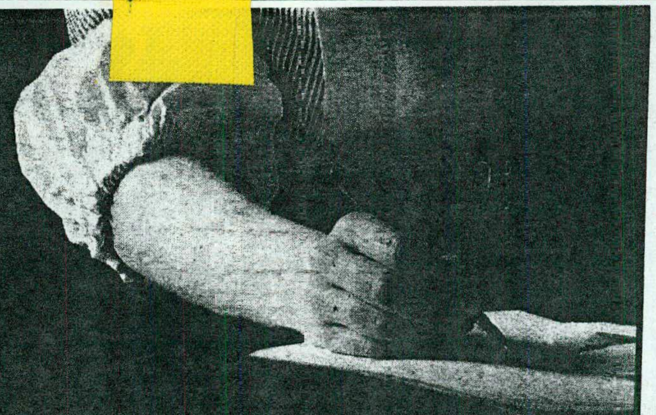
Diana, wearing brown leather trousers and a peach top but no jacket, arrived on a scheduled flight at London's Heathrow Airport.

She has some private engagements this week and her return was planned well in advance, said a Buckingham Palace spokesman.

Prince Charles, who has just returned from a trip to the Kalahari desert in Africa, will stay in Scotland with Prince Harry and Prince William until tomorrow.

TODAY 13/4

MONEY



Angels are 'worthier than the teachers'

by DAVID UTTING
Home Affairs Correspondent

TAXPAYERS send an unmistakeable message to Mrs Thatcher today: "Give nurses a fair deal and we'll find the money to pay for it."

An opinion poll conducted exclusively for TODAY reveals that an overwhelming seven out of ten people would willingly pay more tax if it ensured better rewards for nurses. As Mrs Thatcher starts to consider recommendations this week from the independent board reviewing nurses' pay, the survey shows that support and affection for our hard-pressed "angels" could scarcely be stronger.

Nurses, according to the Marplan survey, are widely seen as:

● Caring professionals who have, if anything, risen in public estimation over the

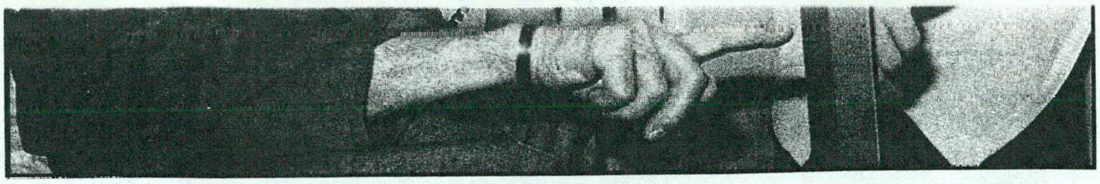
Turn to Page 2

CONDITION CRITICAL – Centre Pages

TODAY, TUESDAY, APRIL 14, 1987

IN THE LIFE OF A HOSPITAL

‘The bad days are when you have someone dying, someone critically ill and someone bleeding all at the same time - you feel torn to pieces trying to decide what to do first’



UNDER PRESSURE: But Martin Bailey feels he has to keep cheerful for the patients

This weekend, the Prime Minister begins to decide what Britain's 500,000 nurses are worth. Let's hope she will read this report of one day in an average British hospital — the 1,400-bed University Hospital, Queen's Medical Centre in Nottingham. And if it sounds like the script of a TV soap, remember — this is a routine day. Not a bad one.

by ANN MORRIS

THE alarm woke **Nurse Martin Bailey** at **5.15am**. Fighting the temptation to go back to sleep he got up, made a cup of coffee and two pieces of toast.

By **6am**, in the half light, he was shaved, dressed and on his way from his sparsely furnished nursing-home bedsit to the hospital.

He went to the bleak, third floor staff canteen for a second cup of coffee and a chat with **Sister Hilary Cockburn**, in charge of the neurosurgical ward linked to his own. Each had been off duty for less than eight hours.

At **6.30am** they were on ward, reading themselves into the day's work, which would begin at **7am**.

First, they checked the drugs cupboard, then gave instructions to the eight nursing staff on their shift, and visited every bed.

Martin's first call halted his routine. He realised the middle-aged woman he'd gone to visit was dying. He stayed and held her hand. At **7.30am** she died.

"There was nothing medically that could be done for her — all I could do was stay with her. No-one should die alone.

"Death is one of the hardest things to deal with. They teach you how to deal with dying patients and their relatives but no-one teaches you how to deal with it yourself," said Martin.

"Sometimes you just sit down and cry. If you get a spate of deaths, morale goes down, but you

must stay cheerful and in control for the other patients, their relatives, the younger staff.

"A couple of weeks ago, I had a man in the ward who had a brain tumour. They were going to operate and he knew the risks.

"He wanted to talk. He'd been married for a long, long time and wanted to tell his wife how much he loved her, so he wrote her this beautiful poem. He was crying and in the end I found myself crying with him.

"He died on the operating table."

On days like that, Martin cleans the sluice for half an hour. It's one of the most unpleasant jobs.

"I close the door and bang about in there, cleaning all the equipment, making it spotless, hitting the walls. It's my way of coping."

When Hilary gets mad, she makes beds. But today, she pushed through the routine efficiently, aware that there is no such thing as a routine day.

By **8am** she had started on rounds with doctors, consultants, dieticians and physiotherapists and doled out the first medicines. One young patient was incontinent, a new arrival had bed sores.

At **10am**, one of the first visitors walked in with an unsure smile flickering across her face.

Hilary changed emotional gear. She took the visitor by the arm and led her gently to her friend's bedside — explaining her condition. The patient seemed only semi-conscious, attached to complicated plastic drips and tubes.

Nearby, **Nurse Jean Ratevold** gave another patient a two-hourly check, testing his pulse, blood pressure, temperature, eyes and orientation.

"Mr James — can you hear me? Where are you? Do you know where you are?" Seemingly half-conscious, he turned slightly and mumbled an answer. She made him comfortable and moved on.

"We are constantly monitoring patients. You have to be ready to give a patient oxygen, suction, whatever, at any time."

She marked Mr James's report chart: a small part of the workload that fell to her on top of the basic care of making beds, giving words of comfort, plumping pillows, feeding one patient, lifting another, changing dressings and the endless round of bedpans.

In his ward, Martin gave a patient an injection. Though he chatted and joked, his mind was juggling beds. He had 29 patients and 28 beds and two more patients were on their way from Accident and Emergency.

The ground-floor accident unit is like Charing Cross station — even when it's quiet. Today, one of the local drunks added to the unit's problems.

Two sisters, three nurses and a policeman tried to hold him down as he kicked and lashed out at them. "You learn to stand well back to avoid the knocks," said **Sister Andrea Lynd**.

"We get more verbal than physical abuse, from drunks, other patients and relatives. They are upset, so they take it out on us."

The hospital has the biggest accident unit in the country, with 130,000-plus patients each year.

Seventy percent are trauma patients after some sort of an accident, another 15 percent are medical — things like heart attacks — and 10 percent surgery.

One patient with a nose bleed he hadn't been able to stop walked

through clutching his face. A teenager was pushed through in a wheelchair, crying out in agony, after falling off his bike and dislocating an elbow.

An elderly man lay in bed in the centre of the unit after suffering a stroke at home. **Student Nurse Debbie Hazelhurst** bent over him, smiling and holding his hand.

She'd spent six weeks in the Accident and Emergency Unit and had another six or seven to go: "I like it. The only time I didn't was when an aggressive patient came in and smashed that window."

She had another year of training, then the statutory six months needed to get her SRN.

"I'll work in the private sector or go to Australia or New Zealand. Stay in the NHS? You must be mad. Look at the wages. I am considered to be on the poverty line. I can claim rent rebate — that's humiliating."

The black phone on the wall rang. Everyone reacted: it was warning of an emergency case. An SRN told a sister: "It's a two-year-old who has ingested something."

Within three minutes, the doors of an ambulance opened and the child was carried in.

"They'll eat and drink anything," said 28-year-old **Staff Nurse Jayne Pickering**. "We usually give them something to make them sick."

At the admission desk, an anxious couple tried to soothe a tiny, crying baby called Kelly, who didn't seem to be breathing properly. In a quiet corner, Jayne

TOMORROW:

BEARING UP: Sister Cockburn starts a new day

CALMING CARE: Nurse Jayne Pickering soothes baby Kelly

PICTURES: Alasdair MacDonald

What the lifesavers earn

SRN Martin Bailey, 31 (nursing 13 years) take home pay £420 per month.
Sister Hilary Cockburn, 28 (nursing ten years, newly qualified sister) annual salary £8,070.
SRN Jean Ratevold, 26 (nursing eight years) take home pay £460 per month.
Student Nurse Debbie Hazelhurst, 20 (nursing two years) take home pay £280 per month.
Senior Sister Andrea Lynd, 38 (nursing 20 years) annual salary £12,000.
Paediatric Nurse Jayne Pickering, 28 (nursing ten years) annual salary £7,750.
Sister Teresa Harris, 28, (nursing 10 years) take home pay, with overtime, £530 a month.

undressed the five-month-old, comforting her and her mother while they waited for the doctor.

In sharp contrast, Intensive Care is a haven of peace — just the bleeps of the banks of equipment surrounding each patient.

Most of them are unconscious and have to be monitored constantly. There is a ratio of at least one nurse to a patient.

A man in his 20s is attached to a dozen monitoring systems. "He's a trauma patient, he was in an accident three days ago," said **Sister Teresa Harris**. His fiancee, worry etched on her face, sat holding his hand and stroking his head. "We don't really get to know the patients but we know the relatives very well," said Sister Harris.

The hardest part is keeping up to date with the battery of technological wizardry, which increases the stress level. "A young nurse takes six months to adjust."

Down on the neurosurgical ward, the day was coming to an end for Martin and Hilary. At **4pm** they closed the door of the sister's office and relaxed. Each had taken only a 15-minute break all day.

The husband of the woman who had died arrived in tears and wanted to talk. The phone rang — another worried relative, and only Martin could help.

Hilary sighed and pulled her handbag out of the desk drawer. "Today hasn't really been busy. The bad days are when you have someone dying, someone critically

ill and someone bleeding all at the same time, you don't have enough staff and feel torn into pieces trying to decide what to do first.

"Understaffing is a problem — the little things that matter so much sometimes go by the board."

She stood, up ready for the walk back to her room. "The first thing I'm going to do is have a bath."

Martin put on his jacket ready to race home, change and shave before getting a lift to Sheffield to see his girlfriend. "Due to work I didn't see her last week at all. She wants to go to a disco tonight."

Hilary groaned at the thought. She'd be back on duty at **1pm** and Martin at **7pm** the following day.

Bottles and bedpans shouldn't be their baby

by DAVID UTTING

IS IT sensible for skilled nurses to spend a good part of their working time making beds and washing sample bottles and emptying bedpans?

And, given the extent of their training, shouldn't we be giving nurses greater medical responsibility?

Health Secretary Norman Fowler is considering proposals for "community nurses" to increase their status and allow them to perform some tasks currently carried out by doctors.

And an exclusive Marplan poll commissioned by TODAY indicated a high degree of public confidence in nurses. A representative sample of 945 adults aged 18 and over in 33 random constituencies were questioned face to face on April 8.

Over 50 percent said nurses should be able to prescribe a limited range of routine drugs, such as antibiotics. Thirty eight percent were opposed.

Those aged 35 and under were asked if they would prefer a midwife or doctor to deliver their baby. Although 45 percent expressed no preference, another 36 percent favoured the midwife against just 16 percent for the doctor. Sixty eight percent thought routine ward jobs should be left to untrained staff. Only 30 percent agreed bedpans and baths are "all part of nursing".

Finally, the Royal College of Nursing supplied us with their definition of a nurse: "A caring professional who aims to promote health prevention and give the best possible care to a sick patient."

Asked if they thought that was more true of the profession than five years ago, less true or about the same, two-thirds of our sample said their view was either unchanged (36 percent) or that it had improved (32 percent). Only 21 percent thought the definition less true than five years earlier.

● IF YOU are a nurse with a story to tell, call TODAY on 01-630 5560 (11am to 4pm) — we'll ring you back — or write to NURSES CAMPAIGN, Allen House, 70 Vauxhall Bridge Rd, Pimlico, London SW1V 2RP. Though we can only publish a selection of your stories, all who contact us will qualify for a super NURSES ONLY competition. Details of prizes will be published soon.

WHERE HAVE ALL THE NURSES GONE?

TODAY 14/4

Our hospitals are just five years away from disaster

This week the eight members of the nurses' independent pay review board deliver their secret recommendations to Downing Street. The Prime Minister must decide what Britain's 500,000 nurses are worth. They want an extra £1000 a year for every nurse. The consequences of her decision will be far-reaching . . .

by CHRIS MIHILL
Medical Correspondent

A TIME bomb is ticking relentlessly away under the National Health Service: and it's set to explode in just five years' time. The awful truth is that by 1992 there will not be enough nurses to staff Britain's hospitals, unless a staggering 50 percent of all 18-year-old school-leavers with A levels go into nursing.

The crunch is that the number of available school-leavers is dropping because the Sixties' baby boom has come to an end. And nurses' leaders know that the profession cannot possibly recruit the proportion of 18-year-olds needed to maintain present staffing levels.

The prognosis is grim, but the nursing unions believe they have a cure: a massive injection of cash from the government to boost nurses' pay and make nursing a more attractive career proposition. For morale is at an all-time low; the traditional and much-abused goodwill of nursing staff is being stretched to breaking point.

If you're a nurse with a story to tell, call TODAY on 01-630 5560. We'll publish some of them. All callers will be entered in our NURSES ONLY competition. Details of prizes will be published soon. If you want a free car sticker, phone 01-630 5560 from 11am to 4pm, or write off for one to:
TODAY NURSES CAMPAIGN
Allen House
70 Vauxhall Bridge Road
London SW1V 2RP

Britain's half-a-million nurses feel they are exploited, undervalued and being asked to bear pressures that no other workforce would tolerate. The fact that a raw trainee at a police college, a newly qualified teacher, many secretaries — even a London refuse collector — gets more than a nurse with eight years' experience is galling and insulting to them.

And they feel that, because of health cuts, they are prevented from providing the care they were trained for and want to give.

Thousands of nurses struggling to make ends meet are "moonlighting" to boost their income, working almost around the clock, many as agency nurses, others as waitresses or shop workers.

Trained nurses are leaving the profession at the rate of 30,000 a year. A further 6,000 trainees drop out each year. They are replaced by some 27,000 new students and 9,000 former nurses each year: but this makes for an increasingly inexperienced workforce, bolstered by nurses who have not practised for many years.

According to a recent survey commissioned by the health service union COHSE, 59 percent of nurses have seriously considered quitting the NHS, 91 percent think their salary is too low, and 85 percent say their morale has fallen. Currently, nursing recruits 25 percent of all female school-leavers with two A levels — the profession depends vitally on these new recruits.

Applicants to nursing schools are dropping by 7 percent each year — even the London teaching hospitals, once considered the pinnacle of training schemes, are having difficulty in filling places.

Some of the worst shortages — up to 25 percent in some hospitals — are in London because of the high cost of housing which makes it almost impossible for nurses to get a mortgage.

Other professions are keenly recruiting bright young women; men are not keen to enter nursing although they make up 10 percent of the workforce and mature students are not keen to come forward.

At a cost of around £13,000 to train a nurse, the loss to the NHS of 30,000 nurses a year is put at a staggering £390 million.

The shortages mean that wards have to be closed, despite lengthening waiting lists; accident and emergency units have had to be shut and even intensive care beds are being withdrawn because there are no nurses to staff them.

Nurses are being tempted to America, Australia and Saudi Arabia by salaries more than double those offered in Britain. Many go into higher paid jobs in the private sector or into agencies.

After three years' training, an SRN will be paid £3,000 a year less than a new police recruit; £2,000 a year less than a new fireman, £1,000 a year less than a newly appointed teacher and a £3,000 a year less than a dustman (who has fixed overtime and bonus agreements) in the London borough of Hackney.

There is one glimmer of hope in this gloomy picture.

In TODAY's Marplan poll, 66 percent said that they would still recommend a school-leaver to take up nursing.

Caught in the image trap

JANE SALVAGE (left) trained as a nurse at The London Hospital after studying English at Cambridge. She left nursing to become a journalist and worked for several years on Nursing Mirror and Nursing Times. She is the author of The Politics of Nursing

THREE images sum up the public persona of the nurse today — angels of mercy, sexpots in black stockings and starchy matrons.

Or at any rate that's how she's usually portrayed in popular mythology, whether it's a Carry On film, a seaside postcard or a hospital soap opera.

But the angels — to use a favourite, if tired, synonym for the UK's largest group of health workers — are getting angry. Nursing in the NHS is a far cry from chatting up handsome housemen or cooling the fevered brow, and the stereotype is increasingly irritating. Cuts in services, a higher through-put of patients and the resulting heavy workload means there is not a moment spare to indulge in the fantasies of Mills and Boon.

Anyone who has been a patient knows that nurses do a difficult and demanding job, both physically and emotionally. Yet the stereotypes die hard. Last year a London restaurant called Bedside Manners promised guests a spanking from matron if they didn't finish their dinners. A stroll round Soho is likely to reveal sizzling sex movies called Naughty Night Nurses or What The Doctor Ordered.

But innuendo and bottom-pinching from patients convinced that every female nurse is a Barbara Windsor is no laughing matter. Nurses believe that their public image is detrimental to a nation facing its biggest crisis for many years. Its traditional pool of recruits, 18-year-old schoolgirls, is shrinking fast. What intelligent, capable school-leaver — or graduate or mature entrant — will opt for a career with such an unprofessional image?

These overwhelmingly female images are closely linked to stereotypes of women in general. They define the nurse as a substitute mother, mistress or maiden aunt rather than as a person in her own right.

The images also tie nursing firmly to the apron strings of women's work, which is usually badly paid, low status and undervalued. It is seen as a job women can do instinctively, a natural extension of their caring role in the family, rather than as an interesting career which requires education and expertise.

Most damaging of all is the portrayal of the nurse, whether angel, battleaxe or whore, as the doctor's handmaiden. Many doctors are only too happy to perpetuate the myth of the nurse as the gentle, womanly career while he is the tough, objective man of science. Many nurses are socialised into accepting it. Yet carrying out the doctors "orders" is only a small part of nursing work. In the modern health care team the professionals work side by side as colleagues.

Only when society banishes these stereotypes can it hope to secure more highly qualified and motivated nurses — not ministering angels, dragons or tarts, but competent professional practitioners.

TODAY EXTRACT 14/4

TOMORROW: ONE PAIR OF HA

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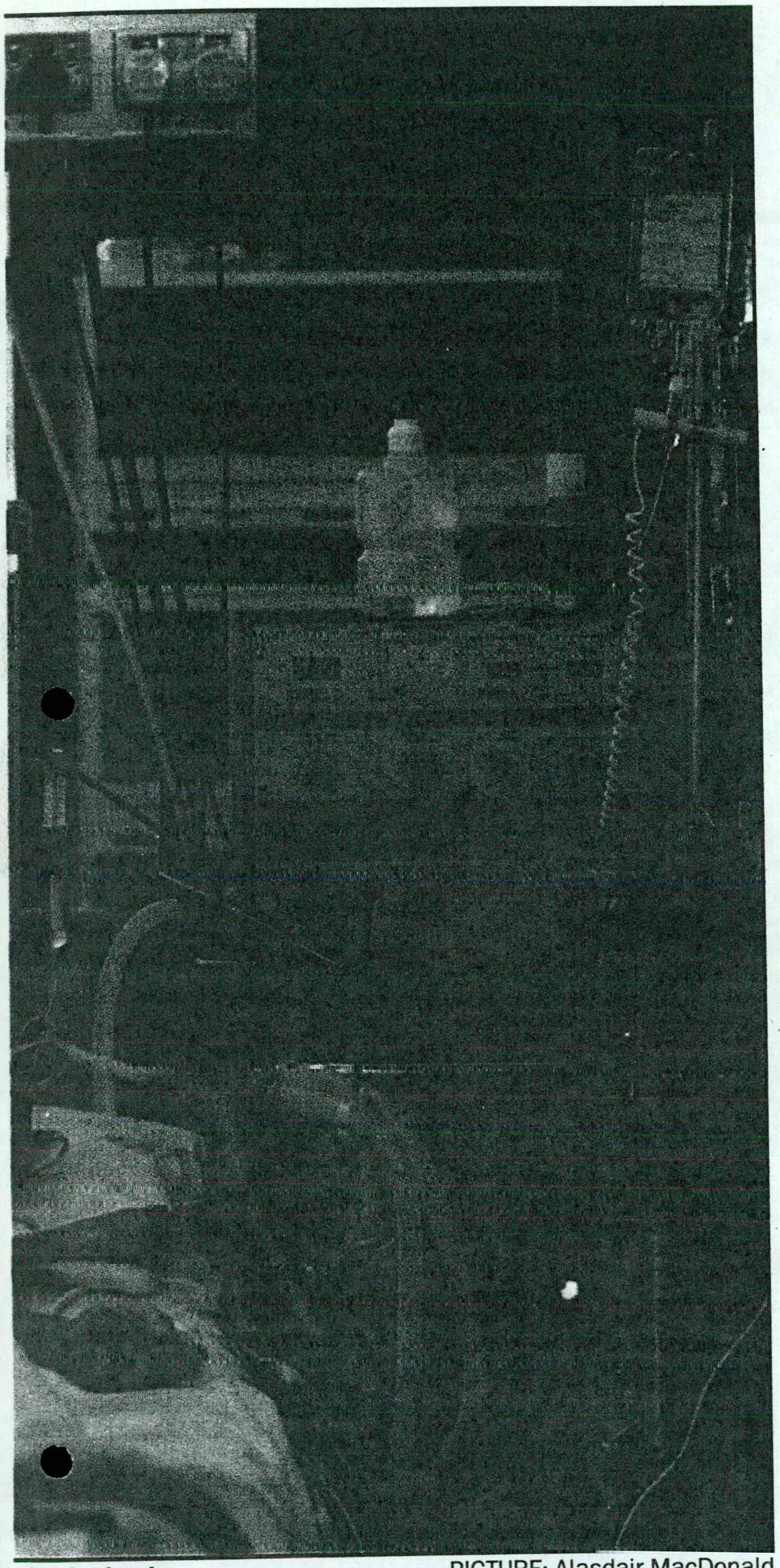

ork a lot harder PICTURE: Alasdair MacDonald

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088

Pay Scales (per annum)	
Student nurse	£4,325

FOR THE RECORD

When I was being treated for cancer at the Royal Marsden, the nurses caring for me were just terrific. When the doctors told me I was cured the nurses' joy was as intense as mine. Their work is so technical now that their wages are a disgrace

Bob Champion
Grand National winner

Sister Margaret Sayer of Newcastle General Hospital was instrumental in my recovery after a coach crash in 1984. I needed brain surgery and Sister Sayer and her team did far more than their job specification. She helped save my life

Mike Nolan of Bucks Fizz

The Dublin nurses were unbelievable six years ago when my wife Diane — yes, the lady in red — almost died after a miscarriage. The expertise of the nurses at the Rotunda Children's Hospital was so marvellous that I happily play charity concerts for them

Chris de Burgh, singer

I felt so humble when I watched the nurses in action after I was taken to the Cardiff Royal Infirmary after my accident in July, 1984. I had injuries to my neck and ribs and a punctured lung after crashing at 80 mph. The nurses never stopped working for a minute. They just went on and on

Liz Hobbs, water-skiing champion

Let me make one thing absolutely clear: the Health Service is safe with us

Margaret Thatcher
Conservative conference, 1982

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POOR PROGNOSIS: More sophisticated medical care means patients live longer — and nurses work a lot harder PICTURE: Alasdair MacDonald

Staff nurse	Policeman	Teacher	Dustman
£6,475	£9,756 (over 22)	£7,302 (graduate)	£10,088 (Hackney inc fixed bonus & overtime)
Ward sister	**Police sergeant**	**Teacher**	**Dustman**
£8,525	£12,372 (outside London)	£10,986 (12 years)	£11,500 (driver Hackney)

Pay Scales (per annum)	
Student nurse	£4,325
Staff nurse (SRN)	£6,475
maximum	£7,750
Sister	£8,070
maximum	£10,800

R OF HANDS ISN'T ENOUGH — A DAY IN THE LIFE OF A HOSP

Alex

cc Sir P Middleton
Sir G Littler
Mrs Lomax

LONDON SW3 6AX

Telephone: 01-352 9360

pup (polarisation)

curious attenuated address

PERSONAL

15th April, 1987

The Rt. Hon. Paul Channon, M.P.,
Secretary of State for Trade and Industry,
Department of Trade and Industry,
1-19, Victoria Street,
London SW1H 0ET.

[incredible that the banks were unable to get their act together until the 11th hour]

Dear Paul,

Forgive me for imposing on you a letter on the subject of the S.I.B. rules at a time when you have been receiving so many representations. But I have been giving a lot of thought to likely developments in the European market for financial services and financial instruments in connection with a speech on the subject which I am giving at a B.I.E.C. Conference in Madrid next week; and I thought you might possibly find my conclusions of interest.

The movement towards complete freedom of trade in financial services and financial instruments in the European Community is strong. It seems reasonable to hope that exchange controls within Europe will be scrapped, except perhaps for Greece, Portugal and Ireland, by 1992. The consequence will be (unless protectionism creates walls between the U.S., Japan and Europe) that Paris, Frankfurt, Milan etc. will join London as part of a global financial market. The Japanese and American banks will be in a formidably strong position to be the main beneficiaries unless the Europeans get their act together.

The European Commission rightly sees that in an open market some common rules will be needed and will be making proposals covering most of the ground covered by the Financial Services Act. These rules will be fairly general and will leave it to member states to apply them. On the other hand, national rules will have to comply with Community law and it seems to me that, in the light of Sir Gordon Borrie's opinion, the S.I.B. draft rules might in their present form fall foul of the competition articles of the Treaty.

/Leaving

Leaving aside a possible challenge in the Courts on these grounds, what would happen if the present draft rules were approved? All my friends in the City agree that a vast amount of management time and of institutions' money would have to be devoted to finding out what the Courts will say the rules mean and then trying to apply them. The French, Germans and Italians, all jealous of London and in the case of Paris keen to fight hard for the leading role in Europe, will apply the E.C. directives very flexibly. The Americans and Japanese, who can decide to use their Paris or Frankfurt branches instead of London at very little cost, will start to move their business there, whenever the S.I.B. rules inhibit them or might involve them in costs or litigation. The British institutions might well have to follow and do a lot of their business offshore.

In my view, it is not too much to say that the only things which can prevent London from becoming the main centre of the global financial market in the European time zone are the advent of a Labour Government or for you to approve the S.I.B. draft rules in their present form. I will understand the political dilemma, with Kinnock trying to make capital out of the issue. But could you not rest on the Financial Services Act for the time being, on the grounds that:-

(a) it is legally necessary to consult the European Commission as to whether the draft rules are compatible with the Treaty;

(b) it would in any case be prudent to consult in the Council before approving draft rules which might later have to be changed to comply with Community legislation is it comes to be adopted.

This would get us all past the election safely and less impractical rules could then be drafted in the light of the above consultations.

I am sending a copy of this letter to Geoffrey Howe and Nigel Lawson.

Yours ever

Michael

Sir Michael Butler

MDB/MML
Copy:- The Rt. Hon. Sir Geoffrey Howe, QC, MP
The Rt. Hon. Nigel Lawson, MP.

CE21

pup

CONFIDENTIAL

FROM: MISS C EVANS
DATE: 21 APRIL 1987

MR ALLAN

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Geoffrey Littler
Sir Terence Burns
Mr F E R Butler
Mr Cassell
Mr Monck
Mrs Lomax
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Scholar
Mr Turnbull
Mr Culpin
Miss O'Mara
Mr Cropper
Mr Ross Goobey
Mr Tyrie

TCSC REPORT ON THE BUDGET

I attach a confidential final revise of the TCSC's reports on the Budget. It contains no recommendations and broadly follows the draft report which we saw earlier. The Committee have qualified some of the statements in the earlier report in response to the points to Mr Scholar's letter of 6 April. As anticipated the record of the proceedings includes a minority report by Austin Mitchell.

2. The report will be published at 12.00 tomorrow. Given its inconclusive tone the report seems unlikely to excite a great deal of press interest and may well be overshadowed by the Second Reading debate. The most likely areas of interest would seem to be the sections on monetary policy and the Louvre Accord, but there may be some questions about the Committee's remarks on the PSBR and tax revenue forecasting. I should be grateful if Messrs Peretz, Odling-Smee and Sedgwick could consider what briefing Mr Culpin might need in order to respond to the report, and clear the line with you as necessary.

3. You have already spoken to the Clerk about the Committee's failure to take on board some of the corrections which we made to the quotations from the witnesses' evidence.

Carys Evans

MISS C EVANS

TCSC REPORT ON 1987 BUDGET: MAIN POINTS

MONETARY POLICY

Paragraph 8	'there now seems to be clear justification for assuming that the Government has an implicit exchange rate target'.
Paragraph 10	expresses doubts about MO as a lead indicator and relief that it is supported by other indicators
Paragraph 11	calls for greater clarity about the use made of the monetary indicators by the authorities
paragraph 12	'the Red Book ... gives the impression that the Government felt no particular anxiety about this (build up of private sector liquidity)'
paragraph 14	'Governor ... less sanguine' (about the growth of personal credit)
Paragraph 15	'Governor ... would not be averse to volume controls on credit if they can be effected' but 'he did not think that the imposition of volume controls would provide an effective solution'.
Paragraph 16	'We assume from this that the Government bases its approach on funding the PSBR completely, and uses short term interest rates to control any increase which may take place in the growth of credit about (sic) that deemed to be consistent with its overall macro-economic objectives'.
Paragraph 17	'There seems ... to be considerable uncertainty about the extent to which bank lending and the demand for credit generally responds to changes in short term interest rates'.

PUBLIC EXPENDITURE

Paragraph 19	'upward revision in the estimate of inflation will affect real value of Autumn Statement public expenditure plans'.
Paragraph 20	'Treasury officials said that the Government will be seeking to hold to those totals'. 'Nonetheless past experience suggests that spending is likely to overshoot the planning total'.

PSBR

Paragraph 23 'We are unclear why a PSBR of 1 per cent of GDP is regarded as an appropriate destination'.

Paragraph 27 'We urge the Treasury to address this issue more fully in future versions of the MTFS'

FORECASTING

Paragraph 33 'We note that the significant and unexpected reductions in taxation and the PSBR target announced for 1987-88 have been made possible only because the original forecasts proved inaccurate ... we urge the Treasury to endeavour to improve its forecasting performance in this area'.

LOUVRE ACCORD

Paragraph 35 'both the Chancellor and the Governor would not admit that any target band existed'

Paragraph 37 'We cannot see how the G6 can conclude that existing parities are 'about right' without also having in mind bands around these parities'

'if central banks do not discuss 'figures and numbers' it is difficult to see how they could agree on concerted action when these 'acceptable parities' are breached.

Paragraph 38 'We find this argument (against disclosing nuts and bolts) less convincing than previously'.

Paragraph 40 'the claimed advantages which might occur from joining the ERM do not seem to flow from the Accord. On the other hand, the presumption which now exists that the Bank of England will defend existing parities involves a loss of that flexibility and tactical advantage over the markets which the Chancellor commended'.

BALANCE OF PAYMENTS

Paragraph 45 This (Red Book) assessment may be too pessimistic.

22 APR '87 13:04

pwo

INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

From: F A Fitzpatrick
Date: 22 April 1987

FINANCIAL SECRETARY TO THE TREASURY

The report of the Select Committee is being published at 12.00pm today. It includes (paragraphs 28-33) some comments upon the forecasting procedures for corporation tax and makes one or two recommendations about those procedures.

On a matter of fact, paragraph 31 includes a quotation from the evidence submitted to the committee which has omitted several lines and therefore reads rather obscurely. The correct version is attached.

Paragraph 31 gives the impression that the latest data available to the Inland Revenue is already three years old and says that "Their forecasting should embrace information on profits in more recent years. The Revenue's forecasting procedures do embrace information on profits at the macro level in more recent years. We obtain profits data each quarter by means of an enquiry from a small sample of industrial and commercial companies and these are used to

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cc PS/Chancellor
PS/Economic Secretary
PS/Chief Secretary
PS/Minister of State
Mr Painter
Mr Calder
Mr McGivern
Mr Reed
Mr Johns
Mr McManus
Mr Walker
Mr Sedgwick
Mr Mowl
PS IR

firm up and constrain the projections made for individual companies within the forecasting model. The projection method was described in a highly condensed form in paragraph 4 of the Revenue's note to the Committee about the use of more recent data and a misunderstanding may have arisen from the compression. However the enquiry is a voluntary one and the coverage of the sector is small. (We are considering the possibility of recruiting more companies in order to improve our estimates.)

Paragraph 31 also refers to a close scrutiny of the estimates of outstanding tax losses and their application to reduce the tax yield in future years. This is an area which is constantly being examined and will continue to be examines. But, because of the long delays referred to in paragraph 9 of the Revenue's note to the Committee (attached), it is one of the most difficult aspects of tax forecasting. Nevertheless we shall consider whether our present methods can be improved in any way.

Line to take

The Report is likely to be referred to during today's debate on the Second Reading of the Finance Bill. The House will not expect a detailed response to the points made and we suggest the following:

Forecasting is a very difficult exercise, as we all know. The Inland Revenue keeps its forecasting methods continually under review and will consider carefully the points made by the Select Committee in the coming months.

F A Fitzpatrick

F A FITZPATRICK

Extract from Inland Revenue note to Select Committee

9. In Questions 106 and 107, Mr Wainwright referred to figures of agreed losses and the fact that the Inland Revenue do not record these figures centrally for use in forecasting. Although the amount of loss has to be agreed ultimately with each company and recorded in the tax office files, the process can be protracted particularly in the case of the larger, more complex groups which are affected by such matters as group transfers and overseas tax. In consequence it would be some years before the agreed figure would actually appear on a central record and its use as a forecasting base would therefore be very limited. We believe that a more reliable estimate of the loss overhang can be obtained by collecting figures, whether agreed or estimated, from tax offices each year in respect of the sample of companies used in the forecasting model. Here however, as has been explained, an estimate of total losses for the current year requires a projection over at least two years and is therefore subject to a wide margin of error. This was the basis of the estimate of £25-30 billion to which Mr Wainwright referred in Q106.

omitted sections underlined

CONFIDENTIAL

Papers Please

FROM: S J W BRISCOE
DATE: 22 APRIL 1987

1. MR CASSELL

2. CHANCELLOR

This reports the current state of our knowledge, or lack of it. Since the LABR is measured from financial data, the first priority must be to try to explain the big discrepancy between the two estimates of LA bank deposits. 22/4

Many thanks. Pls keep me fully in touch with further developments on this front.

cc Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Hawtin
Mrs Lomax
Mr Peretz
Mr Sedgwick
Mr Grice
Mr Mowl o/r
Mr Potter
Mr Perfect
Mr Ritchie

LOCAL AUTHORITY BORROWING REQUIREMENT

Following the lower than expected LABR in 1986-87 you commented (Mrs Ryding's minute to Mr Mowl of 13 April) that you remained deeply suspicious about what the local authorities had been up to.

2. LG division is of course taking a close interest in the various 'creative accounting' schemes that authorities have entered into. Some of the schemes, such as deferred purchase, have been the subject of legislation. Others, such as sale and leaseback, remain legal for the present. Exploitation of some of the schemes can in principle lead to a lower level of borrowing for a given scale of expenditure and activity by local authorities; if this were the case the LABR should still be correctly measured though its economic significance would have changed. Exploitation of such schemes could also in principle contribute to some underrecording of the LABR given the existing conventions for measuring it.

3. Various divisions are involved with the first of these, ie in investigating the scale and nature of such practices. PSF will need to take account of the findings and the effect on the LABR in future forecasts. CSO (and in the Treasury PSF) is in the lead on the second and more generally on the measurement of the LABR. At the moment we are not in a position to say whether there are any major problems in the measurement as against interpretation of the LABR. The rest of this note summarises the work in hand on measurement.

CONFIDENTIAL

4. There is one potential problem regarding the measurement of the LABR at the moment. The LABR is measured by the transactions that finance it, one of which is the change in local authority holdings of bank deposits. By convention the Bank of England's estimates of deposits are used by the CSO in the published figures. However, a second unpublished estimate is obtained by the Department of the Environment from a small sample of local authorities. Despite month to month fluctuations in the figures from the two sources, they have usually produced similar end-year estimates. However, there was a large discrepancy in March which doubled the existing gap to about £800 million. Taking the figures in the DOE sample rather than those from the Bank of England would produce a correspondingly larger borrowing requirement. – ie 7·1 bn!

5. This is now being looked at as a matter of urgency. The Bank, DOE and the Treasury were represented at a CSO meeting last week to discuss the discrepancy. It was agreed that the Bank and DOE would set about trying to reconcile their two sets of estimates. The reasons for the discrepancy are not known and in any case are not necessarily related to 'creative accounting'. We have no reason to believe that the revisions to the published LABR will be any larger than usual but it is impossible to be certain at this stage.

Simon Briscoe.

SIMON BRISCOE

3971/9

There is some truth in yr para 5, but a great overstatemt. There is no conflict between a centrally imposed core syllabus (which is essential!) and self governing schools. After all, the old public schools effectively had a core syllabus imposed by the requirements of Oxford & Cambridge. NL.

PRIVATE AND CONFIDENTIAL

FROM: P J CROPPER
DATE: 23 April 1987

CHANCELLOR

cc Mr Anson

IEA PUBLICATION ON EDUCATION

The IEA has set up an Education Unit, under Stuart Sexton (lately special adviser to Sir Keith Joseph), and their first publication "Our Schools - A Radical Policy" has just been circulated to you, John Anson and myself.

2. Stuart's written work is not his greatest strength, which detracts from the force of his argument for introducing "education credits" - or Vouchers, capable of being topped up where the parent is prepared to spend more than the basic allotment.

3. Unfortunately also (to my mind) Stuart shrinks from the logic of his proposal by conceding that, in order to deal with the deadweight effect caused by giving vouchers to people who can already afford private education, the value of the voucher should be "considered as taxable income".

4. Stuart does argue, and I am sure he is right, that the next few years would be a good time to launch a voucher system. Falling school roles will put bad schools on the spot in any case, and introduction of consumer choice should reinforce that effect. Basically his message is right.

5. Touching briefly on the work that is going on secretly on education, it seems to me that there is an awful confusion about the meaning of centralisation - and hence a dangerous amount of scope for emotional misunderstanding. One form of centralisation would transfer the whole management of schools to the Department of Education, while education remained free, curricula were standardised and parents rendered even more impotent than they are today. Another form of centralisation would transfer the whole of the financing of education to the centre and away from the local authorities (rates, community charge, RSG, and so on) but leave the system itself totally uncentralised because the vouchers could be spent freely at the school of the parent's choice, and the schools would be managed and owned on entirely independent lines.

6. As far as I can see the ideas currently being worked up fall neatly between all the stools. The cliff-edge is not being addressed, the private sector will remain private, small, élitist and very expensive, and most parents will continue to have no real freedom of choice or expression.

7. Perhaps the papers I have managed to find time for have given me an incomplete picture of what is going on.

P J CROPPER

3971/43

Papers
PSR.

PRIVATE AND CONFIDENTIAL

Thanks. Noted.

FROM: P J CROPPER
DATE: 30 April 1987

CHANCELLOR

cc Mr Anson

IEA PUBLICATION ON EDUCATION

Your minute of 29 April: I was not railing against a centrally imposed core syllabus. That is obviously right and, as you say, it was in the good old days enforced by the Syndics of the Ancient Universities. Trouble was - and becomes more so - that a substantial part of the population never came within effective reach of those syndics.

2. The bee in my bonnet relates to financial centralisation. We have that at present: education is free, provided by the Government (and its local authority satellites), but because it is free the parent has to take it or leave it. We have the wrong sort of centralisation. We want, surely, curriculum centralisation but not centralised ownership and finance.

3. One ought not to personalise, but does the following made sense? The rate demand for my pied à terre in Lambeth shows: ILEA £254. At Tonbridge, where my family lives, we pay another whack for education, this time to Kent. Save for the basic element in the university grant, my son has never consumed a pennyworth of State education. Do we get a penny off our education rates? Do we get a penny of tax relief or rebate against private education costs?

4. If this were a government committed to the destruction of the private sector in education, it would make some sense

- although the double levy in Lambeth and Tonbridge still seems pretty unjust. But as I understand it, we would like the private sector of education to grow, not wither. What exactly are we doing to encourage that, and what do the present proposals do to encourage it? Nothing that I can see.

5. One could obviously not switch to vouchers overnight: the schools would take time to get on their feet as "commercial" and independent operations. But surely we ought to be moving in that direction. I come back to reimbursement - or partial reimbursement if you like. Anything to soften the cliff-edge.

6. Disgusted of TW!

P J CROPPER

PRESS
AND
INFORMATION SERVICE

CSO

CENTRAL STATISTICAL OFFICE

THE PRIVATE SECRETARY
TO THE
CHANCELLOR OF THE
EXCHEQUER
HMT

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CSO (87) 40

30 April 1987

PUBLICATION DATES OF SELECTED SOCIAL STATISTICS FOR MAY 1987

This is issued by the Central Statistical Office on behalf of the Government Statistical Service and other organisations as a guide to the publication dates of major social series in May. The dates are targets that are normally expected to be met. Exceptionally there may be delays due to unavoidable statistical problems.

ENQUIRIES ABOUT RELEASE OF INDIVIDUAL SERIES SHOULD BE MADE TO THE SOURCE NAMED.

Target Publication Date	Title of Release	Type	Source
MAY			
Week 1	Social Survey Division Report: Visiting the National Portrait Gallery by Barbara Harvey (on behalf of the Gallery)		OPCS
Wed 6	Overseas travel and tourism (Jan/Feb)	PN	DE
Thurs 7	Detailed analysis of employment, unemployment, earnings, prices and other indicators	EG	DE
	Housebuilding: March 1987	PN	DOE
	Monthly statistics of new dwellings started and completed for the public and private sectors in Great Britain and England.		

PN = Press Notice
EG = Employment Gazettee

DE = Department of Employment
DOE = Department of Environment
OPCS = Offic of Population Census and Surveys

prepared by the Government Statistical Service

Target Publication Date	Title of Release	Type	Source
MAY (cont)			
Tues 12	MN 87/2 Recorded internal population movements in the United Kingdom mid-1985 - mid-1986	SB	OPCS
	VS 87/5 Live births, stillbirths and deaths: registrations 28 February - 27 March 1987	SB	OPCS
Thurs 14	Labour market statistics: unemployment and unfilled vacancies (Apr-prov); average earnings indices (Mar-prov), employment, hours, productivity and unit wage costs; industrial disputes	PN	DE
	Heavy Goods Vehicles in Great Britain, 1986	PN+AV	DTp
Fri 15	Retail prices index (Apr)	PN	DE
Tue 19	DH2 87/2 Deaths by cause: September quarter 1986 registrations	SB	OPCS
	DH4 87/3 Deaths from accidents and violence: September quarter 1986 registrations	SB	OPCS
Tue 19*	Hospital In-patient Enquiry 1985: summary tables Series MB4 no.26	AV	OPCS
Tue 19*	MB4 87/1 Hospital In-patient Enquiry: Trends 1979 - 1985	SB	OPCS
Week 3	Quarterly Transport Statistics No 17 (4th qtr 1986)	SB	DTp
Thur 28	Motor Vehicle Registrations, (April)	PN+SB	DTp
Week 4	National Road Maintenance Condition Survey: Sub-National Results	SB	DTp

* = provisional
PN = Press Notice
SB = Statistical Bulletin
AV = Annual Volume

DTp = Department of Transport
DE = Department of Employment
OPCS = Office of population censuses and surveys
DOE = Department of Environment

MR 9/104

FROM: A C S ALLAN

DATE: 30 April 1987

CHANCELLOR

LOCAL AUTHORITIES

Robin has produced an annotated agenda, but concentrating exclusively on local authority sale and leaseback and credit worthiness, and on how to patch up the present system.

2. But doesn't the present mess suggest the need to be prepared to consider something more radical in a new Parliament?

3. There seem to be two very different ways to go. Either we can recognise that - as Howard Davies points out - the relationship between local and central government is now very like that of taxpayers and the Revenue; we therefore need a local government Finance Bill each year to block all the avoidance devices found since the previous year. Or - perhaps rather like tax reform - we can go for a radically new and simpler system.

4. On LA current spending, the system to be introduced along with the community charge already has some major improvements:

- Lump sum grants which do not vary with spending
- Simpler needs assessments (but why has so little progress been made on this?)
- National non-domestic rates etc

5. But nothing new is proposed for the capital expenditure/borrowing side. Should we not now reopen the question of a borrowing control (or External Borrowing Limits - EBLs)? These would be fiendishly difficult to set up and operate for each authority. But the present system is hardly proving easy to run. And borrowing controls have the advantage of acting directly on an aggregate we do care about: the LABR.

6. I doubt whether anyone will be able to speak on the substance at this meeting, but you might commission Robin to look into this again.

7. One related topic is the further work on the PES treatment of local authorities (in blue folder). I imagine you will want to hold a separate meeting on that.

8. In the shorter term, the problem is the 1987 RSG round. I wonder whether we should be so sceptical about Mr Ridley's "fixed grant option". We might well get away with less grant under that option: with a conventional settlement we tend to have to give enough grant to help out Surrey and Hampshire, and as a result give far more than we want to Derbyshire and Cleveland. The tables attached to Mr Ridley's letter of 24 April illustrate the point well. The question is whether the extra legislation is impossible.

AA

A C S ALLAN

009

PRIVATE AND CONFIDENTIAL

From: J Anson
Date: 1st May 1987

Thanks. As JA says, the main lines of future policy have now largely crystallised. The [illegible] is to make a success of them. But there is scope for [illegible] within them, [illegible] for the restoration of direct grant grammar schools.

CHANCELLOR

cc

Mr Cropper

IEA PUBLICATION ON EDUCATION

I do not imagine you want to prolong this correspondence unduly, as the main lines of future policy have now largely crystallised. But perhaps I could offer 3 comments on Mr Cropper's latest note:

(a) His remarks about university education are not quite right. The "university grant" is about maintenance. The university education itself is still free.

(b) On the double burden point, Mr Cropper's concern is partly met by the switch from rating, which is levied on each property, to community charge, which is on the individual. Ministers nevertheless deliberately decided, as a political matter, that second homes should not be completely exempted from the community charge.

(c) On reimbursement, there are some political overtones ("another subsidy for the middle class") but the essential issue is one of cost. As I said in my recent note on health, the cost would depend on how you did it and the level of reimbursement, but as a first crude approximation, the amount required to give private school pupils the average cost of a state place in primary and secondary schools is around £480 million (for England). There would be some offsets in respect of pupils already assisted by the state (eg armed forces' children), but we would still be talking in terms of hundreds of millions.

J ANSON

Alex

CONFIDENTIAL

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

CH/EXCHEQUER
REC. 07 MAY 1987
ACTION MR POTTER
COPIES TO CST, SIR P. MIDDLETON, MR F E R BUTLER, MR ANSON, MR SCHOLAR, MR GILMORE, MS PEIRSON, MR HAWTIN, MR PARSONAGE, MR FELLGETT, MR HULETT, MR GIBBS, MR TYRIE

7 May 1987

Ch
seems sensible
AA

Dear David,

Thank you for your letter of 9 April. The Lord President has considered the question you raised about how to achieve the Government's objective of introducing a much simpler and more stable system of local authority needs assessments in England from 1 April 1990. This aim has of course been set out publicly in the Green Paper "Paying for Local Government". Nevertheless he recognises that there will be differences of emphasis between colleagues. He sees no real alternative to tackling these in E(LF) and he would be happy to take the chair at these meetings if the Prime Minister so wishes. He suggests that the best immediate course might be for the Chancellor to send the Treasury Memorandum to the Environment Secretary and colleagues in service departments, with a brief covering letter setting out his own views.

As far as the existing system of grant-related expenditure (GRE) assessments is concerned, the Lord President does not feel that there is much to be gained by seeking a confrontation now with the local authority associations over radical plans for simplification. The system has only two years to run. It will, it is true, set the benchmark from which transitional arrangements apply. But no new GREs will be calculated after 1989/90, so the problems of complexity and instability will then arise only in relation to the new system. In his view that is where the Government should concentrate its resources.

I am sending a copy of this letter to Alex Allan in the Chancellor's office and to Trevor Woolley in Sir Robert Armstrong's office.

Yours sincerely,

Mike Eland.

MIKE ELAND
Private Secretary

David Norgrove Esq

CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

CH/EXCHEQUER
REC. 08 MAY 1987 8/5
ACTION CST
SIR P MIDDLETON
COPIES TO MR FER BUTLER
MR ANSON
MR HAWTIN
MR TURNBULL
MR GILMORE
MR BURR
MR POTTER
MR FELLGETT
MR S KELLY
MR CROPPER
MR TYRIE

From the Private Secretary

7 May 1987

NORGROVE TO SMITH 7/5

Dear Rob,

EDUCATION POLICY

The Prime Minister this afternoon held a meeting to discuss the future of the ILEA on the basis of your Secretary of State's minute of 5 May, and the financial arrangements under which schools might opt out of the local authority sector on the basis of a paper attached to Mr. Unwin's minute to the Prime Minister of 6 May. There were present: your Secretary of State, the Lord President, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Home Secretary, the Secretary of State for Wales, the Chancellor of the Duchy of Lancaster, the Secretaries of State for the Environment and Employment, the Chief Secretary, the Secretary of State for Scotland, the Chief Whip, the Minister of State (Department of Education and Science), the PUSS (Welsh Office), Sir Robert Armstrong and Mr. Unwin (Cabinet Office) and Mr. Peter Stredder (No. 10 Policy Unit).

Discussing first the future of the ILEA, your Secretary of State said that a review as provided for under existing legislation would delay progress by one to two years. He proposed that individual boroughs should be given the right to opt out of the ILEA. His hope was that legislation for this might be included in the proposed Education Bill in the next Session. Its effect would be to transfer responsibility for education from one elected body to another. Conservative controlled boroughs would almost certainly favour the proposal, and one or two Labour boroughs might also choose to opt out. The remaining boroughs might well choose to continue as a "rump" ILEA. The proposal would, among other things, allow the Government to achieve more effective control of ILEA expenditure. The details would need considerable further discussion. A statement would be needed in late June or early July to protect the assets of polytechnics and other education institutions against mortgaging or sale by local authorities hostile to the proposed reforms.

The meeting generally welcomed your Secretary of State's proposals, which would open the way to better standards of education in those boroughs which chose to opt out. Education in those boroughs remaining in the ILEA would be at risk of further decline. It would not, however, be possible to tackle the entire problem of the ILEA in a single stage. Schools in boroughs remaining in the ILEA would enjoy the right to opt out. It would also be most important that a borough educating children from without its boundaries should receive full compensation, which the child's "home" borough would have no option but to provide. The Government would need to provide for and encourage umbrella organisations, whether existing or new, to help schools wishing to opt out of the local authority sector. There might well be a need for individual education credits for children in the "rump" ILEA at some future date. It would be worth considering whether one borough could be empowered to take over and run empty schools in another.

On the financial effects, it was recognised that allowing boroughs to opt out would not of itself remove the burden on the Community Charge in London imposed by the ILEA. The expenditure of the ILEA would, however, increasingly come under pressure in the next year or two, as loopholes in expenditure controls had been closed, and with the increasing reluctance of lenders to provide finance under the various schemes. Reductions in ILEA expenditure would tend to harm childrens' education rather than reduce waste and inefficiency unless action were taken to prevent this in the worst areas. One possibility would be for the Secretary of State to take powers to compel schools to opt out.

The position of the City of London would need particular consideration, since it could be left facing an increasing burden as the more responsible boroughs opted out of the ILEA. One possibility would be for it to be allowed itself to opt out. The effects of this on the finances of the "rump" ILEA, on the boroughs remaining within the ILEA and on boroughs which had opted out, would need to be considered, taking into account the effects of the rate equalisation scheme. The City of London might wish in future to run some of its own schools.

Concluding this part of the discussion, the Prime Minister said that future legislation should provide for individual boroughs to opt out of the ILEA, for individual schools to opt out of the local authority sector, and for boroughs educating children from another borough to be fully compensated. The result would be, in the Foreign Secretary's words, "constructive fragmentation" of the ILEA. The Government would wish to consider in 1990 the longer term provision of education in London in the light of the effects of these reforms. Legislation should also provide as necessary for the creation of umbrella organisations for schools choosing to opt out, along the lines of the Girls Public Day School Trust, and your Secretary of State should bring forward a paper. The Department of Education and Science should consider urgently with the Treasury and the Department of the Environment the financial implications of allowing boroughs to opt out of the ILEA, and the position of the City of London. Your Secretary of State should also consider whether in future assisted places which had not so far been filled should be allocated to children in boroughs which were unlikely to opt out of the ILEA.

The meeting then considered the financial arrangements for schools choosing to opt out of the local authority sector.

It was agreed that the local authorities' own financial delegation formula should be applied to each school choosing to opt out (option 3 in the paper attached to Mr. Unwin's minute of 6 May). This should be seen as a temporary solution and the aim should be for all schools to move towards a national formula over a period of years. There would need to be pressure on education spending generally to move it towards GRE. But to avoid a disincentive to schools to opt out they would need to be assured that they would not fare worse than if they had remained within their local authority. Individual schools should be allowed to hold and invest funds and to raise funds to support their activities. They would not be precluded from accepting income from parents to top up money received from Government.

It was further agreed that where a school opted out in a particular authority's area, that authority's own grant and aggregate grant should, in principle, be reduced by the actual expenditure on the school (Option C). The key requirement was financial neutrality. A final decision on how neutrality would be achieved would be taken in the light of consideration by the Secretary of State for the Environment in relation to proposals for the new grant regime for local authorities.

Concluding the meeting, the Prime Minister recognised that the decisions reached by the meeting would not significantly reduce the problem posed for the introduction of the Community Charge in London by excessive education spending. It might be necessary to allow a longer transition period for the Community Charge in areas which at present fell within the ILEA. This might also be necessary for one or two areas on the boundaries of the ILEA, for example, Brent. Further consideration should be given to this question.

I am copying this letter to Mike Eland (Lord President's Office), Lyn Parker (Foreign and Commonwealth Office), Tony Kuczys (HM Treasury), Stephen Boys Smith (Home Office), John Shortridge (Welsh Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Robin Young (Department of the Environment), John Turner (Department of Employment), Jill Rutter (Chief Secretary's Office, HM Treasury), Robert Gordon (Scottish Office), Murdo Maclean (Chief Whip's Office), Brian Unwin and Trevor Woolley (Cabinet Office).

Yrs,

David.

David Norgrove

R. L. Smith, Esq.,
Department of Education and Science.

Accepting Houses Committee

GRANITE HOUSE,
101 CANNON STREET, LONDON EC4N 5BA
TELEPHONE: 01-283 7332
(01-283 7334)

OUR REF:

HM TREASURY – MCU banking system
REC'D. 11 MAY 1987
ACTION FIM 2 M/R Ilett
CC HPS/Chy, Miss Noble FIM 1
SIGNATURE CHX
REF. No. 18704/87

8th May 1987

Rt.Hon. Nigel Lawson,
Chancellor of the Exchequer,
The Treasury,
Parliament Street,
LONDON SW1P 3AG

Dear Chancellor,

On behalf of all the merchant banks which are Members of the Accepting Houses Committee and the Issuing Houses Association I am writing to draw your attention to a serious problem arising from the dual system of regulation simultaneously imposed by the Banking Act, on the one hand, and the Financial Services Act, on the other. This duplication of regulation was seen as potentially wasteful and unwieldy when the Financial Services Act was passing through Parliament, and the concept of a lead regulator was built into the Act to enable one regulator to act on behalf of others. Discussions between regulators, however, are failing in practice to devise a solution which can be accepted as workable by the banking community.

The essence of the problem is the fundamental difference in philosophy between the two sets of regulators. Bank supervision (not only in the United Kingdom but to a growing extent internationally) is very properly carried out on a consolidated basis, whereby all the capital of a banking group stands behind all the group's engagements: with certain limited exceptions, parcels of capital are not specifically ear-marked for separate parts of the business of a bank, thus greatly improving the underlying security of the customer for any particular service. In support of this system banks conduct, of course, a treasury operation which, under the scrutiny of the Bank of England, ensures that various levels of liquidity are always available to match engagements. Securities regulation, on the other hand, - dealing, as it normally has to, with brokers, market-makers and other firms which are not supervised banks and do not have this liquidity pattern - works on the basis of specific allocation of capital to each position taken on to the books. This system is not appropriate for banks because it does not take account of the indivisibility of capital and the liquidity support which are demanded of banks.

/.........

We believed and hoped that the lead regulator concept built into the Financial Services Act ought to be able to solve the problem facing banks subjected to both these systems of supervision. However we are told that, for legal reasons, the securities regulators cannot accept the equivalence of the bank supervisory regime operated by the Bank of England, because it comes under a different Statute; the result is that the Bank cannot be lead regulator, but only lead monitor. This has the effect that the Bank is forced, on behalf of securities regulators, to apply the segregation of capital principle adopted for non-bank securities firms, even while recognising that this weakens the security of the banking system and the protection of depositors. It also takes the British banking system in the direction of the Glass-Steagall system in the United States, which for good practical reasons the American authorities are currently dismantling.

The key to a solution of this problem, which is of the greatest concern to the merchant banks, must lie in acceptance by the securities regulators of the equivalence of statutory bank supervision with their own, albeit differently designed system. It would then follow that, in the case of authorised banks engaging in certain forms of securities business, (for the most part, underwriting), the Bank of England would use its well-tried system to assure securities regulators that banks were fit and proper to be authorised and would continue to supervise their activities, while the securities regulators would use their own system for the regulation of securities firms for which it is more appropriate. Unless some such understanding can be reached it will be impossible for the British merchant banks to continue to provide the levels of underwriting capacity which the domestic and international markets require, and which is, of course, an important part of their business.

We would be glad to discuss these matters with you or with your officials at any time, but - as you will appreciate - there is considerable urgency that a workable arrangement be found. A similar letter goes to the Secretary of State for Trade and Industry, and a copy to Sir William Clark.

Evelyn de Rothschild
Chairman

CONFIDENTIAL

I agree: this approach will need some management if it is to be effective. I think that the Chancellor's letter should not issue until after the Election. It would fit in well with opening the discussion on the rate support grant at that point.

FERB
13.5

1. MR F E R BUTLER

2. PS/CHANCELLOR

FROM: B H POTTER

Date: 13 May 1987

cc: PS/CST
Mr Anson
Mr Hawtin
Mr Fellgett

LOCAL AUTHORITY NEEDS ASSESSMENT

The Prime Minister's Private Secretary sent a copy of the Treasury memorandum on 'Simpler Needs Assessments' to the Lord President's office on 9 April. In response (PS letter of 7 May 1987) the Lord President proposed:-

- that E(LF) should consider how to secure a simpler and more stable system of local authority needs assessment;

- that any change should not be introduced until 1990 (to coincide with the beginning of the PLG system); and

- that as a first step, Treasury should circulate the extant memorandum under cover of a letter from the Chancellor.

Mr Norgrove's minute of 8 May records the Prime Minister's endorsement of the Lord President's views.

?! 2. This is useful progress. But I suggest that rather than circulating the Treasury paper as the "first step", we should ask the Chancellor to write to colleagues on E(LF) in the first instance.

34

3. Mr Ridley and DOE officials are unaware that the Treasury memorandum has been seen by the Prime Minister. But DOE officials are familiar with (and highly critical of) its ideas; they are also working up their own proposals for revising GREs. But these are likely to be changes designed to tinker with the present service-based GREs rather than radically revising the concept as we propose.

4. The major attraction of the proposals in the Treasury paper is the move away from service based GREs. This could help get away from the false discussions each year about service provisions within the total (which often have unwelcome and unexpected ramifications for grant distribution) and recognise the reality of local government power to determine expenditure patterns. It would also meet the objectives underlying the PLG proposals on needs assessment.

5. But we must recognise that Departmental Ministers would hate such a shift: they will see it as undermining their influence over local authorities. I therefore fear that any attempt to "bounce" DOE will only prompt DOE to table a paper of their own. In E(LF) Ministers would face technical papers on esoteric and complex issues; in discussion Departmental Ministers would back DOE ideas for tinkering with service-based GREs against our more radical concept; and it would be difficult to achieve our objectives.

6. I think therefore we need some time to prepare the ground for our approach. I am far from convinced that sending our paper to E(LF) proposing one particular method of needs assessment is the best first step. Rather it may be better for the Chancellor to write to colleagues referring to the remit from the Prime Minister (after talking to Mr Ridley); setting out brief~~ing~~ly the well-known problems with existing GREs; identifying the main issues; and steering E(LF) towards the best approaches to resolving them, as in our paper. It would be better to seek an initial E(LF) discussion on the letter and obtain endorsement of some principles to be pursued in any new scheme before putting forward specific proposals.

7. If the Chancellor and the Chief Secretary are content we will provide such a draft letter. If it is agreed that we should adopt this course perhaps you could let Mr Norgrove and Mr Eland know.

Barry H. Potter

B H POTTER

MR 2/81

SECRET

FROM: A W KUCZYS

DATE: 14 May 1987

RP

PS/CHIEF SECRETARY

cc: Mr F E R Butler
Mr Turnbull
Miss Peirson
Mr Gibson

MINIMUM CONTRIBUTION TO RATES

The Chancellor has seen your minute of today. He remains very uneasy about this. It would be far better to avoid any figure.

2. If the press do assume it is £350 million, for the reason given in your paragraph 2, we can deny this, saying it will be significantly less than that.

AWK

A W KUCZYS

1282/053

SECRET

FROM: JILL RUTTER
DATE: 14 MAY 1987

PS/CHANCELLOR (MR KUCZYS)

cc: Mr F E R Butler
Mr Turnbull
Miss Peirson
Mr Gibson

I remain v. uneasy abt this. Far better to avoid any fig. If the press do assume it is £350 m for the reasons given @ x, we can deny this saying it would be significantly less than this. Rav. N

MINIMUM CONTRIBUTION TO RATES

The Chief Secretary discussed this morning with Mr Fowler and Mr Major what line to take on the question of the public expenditure cost of the compensation to income support claimants for the minimum contribution to rates. The Chief Secretary argued, as agreed with the Chancellor last night, that nothing explicit should be said on the public expenditure costs.

2. Mr Fowler pointed out that the figure of £350 m savings from the minimum contribution was however in the public domain. In the light of that he felt it better to make clear the - lower - costs of the new measure. There would be no avoiding questions on costs and without any guidance to the contrary people would naturally assume that it would be the higher figure. x

3. The Chief Secretary was convinced that in the light of this new information it would be right to refer to the fact that the cost would be "about £300 m". That takes account of the clawback through non-dependant deductions.

4. The Chief Secretary has promised Mr Fowler an answer on this point tonight. I would therefore be grateful if you could let me know urgently the Chancellor's reaction.

Jill Rutter

JILL RUTTER
Private Secretary

PERSONAL AND SECRET

10 DOWNING STREET

LONDON SW1A 2AA

CHIEF SECRETARY
REC. 14 MAY 1987
Mr Gibson
(x Mr Butler
Mr Anson Miss Peirson
Mr Turnbull Mr McIntyre
Mr Potter Mr Fellgett

From the Private Secretary

14 May 1987

Dear Bruce,

MINIMUM CONTRIBUTION TO DOMESTIC RATES

The Prime Minister has seen your Secretary of State's minute of 13 May about the proposed announcement on a minimum contribution to domestic rates.

The Prime Minister is content that this announcement should be made by written answer on Friday. She does not wish to announce the 20 per cent minimum contribution in her speech tomorrow, and the draft attached to your Secretary of State's minute will need to be amended accordingly to include the 20 per cent figure (or the 80 per cent maximum rebate, if that seems a better way of expressing it).

The Prime Minister had only one comment on the present text, which is to suggest deleting the last few words "...thus providing protection for those who need it." This seems to her to weaken the announcement.

I am sending copies of this letter to Jill Rutter (Chief Secretary's Office, HM Treasury), Robin Young (Department of the Environment), Jon Shortridge (Welsh Office) and Robert Gordon (Scottish Office).

Yours,

David

David Norgrove

Bruce Calderwood, Esq.,
Department of Health and Social Security.

PERSONAL AND SECRET

1282/057

CONFIDENTIAL

FROM: JILL RUTTER
DATE: 14 MAY 1987

PRINCIPAL PRIVATE SECRETARY

cc: Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Fellgett
Mr Potter

I disagree with the ~~[illegible]~~ (Mr Potter's) advice. I wish to proceed as suggested by LOW, ~~[illegible]~~ after the GE. Meanwhile, officials shd draft my covering letter, which will need to be very well written, setting out in particular the politicised dimensions of what the work (ie that the old system is so complex that LAs can exploit it ~~[illegible]~~ each year's RSG is then responsible to defend) to aggravate LAs). I shd be grateful for Mr Potter to take charge of this tomorrow.

LOCAL AUTHORITY NEEDS ASSESSMENT

The Chief Secretary has seen Mr Potter's minute of 13 May.

2. The Chief Secretary feels that this is a matter which can more appropriately be considered along with a wide range of other local authority issues post-election.

Jill Rutter

JILL RUTTER
Private Secretary

Ch

I think this is all feeble: "preparing the ground" will all too likely lead to us getting bogged down again.

But if CST & FERB support LG's cautious line, I guess we'd better wait till after Election, then discuss as part of a wider strategy towards LAs.

AA

CH/EXCHEQUER
REC. 01 JUN1988
ACTION
COPIES TO

Mark EYSKENS
de Grunnelaan 23
3030 HEVERLEE

Heverlee, May 20th 1988

The Rt. Hon. Nigel LAWSON MP.
Chancellor of the Exchequer
Treasury Chambers
Pariament Street
SW1P 3AG LONDON

ME.LW.88.319

Dear Nigel,

I was very touched by the kind message you sent me at the occasion of my departure from the Finance Ministry. The new government is a coalition of 5 political parties and my own party was forced to give up a few important departments. That explains why the Finance Ministry is now headed by a colleague from an other party. The Prime Minister however publicly announced that I have been designated to succeed to our Foreign Secretary, Mr Leo Tindemans, when he will quit the Cabinet next spring to become a member of the European Parliament. If this comes true I will just have had a very useful sabbatical leave that I will spend writing a book, resuming my lectures at the university, studying the issues of foreign policy and, from time to time, thinking of my good EEC-colleagues of Finance. I regret not to belong anymore to that remarkable club of Finance Ministers, you played such a considerable role in, thanks to your skill, your courage and your sense of humour.

Yours sincerely,

HM TREASURY – MCU
REC'D. 3 - JUN 1988
ACTION
SIGNATURE

Mark EYSKENS.

Private Secretary to Mr Lawson

With the compliments of

HER BRITANNIC MAJESTY'S

AMBASSADOR

I have been asked to forward to you the enclosed letter from Mr Mark Eyskens.

Thanks

BRITISH EMBASSY

BRUSSELS

Tony,

Is this for you?

Sue

3/6

SECRET AND PERSONAL until release of press notice
and thereafter unclassified

RP

To Minister for Trade

Copy No..3.. (28)

From Peter Stibbard
US/S2
V/260 Ext. 4872

20 May 1987

OVERSEAS TRADE FIGURES FOR APRIL 1987: EXPORTS

1 The value of exports in April, seasonally adjusted on a balance of payments basis, is estimated at £6.6 billion, £0.1 billion (2 per cent) higher than in March. Exports of oil increased by about £0.1 billion but exports of the erratic items fell by about the same amount. Excluding oil and the erratic items, exports increased by 2 per cent between March and April.

2 In the three months ending April, the total value of exports increased by 3½ per cent compared with the previous three months but this comparison may overstate the underlying growth over the three months as the earlier period includes the low January figure affected by the bad weather, while the most recent period includes the 'catching up' seen in February.

3 In the three months ending April, total export volume was 2 per cent higher than in the previous three months and 11 per cent higher than in the same period a year earlier. Excluding oil and the erratic items export volume increased by 1½ per cent in the latest three months. (These comparisons are also subject to the qualification mentioned in the previous paragraph.) ~~The recent underlying level of non-oil export volume appears to be slightly below the high level reached at the end of 1986.~~

4 Recent export figures are shown in the attached table. Import figures for April are not yet available. I hope to circulate a further note, describing imports and the current account, on Tuesday 26 May.

PJS

P J STIBBARD

SECRET and PERSONAL until release of press notice and thereafter unclassified

Copy No...( )

EXPORTS

(Balance of payments basis; seasonally adjusted)

		---TOTAL TRADE---		EXCLUDING --OIL & ERRATICS--	
		VALUE £m	VOLUME (1980=100)	VALUE £m	VOLUME (1980=100)
1986	Q1	18164	117.5	14071	111.9
	Q2	17786	121.9	14455	115.1
	Q3	17553	122.6	14839	118.5
	Q4	19340	130.5	15873	125.3
1987	Q1	19637	130.0	15899	124.4
1986	NOV	6569	132.8	5365	127.3
	DEC	6477	131.6	5311	126.5
1987	JAN	6235	124.6	5034	118.7
	FEB	6973	138.4	5697	134.2
	MAR	6429	126.9	5168	120.5
	APR	6572	130.8	5272	122.7

CIRCULATION LIST

Copy No 1	Minister for Trade	
2	Prime Minister	
3	Chancellor of the Exchequer	
4	Secretary of State for Trade and Industry	
5	PUSS for Trade and Industry	
6	Sir Robert Armstrong (Cabinet Office)	
7	Sir Brian Hayes (Dept. of Trade and Industry)	
8	Sir Peter Middleton (HM Treasury)	
9	Governor of the Bank of England	
10	Chairman of the Board of HM Customs & Excise	
11	Mr J Hibbert (CSO)	
12	Mr Finlinson (HM Customs & Excise)	
13	Mr B Buckingham (CSO)	
14	Mr Davies (HM Treasury)	
15	Mr Barrell (HM Treasury)	
16	Mr P Sedgwick (HM Treasury)	
17	Mr D Owen (HM Treasury)	
18	Mr A McIntyre (CSO)	
19	Dr P Rice (Dept. of Energy)	
20	Mr Bottrill (HM Treasury)	
21	Mr H H Liesner)	
22	Mr P Stibbard)	
23	Mr W E Boyd)	
24	Mr E J Wright)	Dept of Trade and
25	Mr A R Hewer)	Industry
26	Miss C Siddell)	
27	Miss H Chapman)	
28	Mr D Packer)	

FROM: **MRS R LOMAX**

22 May 1987

C/ See X (para 4)

letter to issue or wait until after election

CR 27/5

A letter reply now, & a substantive one, pre GE, which needs to be a little less opaque than the draft.

✓ minuted at.

CHANCELLOR

cc Economic Secretary
PS/Sir P Middleton
Mr Cassell
Mr Ilett
Miss Noble
Mr D Jones
Mr Neilson
Mr Board

DUAL REGULATION AND CAPITAL ADEQUACY : LETTER FROM EVELYN DE ROTHSCHILD

Evelyn de Rothschild has written to you, and separately to Mr Channon, in his capacity as Chairman of the AHC, expressing his concern about the treatment of banks' securities business under capital adequacy requirements that are being worked out by the supervisors. (Primarily, in this case, the Bank and TSA.)

2. This is not a new problem, but the fact that Mr de Rothschild has been moved to write is evidence of the failure so far to come up with arrangements acceptable to all the supervisors and with which the banks can live.

3. The issue is a major one, both because capital adequacy is a central aspect of supervision, and because if it cannot be solved it will cast doubt on the fundamental approach of the Financial Services Act. The Governor - who shares the AHC view on this - discussed it at some length in his annual supervisory memorandum, and my parallel submission covering a draft reply to his letter outlines our views. You might also like to glance at the attached letter from Lord Young to Lord Elton, who raised this issue during the passage of the Banking Bill.

4. My own view, for once, is fairly unequivocally in support of the Bank. I would still hope that the problem could be resolved without legislation. But the Bank need to take on the SIB with more conviction than they did over - say - polarisation. They will, I think; but only if they believe we will back them to

the hilt: that is why I suggest you explicitly do not rule out legislation in your letter to the Governor. The draft reply to Evelyn de Rothschild is consiberably more muted. Even so, it almost certainly goes too far for the DTI and the SIB, who would prefer you to send a bare acknowledgement, leaving the substantive reply to come from Sir K Berrill. This strikes us as ridiculous, and we have therefore not tried to clear the draft with anyone except the Bank. In the ~~same~~ circumstances, however, you may prefer to postpone your reply until after the Election (in which case a holding reply should be sent to Mr de Rothschild.

RL

RACHEL LOMAX

DRAFT LETTER FROM CHANCELLOR TO MR EVELYN DE ROTHSCHILD

Evelyn de Rothschild Esq
Chairman
Accepting Houses Committee
Granite House
101 Cannon Street
LONDON EC4N 5BA

Thank you for your letter of 8 May.

I am very concerned to learn that you feel that workable solutions are not emerging to deal with the problems of "dual regulation". This is clearly an important ~~area~~ issue. With the legislation ~~is~~ now in place, the main priority must be to solve the practical problems of putting in place an effective system of supervision that will operate fairly across the board.

I would be the last to underestimate the difficulties. As I said in my Mansion House speech last year, I attach great importance to achieving close co-operation between supervisors and to minimising the risk that supervisory rules at home will put British firms at a competitive disadvantage overseas. Since then, I am aware of the debates which took place in the context of the Banking Bill and I know that Ian Stewart discussed the issue with Rodney [~~Lord~~] Elton and Robin Hutton at that stage.

The problems you discuss in your letter are among the major challenges facing supervisors in this area, and I note your view that there is a danger that the wrong balance will be struck on capital requirements.

That said, it has to be recognised that setting up such a complex new system is bound to cause a degree of uncertainty and disagreement, and I continue to hope that the responsible agencies will succeed in finding a mutually aceptable solution. But You can be assured that I will be watching developments very closely.

I am copying this to Paul Channon, Robin Leigh-Pemberton, Kenneth Berrill and William Clark.

NIGEL LAWSON

pup
BRAZIL

CL

Bank assure me this is not true & are telling their press office to say so.

I had earlier spotted the Independent piece attached & had reminded Gov's office of Gov's agreement with you over lunch. They fully took the point, & while they expected to be lobbied by Sir J Morse said Gov would certainly not say anything without talking to you first.

AT

Standard Life (3.5%) and Royal Bank of Scotland (4%-5%) are in.

the High Street banks. Expect those to be broken pretty soon.

Meanwhile, directors and partners in some of the smaller, not to say more speculatively minded firms have been hit hard by defaulting clients.

Debts

As the bull market gathered pace over the past two years, some firms started to lower their criteria when assessing potential clients. Account trading by relatively uninformed private investors has risen to unparalleled proportions.

In many cases clients have been allowed to trade beyond their means on the assumption that a rising market would enable them to bail out within the account.

When the market closed in reasonable shape on the evening of Thursday, October 15, in the first week of the account, many private punters were up to their eyeballs in second and third-line stocks.

ren and Markheath fell by more than half and were saleable, at times, only in lots of 1,000.

When clients were unable to pay their debts on settlement day, brokers were forced to dig into their own pockets to settle with the market-makers, on fear of being 'hammered' if they failed to do so.

One five-shareholder Midland firm is rumoured to have been in need of more than £1 million to pay its bill, which it finally scraped together on the Saturday before settlement

Some clients will sell their houses and pay up, others will have nothing to sell—not, at least, in their own names. Some of the larger brokers will undoubtedly have much bigger losses to face, but most of them have big brothers and sisters able to meet those losses.

For the small Midland firm, and for many others like them, defaulting clients will mean two or three years without earnings as they work to pay back the banks.

SIDELINES

■ MISS WORLD CLUBS, the Business Expansion Scheme health clubs group 34%-owned by USM company Miss World, looksset to be rescued by Third Market leisure group, Theme Holdings. Theme has offered two of itsshares for every 11 founder shares in MWC. Current Miss World, Miss Austria (above) will not be affected.

Woodmac move

■THE head of European sales at Wood Mackenzie, Henry Reid has resigned. He was at the stockbroking firm for 19 months and came originally from Warburg. He will be joined by two other members of the nine-strong sales team, Deane Pennick and Guillaume D'Halluin. Woodmac is hoping to replace these men

Waving her brolly at the Big Two

Old Lady enters loans crisis

by Iain Jenkins

THE Bank of England is putting heavy pressure on Barclays and NatWest to join in the huge $4.5 billion interim refinancing package for Brazil which the two banks have been threatening to boycott.

Threadneedle Street is worried that if the two British banks pull out it could jeopardise the whole package which would add further strain to the already volatile world markets.

The recalcitrant British clearers have already attracted considerable support from European and Canadian banks all of whom feel that the package is simply a device to bail out the more heavily exposed U.S. banks.

This support could be enough to block the package which is designed to enable Brazil to continue its interest payments which stopped in February. If these interest payments are not made the U.S. loans to Brazil will be declared "value impaired."

This would then force the U.S. banks to write-down an initial 10% of their Brazilian loans which total $100 billion according to Paribas Capital Markets analyst John Ginarlis. He says the Citicorp alone has more than $1-billion worth of loans to Brazil.

Coming on top of the heavy write-downs made by the U.S. banks this summer—which resulted in many of the major banks reporting losses—it would suck vital liquidity out of the U.S. economy and have a serious recessionary impact.

The first key deadline in the Brazil negotiations is this Thursday—banks accepting by this date get an up front fee. The final deadline is December 2.

Between now and December 2 the Bank of England is expected to intensify its pressure on Barclays and NatWest to change their attitudes.

"I can't say whether we will change our minds at this stage," says a senior executive withone of the two banks. "But we are certainly being lent on by the Bank of England."

The two banks argue that this kind of package simply "papers over the cracks" and does not get close to resolving the long term problem.

Square smile

'I wish somebody could control these missives from Japan.'

Saturday, November 21, 1987

THE INDEPENDENT

Brazil deal threatened by split among UK banks

19

By Peter Wilson-Smith
Financial Editor

THE UK's two biggest banks, National Westminster and Barclays, are refusing to join the interim financing package worked out for Brazil earlier this month.

Their opposition, which is said to be shared by at least two Canadian banks, threatens to undermine the $4.5bn international deal with possibly dramatic and unpredictable consequences.

There have been increasing signs recently that the co-ordinated international approach to the debt crisis pursued since 1981 has been under strain. But one banker said yesterday: "This would be the first time that a major international bank creditor had declined a big rescheduling package."

The $4.5bn interim deal, which involves 85 big banks putting up $3bn and Brazil itself contributing $1.5bn, was aimed at breaking the logjam prevailing since Brazil stopped paying interest on $68bn of commercial bank debt in February. Inspired by the US Treasury and Federal Reserve Board, the deal was also intended to avert the danger of US regulators declaring American bank loans to Brazil "value-impaired" and subject to mandatory reserving.

Barclays and NatWest both take the view that further loans to Brazil should be part of a long-term arrangement involving an International Monetary Fund agreement. They told other UK clearing banks they would not join the interim package at a confidential meeting of seven clearing banks and the Bank of England yesterday. But within 45 minutes of the meeting ending details had been leaked to Reuters, the news agency.

Richard Carden, the Barclays general manager responsible for international debt, refused to comment on yesterday's meeting, which he had attended. But he said: "We are not willing to support the present arrangements."

Mr Carden said Barclays did not want to lend borrowers money indefinitely so they could meet interest payments and he was critical of the 8 December deadline set for completing the interim package.

NatWest, which refused to comment yesterday, is known to have similar objections. It is said to feel the interim deal is a quick fix to help US banks and it has told other bankers that it objects to the way the deal is being railroaded through by the US authorities. NatWest is understood to argue that it will only put up new loans for Brazil when there is a sensible economic programme backed by the International Monetary Fund in place.

FINANCIAL TIMES

IMF credit arrangement

2

A reference in some editions of yesterday's Financial Times to a $20 bn Yugoslav government stand-by credit arrangement with the IMF should have made clear that the $20 bn refers to the country's estimated hard currency debt. The government is hoping to secure either standby credits or access to the Fund's extended fund facility to strengthen its position in negotiations with foreign creditors when existing rescheduling arrangements expire in 1988/89.

10/1

1 Tony
2 prs

BRITISH EMBASSY
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Telephone (202) 462 1340
Telex Domestic USA 89 2370 89 2384
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R B Saunders Esq
PS/ Sir Peter Middleton
HM Treasury

Your reference

Our reference

Date 27 May 1987

Dear Dick,

SIR PETER MIDDLETON'S VISIT TO WASHINGTON:
12-15 MAY, 1987

I enclose a record of Sir Peter's recent meetings in Washington. Please circulate the notes around Treasury and Bank as you think fit.

cc PCC members
Mr Evans
Mrs Lomax
Mr Peretz
Mrs Strachan
Mr Turnbull
Mr Sedgwick
Mr Odling-Smee

Enc.

Yours ever,

Robin

R I G Allen

SIR PETER MIDDLETON'S VISIT TO WASHINGTON, 13-14 MAY 1987:
RECORD OF MEETINGS

(i) Mr M Darby, Assistant Secretary (Economic Policy), Treasury Department

Sir Peter said that his main impression from New York was the nervousness of the markets: many analysts appeared to believe that the slide in the dollar was now out of control and that the economy was heading for the rocks. This did not seem to square, however, with recent developments in the real economy: e.g. strong first quarter GNP figures and the startling drop in unemployment in April. Darby agreed: the economy was probably even stronger than suggested by recent figures; he believed that the GNP numbers for 1986 would be revised upwards. The trade balance was improving in real terms and, in nominal terms, would probably peak in the first quarter.

Turning to the balance of monetary/fiscal policy in the United States, and in Japan/Germany, Sir Peter said that too much stress was being placed on monetary policy adjustments and not enough, particularly in the US, on resolving budgetary imbalances. Darby replied that the current level of real interest rates (5% in Japan, 4% in Germany and 2% in the US) indicated that there was plenty of room for further monetary adjustment. On the fiscal policy side, the Administration would like to move further in reducing expenditure but they were boxed in by Congress who wanted to trim defence spending and raise taxes in ways unacceptable to the Administration. Increasing income tax or excise duties was not an effective way of tackling the budget problem because "80 cents in the dollar was financeD through reduced saving". Darby commented that the Fed had been right to tighten monetary policy in recent months; but current fears of accelerating inflation in the US - propagated by Fed Governors Heller and Angell, who focused on commodity price movements - were exaggerated.

/Darby

Darby asked about the prospects of the UK joining the ERM after the election. Sir Peter replied that, on balance, the Treasury view was in favour of entry, partly because it would firm our political commitment to the EC and partly because it would link the UK to German monetary policy, and bolster the Government's attempts to reduce inflation further. But joining ERM was not without disadvantages: much depended on the rate at which we entered - the current sterling rate of just below DM 3 looked reasonable.

Darby said that it was much too early to judge the impact of the 1986 Tax Reform Act. Potentially disruptive short term effects (on capital investment, etc) had not occurred to any significant degree: indeed, tax revenues had been exceptionally buoyant. The latter partly reflected higher than expected revenues from capital gains tax, as individuals sold off assets to take advantage of the temporary lower tax rates. But from 1988 onwards, capital gains tax revenue was likely to fall sharply. (Treasury estimated that the revenue maximising rate of capital gains tax was about 13% compared with the new rate of 28%.)

(ii) Dr James C Miller, Director of the OMB and Mr Joseph R Wight, Deputy Director

Miller asked about UK election prospects. Sir Peter replied that, assuming a Conservative victory, the Government would probably prefer a slightly smaller majority than in the current Parliament. Big majorities made it difficult to maintain party discipline in a system in which the checks and balances of the US Constitution did not exist.

Sir Peter said that UK public expenditure policy would probably continue along the lines already established, with heavy restrictions on the growth in overall spending. Attempts were being made to devolve more powers to spending departments in return for more information and improved monitoring/control mechanisms at the centre. The privatisation effort would continue: after a slow

/start

start. it had proved extremely popular and, assuming a Conservative Government, the programme would run at about L5 bn a year at least over the lifetime of the next Parliament. For presentational purposes, the UK budget was now shown on two bases: including and excluding privatisation receipts. It was thus possible to distinguish between the overall deficit and the structural deficit: important both presentationally and for assessing policy. Though the economic case for privatising a monopoly was much the same as that for nationalising it, Sir Peter was convinced that lasting gains in efficiency were being realised through privatisation.

Wright said that the United States wanted to move towards a standardised accounting system for the Federal Government, though he realised this raised a lot of technical problems. Sir Peter commented that such a system already existed in the UK (he promised to supply OMB with some explanatory papers); the UK system did not attempt to replicate private sector accounting practices, nor should it.

Miller said that his basic philosophical starting point was that the US Government, like most other governments of industrialised countries, was simply too big: the reasons for this could be traced back to James Buchanan's public choice theory. Gramm-Rudman-Hollings (G-R-H) provided some check on the tendency to overspend but, in itself, did not go far enough. The Administration favoured further reforms of the budget process through a balanced budget amendment to the Constitution, line-item veto powers to the President, etc.), though Congress was unlikely to approve such changes. As usual in recent years, the President's current budget proposals were running into problems on the Hill; and Congress' own proposals (e.g. the latest Senate scheme to link approval of higher defence spending in FY88 to higher taxes) would create great problems for the White House. Another live issue was whether or not the Congress would seek a constitutional "fix" for the portions of G-R-H ruled unconstitutional by the Supreme Court.

/Miller

Miller said that one of his current concerns was the relatively low remuneration of US Congressmen, civil servants and other public officials: he believed this was a problem common to all industrialised countries. Disparities between public and private sector pay was making it increasingly difficult to recruit high quality personnel into public service.

(iii) Lunch at the American Enterprise Institute (AEI)

Sir Alan Walters gave a short talk describing the "British economic renaissance" and attributing it largely to the operation of sound macro policies. He expressed the hope that Britain would stay out of the ERM.

Sir Peter explained that the evolution of current macro-economic policies in the UK could be traced back to measures introduced by the Labour Party in the 1970s, partly as a result of IMF pressure. The Conservatives had developed and explanded this approach, putting the main emphasis on steadily reducing money GDP growth.

Makin (AEI) asked if the US could learn any lessons from the UK's relative success in reducing its deficit/GDP ratio. Sir Peter replied that, because controlling expenditure was always difficult, selective tax increases were sometimes necessary. Heller (Fed) argued for the use of a commodity price index as a policy indicator: if commodity price inflation increased, monetary policy should be tightened. Heller argued that stabilising commodity prices would help stabilise consumer prices as commodity prices were the most volatile components of the consumer price index. Others argued, however, that this volatility reduced the usefulness of commodity prices as policy indicators.

/(iv)

(iv) Mr Robert L Clarke, Comptroller of the Currency

Clarke was accompanied by three of his colleagues: Herman, Marriot and Bench. The discussion focused mainly on banking supervision. Sir Peter described the legislative changes that had taken place recently in the UK. Herman and Marriot (who had been working closely with Quinn at the Bank of England) explained that their main problems arose as a result of the absence of sufficient geographic and product diversification in the US banking system. They were in favour of steps to liberalise Glass-Steagall but were not hopeful about the prospects of Congress passing amending legislation in this area. Clarke was highly critical of the provisions contained in the House bill for recapitalising the Federal Savings and Loan Insurance Corporation. He felt that the amount that had been authorised was far too little.

(v) Mr Paul Volcker, Chairman, Federal Reserve Board

Volcker was in a generally pessimistic mood. He said that recent developments in the US economy were hard to interpret. The fall in unemployment in April suggested that the situation was not too bad (the meeting took place before the rather poor April production figures were released); nonetheless he saw the economy growing only sluggishly. At the same time, he did not subscribe to the view of some that the economy was about to enter a recession. So far the general nervousness in the financial markets had not shifted into the business sector; yet this could happen before too long. It was not clear where faster growth was going to come from. Domestic demand was likely to be sluggish and faster growth through the external sector would depend upon a pick-up in GNP growth in Germany and Japan. On the latter, he was gloomy. There was unlikely to be any significant pick-up in German and Japanese growth without fiscal action: On the general question of international imbalances, it was certainly possible from a technical standpoint for these to be corrected without a world recession. But the political will seemed lacking.

/Volcker

Volcker added that the pick-up in US inflation to about 6 percent at an annual rate in the first quarter was puzzling in view of the continued low increase in earnings. As regards domestic debt, the farm and energy problems seemed to have about bottomed out. But he saw more trouble coming on the commercial property front. He was also concerned about the risks to the financial system arising from the newer financial instruments and their use for essentially speculative purposes. He was worried too about the effect the large provisions on its international debt that one of the big banks was about to make would have on the market's perception of the banking system.

On the US fiscal position, Volcker said that a tax hike was clearly needed but he was not too optimistic that it would actually happen under the Reagan Presidency.

There was a brief exchange on UK monetary and exchange rate policy. Volcker was characteristically dismissive of MO as a target variable. He asked Sir Peter what was our current attitude to the ERM, and whether - if we did go in - we would go in at a 6 percent margin a la the Italians. Sir Peter replied that ERM would be very much on the agenda after the election if the Conservatives won. But it was not certain that we would join. If we did go in, it was most unlikely we would adopt a 6 percent margin.

(vi) Mr James L Kichline, Director of Research and Statistics, Federal Reserve Board

Kichline said he was more pessimistic about the US economy than he had been a couple of months ago. Like others, he was shading his forecast down. The prospects for the budget deficit in FY87 had been slightly improved by recent strong revenue performance arising from large income receipts, but the deficit was still likely to come out at about $170 million. Despite the 6 percent for the year (Q4 on Q4). However, there was, if anything, a risk of it being higher than 4 percent.

/Commenting

Commenting on the April unemployment figures, Kichline felt that the unemployment rate had more or less reached the level below which any further fall would carry inflationary risks. He also felt that any further fall in the exchange rate would carry greater risks for inflation than hitherto. In the early stages of the dollar depreciation, import prices had not risen all that much. But recently the lower dollar seemed to have been reflected if anything in a greater rise in import prices than the depreciation would suggest - that is, exporters were trying to rebuild their profit margins.

On monetary policy, Kichline said that the monetary aggregates were as always hard to interpret. There seemed to have been a switch out of M2 into M1 as interest rates had fallen. It was not clear whether this was likely to be reversed as interest rates rose. He continued to believe that "money mattered" but it was impossible to operate a strict monetarist approach when there was so much uncertainty.

(vii) Mr Don Chapoton, Deputy Assistant Secretary for Tax Policy, Treasury Department

Sir Peter said that HMG had completed only half of its tax reform programme (i.e. the 1984 Corporate Tax Reform). Should the present government be re-elected, they would probably push forward with further reforms on the personal tax side. This might be on US lines, with substantial cuts in marginal tax rates and a merging of income tax and capital gains tax. There were problems, however, of how to finance such a reform: some revenue raisers would probably be required, whether through an extension of the VAT base (politically difficult), changes in national insurance contribution rates (or earnings limits) or modification to mortgage interest relief provisions. A lot would depend on what pledges the government did or did not make in the election run-up. Sir Peter envisaged that the Government might make public its tax reform proposals towards the end of this year with a view to legislating in the 1988 budget.

/Chapoton

Chapoton said that the 1986 US Tax Reform Act (TRA) should remain intact for the remainder of the current Administration. In the longer term, tax rates would probably start to creep back up again as legislators made concessions to special interest groups. TRA had been a remarkable "rescue from the dead" operation, inspired by a bipartisan group of Senators (led by Finance Committee Chairman Packwood) with substantial support from Treasury and the White House. Extremely low tax rates had been the glue which held the package together.

Sir Peter said that the UK were currently changing their property tax (i.e. local rates) system. For individuals, a poll tax was being introduced but, because of various deductions and exemptions it was, in practice, becoming more like a local income tax. For companies, rates would be levied on a national basis.

Chapoton said that Secretary Baker was keen to find a solution to the Rolls Royce gas guzzler tax problem: he doubted whether this could be done through regulations, but a legislative solution might be possible. Sir Peter said that the Chairman of Rolls Royce motorcars had recently been in touch with the Department of Trade and Industry and the Secretary of State would probably be writing to Baker, supporting the position taken by the British Ambassador in a recent telephone conversation with Baker.

(viii) Mr George E Gould, Under Secretary for Finance, Treasury Department

Gould said that the bond market appeared to have calmed down, following an "over-reaction" to recent rises in commodity prices. Provided that prices of oil, agricultural commodities, hard minerals, etc. stabilised - and interest rates did not rise much further - he was relatively relaxed about the current overall health of the financial system, though the S & L industry and the farm credit system would remain under pressure for some time. The continuing high rate of bank failures was given too much attention by the media: most of the failures were small banks in agricultural or oil-dominated areas. Gould was more concerned

/by

by the huge structural changes occurring in the banking industry - e.g. the trend towards securitisation and huge new financial conglomerates, the proliferation of hedging/futures instruments, etc. The risks inherent in these new arrangements were not well understood and he was not sure that the syter could be adequately controlled in the event of a serious crisis.

Gould thought the trend in the budget deficit was now in the right direction: the outturn for FY87 should be in the range of $18[illegible]-190 bn with a further $20-30 bn improvement in FY88. With the 1988 Presidential elections approaching, he saw little prospect of a rapprochement between the White House and Congress on social security spending, defence spending and taxation. The Administration had fundamental objections to tax increases: there was "the highest possible correlation" between increased tax rates and lower economic activity, and higher taxes only encouraged the Congress to increase spending. The strategy of holding Congress's feet to the fire to secure reductions in social programmes was now very difficult with a Democrat-controlled Congress and a White House preoccupied with, and weakened by, the Iran-Contra affair.

Sir Peter asked about developments on the Breaux amendment, thanking Gould for Secretary Baker's recent helpful letter to the Chancellor and reminding him of the recent 15-country demarche. Gould said that all parties agreed that the amendment had been badly drafted; he was confident that a fix could be delivered. On Lloyd's, Sir Peter said that the regulatory system had now been sorted out; there remained only one outstanding tax problem (on reinsurance to close premiums): discussions were continuing between Inland Revenue and Lloyd's and the Finance Bill clauses had been held over until after the election.

/(ix)

(ix) Mr Edward M Gramlich, Acting Director, Congressional Budget Office

Gramlich said that a "clean" extension of the Federal debt ceiling had been approved by Congress, but only for a two-month period. Senator Gramm had withdrawn an amendment designed to toughen Gramm-Rudman-Hollings and reconstitute its automatic cutting mechanism, struck down last year by a Supreme Court judgment. But, in return for the two-month extension, Congress had secured an agreement with the White House that discussions would take place on the G-R-H fix (and possibly changes in the budget deficit targets, which now looked increasingly unrealistic) and other aspects of budget process reform which OMB wanted to put on the table.

Gramlich thought that OMB Director Miller, had yet to prove himself. Miller's policy priorities appeared to be to sell off federal loans and other assets rather than to deal with the structural budget deficit. His touch with Congress was much less sure than Stockman's had been, and it was not clear how much weight he (Miller) carried in the Administration. The prospect of a reasonable budget deal - involving even slightly higher excise taxes - being negotiated between Congress and the Administration this year were poor.

(x) Mrs Constance Horner, Director, Office of Personnal Management

Sir Peter summarised HMG's recent proposals to introduce performance related pay into the higher reaches of the civil service. This was part of a broader policy to free up the civil service pay structure, and to decentralise pay bargaining. Horner said that there were parallel movements in the US. A system of merit pay already existed for senior managers and senior executives. OPM's objective was to introduce a government-wide performance pay scheme. But for this they needed legislation and would shortly be reintroducing

/the Civil

the Civil Service Simplification Act (CSSA) into Congress. Horner thought CSSA's chances had iomproved since last year (when the bill failed): union opposition had weakened, and the Defense Department and NASA strongly supported legislation. OMB had been squared off by writing into the bill a constraint that the changes would be expenditure neutral. The next step on the legislative path would be hearings, likely to be held in June.

On Fed Coop, Horner said that OPM's lawyers had decided that legislation was not required for the scheme to go ahead. The linkage to ESOPs (not affected by the 1986 Tax Reform Act) should make the scheme highly attractive to employees, and OPM were hopeful that a first batch of pilot projects would shortly be announced. One of OPM's current headaches was a court ruling that generic tests for Civil Service entry were racially biased. The office might be forced to adopt job specific tests which were generally much less satisfactory in assessing long-term career potential. Sir Peter said that HMG had a similar problem relating to whether or not an implicit contract of employment existed for civil servants: this had arisen out of the court case involving GCHQ workers.

(xi Governor Wayne D Angell, Federal Reserve Board

Angell described his theory that commodity price movements were a good "coincident indicator" of inflationary pressures. The US should follow a tight monetary policy in which M1 growth was approximately half that in Japan. Calculations of the so-called "underlying" rate of inflation using the Consumer Price Index were highly misleading because they stripped out energy and food prices and because price (and output) changes for services could not be measured accurately. Angell believed that the natural rate of unemployment in the US had been falling both through the demographic factors and because the optimum search time for jobs was increasing. He believed that the natural rate was now around 5%: this meant that wage settlements should continue to remain very low.

/(xii)

(xii) Mr Barber Conable, President, World Bank

(See separate note, attached, by UKDel/IBRD.)

British Embassy
Washington

26 May 1987

NOTE FOR THE RECORD

cc: PS/Sir P Middleton
Mr. H. Walsh, HMT
Mr. R.G. Ware, BoE
Mr. K. Frost, ODA

Sir Peter Middleton's Meeting with Mr. Conable, 15 May, 1987

Mr. Qureshi and Mr. Stanton were present, as well as Messrs. Lankester and Faint. After initial courtesies, in which Mr. Conable expressed his appreciation of the UK's role in the World Bank, the following topics were touched upon: the Reorganisation, relations with the IMF, the World Bank's changing role, and relations with Congress. Mr. Conable's remarks about the first two topics contained nothing new.

2. On the Bank's role, Mr. Conable referred to a general expectation that the Bank would exercise leadership. He wished to "define the parameters" within which this should be done, and was preparing to give two speeches in the near future directed at this question. In the debt context, leadership to the commercial banks seemed to entail guarantees on their lending. The World Bank did not rule out guarantees, but the implications must be fully understood in terms of the effect on the Bank's capital availability and on risk. Sir Peter Middleton said that the UK was very reserved about this sort of use of guarantees. He noted that the commercial banks were tending to toughen their line in recent negotiations. Mr. Conable agreed. He said that the new post of Vice President, Financial Intermediation, was intended to raise the Bank's profile in this matter. Mr. Qureshi said that the incumbent should be seen as a "honest broker" between the banks and debtor countries, providing advice on modalities, financial instruments and options, etc.

3. Sir Peter Middleton asked about the Bank's relations with Congress. Mr. Conable said that this was a source of great concern. He was however hopeful that changes in the Treasury taking place in the next two weeks would improve the situation. Mr. Peter McPherson's succession to Mr. Richard Darman, who was essentially a domestic politician, would set the scene for a new push. Mr. Conable had been speaking to Mr. Howard Baker, the White House Chief of Staff, with a view to the launch of a "Foreign Policy initiative" in Congressional relations. At present the US Government's relations with Congress in this area suffered badly from a lack of inter-agency coordination.

4. Concluding the meeting, Sir Peter Middleton raised the case of Mr. David Knox. We regretted his probable departure, though we understood the reasons for it, and we hoped that Mr. Conable could bear in mind the desirability of replacing him with another British candidate at the Vice Presidential level before too long. Mr. Conable said that Mr. Knox had been offered an alternative post, but seemed determined to resign unless he could retain the Vice Presidency for Latin America. He had not given up hope that Mr. Knox might accept the alternative and he would share our regret at Mr. Knox's departure. (Comment: this suggests he may have been offered the Financial Intermediation post),

UK DELEGATION
22 May, 1987

2538/25/CER

SECRET AND PERSONAL
UNTIL 11.30 am THURSDAY 28 MAY
THEN CONFIDENTIAL

ARAB 27/5

Ch OK? (may have to have "trends" in DTI press notice but why is no briefing ?!) AA

FROM: PAUL DAVIS
DATE: 27 May 1987

Ok on

1. MR ~~B~~OTTRILL
2. CHANCELLOR OF THE EXCHEQUER

cc: See attached list

APRIL TRADE FIGURES

The April trade figures will be published at ~~11~~.30 am on Thursday 28 May. They will show a deficit on visible trade of £504 million. Combined with an unchanged CSO projection of the monthly invisibles surplus of £600 million, they give a projected current account surplus of £96 million in April compared to a surplus of £183 million in March. In the three months to April 1987 the current account was in surplus by £678 million compared to a deficit of £573 million in the previous three months.

2. The quarterly balance of payments press notice to be published on 4 June will show preliminary estimates of the invisibles balance in the first quarter of 1987 and revised estimates for earlier quarters. On the basis of almost complete information the invisibles balance in the first quarter is likely to be close to the previously projected figure of £1.8 billion. For this reason the April trade figures press notice will contain an unchanged invisibles projection of £600 million a month for January, February and March. The invisibles outturn in the first quarter was depressed somewhat by temporarily higher payments to the EC. These were repaid in April but the CSO have followed their usual practice of averaging the repayment over the three months of the second quarter when preparing the invisibles projection for April. (The only exception to this practice was the treatment of 'negotiated refunds' from the EC.) The higher payments in the first quarter are also, implicitly, averaged over the quarter in the published projections.

Main points

3. **Current Account**

Jan +83

£ million

	1986 Year	Q2	Q3	Q4	1987 Q1	Feb	Mar	Apr
Manufactures	-5397	-609	-1739	-1788	-736	6	-321	-418
Oil	4153	772	646	846	1164	328	454	419
Other goods	-7009	-1714	-1780	-1660	-1563	-537	-550	-505
Total visibles	-8253	-1551	-2873	-2602	-1135	-202	-417	-504
Invisibles	7154	1457	1942	1846	1800*	600*	600*	600*
Current balance	-1099	-94	-931	-756	665*	398*	183*	96*

* projection

761

4. The value of exports rose by 2 per cent between March and April, from £6.4 billion to £6.6 billion. Imports also rose in April but the rise of £230 million - to £7.1 billion - was more than that of exports. As a result the visible deficit of £0.5 billion in April was £0.1 billion larger than in March. In the three months to April the visible deficit was £1.3 billion smaller than in the previous three months, reflecting a £0.2 billion improvement in the oil balance and a £1.1 billion improvement in the non oil balance. Over the same period the manufacturing trade balance improved by around £1.0 billion.

5. **Exports**

percentage change

	Apr on Mar	3 months to April on prev 3 mths	3 months to April on same period year earlier	1986 on 1985
Total value	2	3½	11	-6½
Total value excl oil and erratics	2	2½	14	2½
Total volume	3	2	11	3½
Total volume excl oil and erratics	2	1½	11	2½
Manufactures volume (excl erratics, OTS basis)	1	3	10½	1
Fuels volume (OTS)	13	3½	7½	2
Basic materials volume (OTS)	0	-6	24	10½
Food, drink and tobacco volume (OTS)	3	-8½	5	8½

6. Export volumes, excluding oil and erratics, rose by 2 per cent in April. Fuel exports rose by about 13 per cent, and there were small rises in food, drink and tobacco and in manufactures.

7. In the three months ending April export volumes (excluding oil and erratics) were 1½ per cent higher than in the previous three months but 11 per cent higher than a year earlier. Within the total, manufactures (excluding erratics) rose 3 per cent in the three months ending April on the previous three months, to a level 10½ per cent higher than a year earlier. There have been substantial increases in the latest three months for passenger motor cars (up 22 per cent) and other consumer goods, smaller increases in semi manufactures, but slight falls in capital and intermediate goods. The

three month on three month comparisons are distorted because the January figure was low due to bad weather while the February figure included some 'catching up'. The underlying level of export volumes appears recently to have been slightly below the high level reached at the end of last year. In line with normal practice (including the trade figures press notice published in May 1983) the press notice will include the assessment of the underlying trend.

8. **Imports**

	percentage change			
	Apr on Mar	3 mths to Apr on previous 3 months	3 mths to Apr on same period year earlier	1986 on 1985
Total value	3½	-2½	8	1
Total value excl oil and erratics	1½	-5	8	7
Total volume	5½	-4	7½	6½
Total volume excl oil and erratics	2½	-5½	6	6
Manufactures volume (excl erratics, OTS basis)	3	-5½	6½	5½
Fuels volume (OTS)	30	-½	24	8½
Basic materials volume (OTS)	7½	-2	16	6½
Food, drink and tobacco volume (OTS)	-2½	-6	-3½	8

9. Import volumes, excluding oil and erratics, rose by 2½ per cent in April. In the three months ending in April import volumes were 5½ per cent lower than in the previous three months, though still 6 per cent higher than a year earlier. Imports of fuels rose sharply in April from the low level recorded in March when companies were apparently running down stocks. In the three months to April import volumes for all major categories were below their level of the previous three months. Within manufactures, imports of cars fell by 16 per cent over this period. The underlying level of imports volumes has fallen from the high level in the second half of last year.

Geographical area

10. The value of exports to the US fell back during April by 8½ per cent but exports to the EC rose by 8½ per cent. Exports to oil exporters fell back by 10 per cent.

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Trade prices

	percentage change			
	Import prices (OTS)		Export prices (OTS)	
	Apr on Mar	3 mths to Apr on previous 3 months	Apr on Mar	3 mths to Apr on previous 3 months
Manufactures (excl erratics)	-1½	0	0	1½
Food, drink, tobacco	-1	-1	0	-1
Basic materials	1	1	-1½	2½
Fuel	-2	11	½	9
Total (BOP basis)	-1½	½	0	1½
Total less oil (BOP)	-1½	-½	0	1

11. In the three months to April the total terms of trade, as measured by unit value indices, improved by 1 per cent compared to the previous three months, and the non-oil terms of trade also improved by 1 per cent. The favourable trend over the past few months reflects rises in the oil price and the exchange rate, only partly offset by rises in commodity prices in SDR terms. [NB: the published series are unit value indices, which can present a misleading picture over a period of time due to their use of 1980 weights.]

Comparison with the FSBR Forecast

12. The current account was in surplus by about £¾ billion in the first four months of 1987 compared with the FSBR forecast of a deficit of £2½ billion for 1987 as a whole.

Market expectations

13. The market expectation is for a visible deficit of around £600 million in April and a current account broadly in balance.

Press Briefing

14. I would be grateful for clearance of the attached press briefing.

PAUL DAVIS
EA2

2538/29

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DRAFT BRIEFING FOR IDT

Factual

1. Current account in surplus by £678 million in three months to April, compared with deficit of £573 million in previous three months. Largely reflects fall of £1,083 million in non oil visible deficit.

2. Comparison with FSBR forecast: Current account surplus of £3/4 billion in first four months of 1987. FSBR forecast for £2½ billion deficit in 1987 as a whole.

3. Manufacturing trade deficit down around £1.0 billion in three months to April compared to previous three months.

4. Export volumes (excluding oil and erratics) in three months to April up 11 per cent on a year earlier and by 1½ per cent on previous three months. [However three month on three month comparison is distorted by bad weather in January - underlying level of export volume appears recently to have been slightly below high level at end of last year.]

5. In the three months to April import volumes (excluding oil and erratics) were 6 per cent higher than a year earlier but 5½ per cent lower than in the previous three months. [Underlying level has fallen away from level at end of last year.]

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TRADE FIGURES FOR APRIL 1987

Advance circulation

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Economic Secretary
Sir P Middleton
Sir G Littler
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3

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GTN 215)
(Switchboard) 01-215 7877

Mr A Allan
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1 3AG

agreed as amended in manuscript

26 May 1987

I am attaching a copy of the draft Press Notice on the Current Account of the United Kingdom Balance of Payments in April. The draft was agreed earlier today at the usual interdepartmental meeting.

Publication is set for Thursday 28 May at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Wednesday 27 May and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton and Mr Davis, H H Treasury.

Yours sincerely

W. E. Boyd

W E BOYD

REVISED DRAFT.

COPY 3...
No. (19)

THE CURRENT ACCOUNT OF THE UNITED KINGDOM BALANCE OF PAYMENTS

APRIL 1987

The current account for April, seasonally adjusted, was estimated to have been in surplus by £96 million compared with a surplus of £183 million in March. In April, exports - seasonally adjusted on a balance of payments basis - were valued at £6,572 million and imports at £7,076 million so that trade in goods was in deficit by £504 million

The balance on invisibles is projected to be in surplus by £600 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions.

FEBRUARY TO APRIL 1987

In the three months ended April, the current account showed a surplus of £0.7 billion compared with a deficit of £0.6 billion in the previous three months.There was a deficit on visible trade of £1.1 billion in the latest three months compared with a deficit of £2.4 billion in the three months ended January. The surplus on invisibles in the latest three months is projected at £1.8 billion.

CURRENT ACCOUNT

TABLE 1 — £ million, seasonally adjusted

	Current Balance	Visible Trade Balance	Visible Trade Exports fob	Visible Trade Imports fob	Invisibles Balance b
1985	+2946	-2178	78111	80289	+ 5124
1986	-1099	-8253	72843	81096	+ 7154
1986 Q1	+ 682	-1227	18164	19391	+ 1909
Q2	- 94	-1551	17786	19337	+ 1457
Q3	- 931	-2873	17553	20426	+ 1942
Q4	- 756	-2602	19340	21942	+ 1846
1987 Q1	+ 665 a	-1135	19637	20772	+ 1800 a
1986 Nov	- 384	-1000	6569	7569	+ 616
Dec	- 272	- 887	6477	7364	+ 615
1987 Jan	+ 83 a	- 517	6235	6752	+ 600 a
Feb	+ 398 a	- 202	6973	7174	+ 600 a
Mar	+ 183 a	- 417	6429	6846	+ 600 a
Apr	+ 96 a	- 504	6572	7076	+ 600 a
Nov-Jan 87	- 573 a	-2404	19281	21685	+ 1831 a
Feb-Apr 87	+ 678 a	-1122	19974	21096	+ 1800 a
Jan-Apr 87	+ 761 a	-1639	26208	27848	+ 2400 a

a Invisibles for January to April are projections

b Monthly figures are one third of the appropriate calendar quarter's estimate or projection. Information relating to credits and debits can be found in Table 3.

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VISIBLE TRADE IN APRIL 1987

There was a deficit on visible trade in April of £504 million compared with a deficit of £417 million in March. At £419 million the surplus on oil was £35 million less than in March. The deficit on non-oil trade increased by £53 million.

At £6572 million, exports in April were £143 million (2 per cent) higher than in March. Exports of oil increased by £90 million but exports of the erratic items fell by £52 million. Excluding oil and the erratic items, exports in April were also 2 percent up on March.

Total imports were valued at £7,076 million in April which was £230 million (3 1/2 per cent) higher than in March. Imports of oil increased by £125 million between the two months while imports of the erratic items were unchanged. Excluding oil and the erratic items, imports rose by 1 1/2 percent between March and April.

Both the value of non-oil exports appear to be below level reached at the end of last year.

RECENT TRENDS

Visible balance

In the three months ended April there was a deficit on visible trade of £1.1 billion - a surplus on trade in oil of £1.2 billion offset by a deficit on non-oil trade of £2.3 billion. Between the three months ended January and the latest three months the visible trade balance improved by £1.3 billion - the surplus on oil increased by £0.2 billion and the deficit on non-oil trade was reduced by £1.1 billion.

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Exports

Exports amounted to £20.0 billion in the three months ended April, £0.7 billion (3 1/2 per cent) higher than in the previous three months. Exports of oil increased by £0.3 billion between the two periods while exports of the erratic items fell by £0.1 billion. Excluding oil and the erratic items, exports rose by 2 1/2 percent between the three months ended January and the latest three months.

By volume exports increased by 2 percent in the latest three months to a level 11 percent higher than a year earlier. Excluding oil and the erratic items, export volume was 1 1/2 percent up in the latest three months; and 11 percent higher than a year ago, although

The three month comparisons ~~in particular overstate the underlying growth of exports because the November/January period includes the low January total (affected by bad weather) while the most recent period includes the 'catching up' seen in February.~~ are affected by the inclusion of the low January total (influenced by bad weather) in the earlier period and the inclusion of the corresponding 'catching up' in February in the most recent period. The underlying level of non-oil export volume appears recently to ~~be~~ have been slightly below the high level reached at the end of last year.

Imports

Total imports were valued at £21.1 billion in the latest three months, £0.6 billion (2 1/2 percent) less than in the three months ended January. Imports of oil increased by £0.1 billion between the two periods and imports of the erratic items increased by £0.2 billion. Excluding oil and the erratic items, imports fell by 5 percent between the three months ended January and the latest three months.

By volume, imports fell by 4 percent between the three months ended January and the latest three months to a level 7 1/2 percent higher than a year earlier. Excluding oil and the erratic items, the volume of imports fell by 5 1/2 percent between the two periods but was 6 percent higher than a year earlier. In recent months the underlying level of non-oil import volume has fallen away from the high level at the end of last year.

Terms of trade and unit values

The terms of trade index rose by 1 percent between the three months ended January and the latest three months with the export unit value index rising by 1 1/2 percent and the import unit value index rising by 1/2 percent. Compared with the same period a year ago the export unit value index has increased by about 3 percent and the import unit value index has increased by about 2 1/2 percent; leaving the terms of trade index virtually unchanged compared with a year ago.

Export unit values for fuels increased by around 9 percent in the latest three months while the unit value index for non-oil exports rose by 1 percent. The export unit values for food, drink and tobacco fell by 1 percent between the two periods and those for semi-manufactures, excluding chemicals, also showed a fall. Unit values for finished manufactures however rose by 2 percent and those for basic materials were up by 2 1/2 percent.

The import unit values for fuels rose by 11 percent between the three months ended January and the latest three months while the unit value index for non-oil imports fell by 1/2 percent. Import unit values for food, drink and tobacco fell by 1 percent and those for basic materials increased by 1 percent. Elsewhere there was little change over the three months.

Analysis by area

The value of exports to the developed countries rose by 6 percent between the three months ended January and the latest three months and deliveries to the developing countries increased by 3 1/2 percent. Within the total for the developed countries, exports to Western Europe increased by 6 percent as did exports to North America. Deliveries to the Other Developed countries were up by 4 1/2 percent in the latest three months.

The value of imports from the developed countries was down 3 1/2 percent between the three months ended January and the latest three months. Imports from the European Community countries fell by 3 1/2 percent, those from North America were down 6 1/2 percent and arrivals from the Other Developed countries fell by 13 percent. Imports from the Developing countries fell by 10 percent in the latest three months.

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NOTES TO EDITORS

REVISIONS

1 Estimates of visible trade are derived from a continuous and comprehensive coverage of Customs documents. Revisions to the basic data are infrequent and usually small. Larger revisions, particularly relating to recent periods, occur in the annual review of seasonal adjustment calculations which takes effect in the press notice covering the January figures.

2 Estimates of the invisibles account are based on quarterly and annual inquiries addressed to a sample of those engaging in the relevant transactions. In some parts of the account the information available is incomplete and subject to significant errors of estimation. Monthly figures of the invisibles balance are quarterly estimates and projections, expressed at a monthly rate. For the most recent months, the figures are projections - rounded to the nearest £100 million to emphasise their likely margins of error - which are superseded by figures from the quarterly balance of payments estimates published in early March, June, September and December. If there is strong evidence from early quarterly information that the first quarterly estimates will differ substantially from the latest published projections, a revised set of projections is included in the monthly press notice prior to the issue of the quarterly estimates. A short article on estimates and projections of the monthly invisible balance was published in the December issue of Economic Trends. This article is reproduced in the Standard Notes (see para 7 below).

3 The quarterly Balance of Payments Press Notice giving the figures for Q1 1987 will be published by the CSO on **4 June 1987.** This will include preliminary estimates for the first quarter of 1987 and the latest estimates for earlier periods.

MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

4 The Monthly Review supplements the information contained in this Press Notice. It gives longer historical runs of data and contains charts, tables on the UK Balance of Payments, UK exports and imports on an Overseas Trade Statistics basis, and certain international comparisons. The Monthly Review is available from the Department of Trade and Industry at the address given below for an annual subscription of £38 which includes the annual supplement. Individual copies are priced at £3, (£6 for the annual supplement).

AREA (tables 11 and 15)

5 Low value consignments ie items of an individual value less than £475, are not analysed by country and are therefore excluded from the area data in tables 11 and 15.

6 In addition the method of seasonal adjustment leads to further differences between the sum of areas and figures for total trade.

STANDARD NOTES

7 The standard notes describe the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) basis of compilation. Copies can be obtained from the address below.

Enquiries about the Standard Notes, and the Monthly Review, should be addressed to S2A, Room 255, Department of Trade and Industry, 1 Victoria Street, London SW1H OET, Telephone: 01-215 4895.

INDEX OF TABLES

Table 2

CURRENT BALANCE, VISIBLE TRADE AND INVISIBLES
(Balance of Payments basis)

£ million seasonally adjusted

	Current Balance	Visible Trade					Invisible Balance b
		Exports fob	Imports fob	Visible Balance	of which		
					Oil	Non-Oil	
1985	+ 2946	78111	80289	- 2178	+ 8104	- 10282	+ 5124
1986	- 1099	72843	81096	- 8253	+ 4153	- 12407	+ 7154
1986 Q1	+ 682	18164	·19391	- 1227	+ 1889	- 3116	+ 1909
Q2	- 94	17786	19337	- 1551	+ 772	- 2324	+ 1457
Q3	- 931	17553	20426	- 2873	+ 646	- 3519	+ 1942
Q4	- 756	19340	21942	- 2602	+ 846	- 3447	+ 1846
1987 Q1	+ 665 a	19637	20772	- 1135	+ 1164	- 2300	+ 1800 a
1986 Aug	- 735	5480	6863	1383	+ 159	- 1542	+ 648
Sept	- 184	6103	6934	- 831	+ 258	- 1088	+ 647
Oct	- 100	6294	7009	- 715	+ 226	- 941	+ 615
Nov	- 384	6569	7569	- 1000	+ 354	- 1354	+ 616
Dec	- 272	6477	7364	- 887	+ 266	- 1153	+ 615
1987 Jan	+ 83 a	6235	6752	- 517	+ 383	- 900	+ 600 a
Feb	+ 398 a	6973	7174	- 202	+ 328	- 529	+ 600 a
March	+ 183 a	6429	6846	- 417	+ 454	- 870	+ 600 a
Apr	+ 96 a	6572	7076	- 504	+ 419	- 923	+ 600 a
Feb-Apr 1986	- 62	17973	19503	- 1529	+ 1352	- 2882	+ 1467
N~v-Jan 1987	- 573 a	19281	21685	- 2404	+ 1003	- 3406	+ 1831 a
Feb-Apr 1987	+ 678 a	19974	21096	- 1122	+ 1200	- 2323	+ 1800 a
% Change							
Latest 3 months on previous 3 months		+ 3½	- 2½				
Same 3 months one year ago		+ 11	+ 8				

a Invisibles for January to April 1987 are projections.

b Monthly figures are one third of the appropriate calendar quarter's estimate or projection.

Table 3

INVISIBLES

£ million seasonally adjusted

	All Sectors						Private Sector and Public Corporations[d]		
	Credits	Debits	Balance	of which			Credits	Debits	Balance
				Services	Interest Profits Dividends	Transfers			
1983	65225	61255	+ 3970	+ 3654	+ 2420	- 2104	60600	52903	+ 7697
1984	76872	71206	+ 5666	+ 3837	+ 4145	- 2316	71994	62108	+ 9886
1985	80167	75043	+ 5124	+ 5708	+ 2937	- 3521	75799	64910	+10889
1986	75880	68726	+ 7154	+ 5319	+ 4256	- 2421	71063	59049	+12014
1985 Q1	21657	20574	+ 1083	+ 1174	+ 931	- 1022	20487	17842	+ 2645
Q2	20228	18714	+ 1514	+ 1565	+ 708	- 759	19267	16451	+ 2816
Q3	19383	17640	+ 1743	+ 1555	+ 1121	- 933	18216	14951	+ 3265
Q4	18899	18115	+ 784	+ 1414	+ 177	- 807	17829	15666	+ 2163
1986 Q1	18921	17012	+ 1909	+ 1210	+ 804	- 105	17634	14976	+ 2658
Q2	18356	16899	+ 1457	+ 1197	+ 880	- 620	17129	14467	+ 2662
Q3	19212	17270	+ 1942	+ 1432	+ 1330	- 820	17980	14624	+ 3356
Q4	19391	17545	+ 1846	+ 1480	+ 1242	- 876	18320	14982	+ 3338

d ie excluding general Government transactions and all transfers.

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EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS (Balance of Payments basis)

Table 4

Indices 1980 = 100

		Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
		Exports	Imports	Terms of Trade[e]	Exports	Imports
1985		143.5	145.2	98.8	118.7	126.0
1986		136.6	134.0	101.9	123.1	133.9
1986	Q1	139.0	137.6	101.0	117.5	124.9
	Q2	134.8	131.5	102.6	121.9	128.8
	Q3	134.3	130.2	103.1	122.6	138.5
	Q4	138.1	137.0	100.8	130.5	143.4
1987	Q1	140.7	140.0	100.5	130.0	133.2
1986	Aug	134.3	129.4	103.8	115.9	139.9
	Sept	135.3	132.2	102.3	126.2	139.3
	Oct	137.6	135.6	101.5	127.0	139.6
	Nov	138.1	136.8	100.9	132.8	146.7
	Dec	138.7	138.5	100.1	131.6	143.9
1987	Jan	140.4	140.1	100.2	124.6	131.4
	Feb	140.8	140.3	100.4	138.4	138.0
	March	141.0	139.8	100.8	126.9	130.2
	Apr	141.0	137.7	102.4	130.8	137.1
Feb-Apr 1986		137.2	135.8	101.0	119.4	125.8
Nov-Jan 1987		139.0	138.4	100.4	129.7	140.7
Feb-Apr 1987		140.9	139.3	101.2	132.0	135.1
% Change						
Latest 3 months on						
- previous 3 months		+ 1½	+ ½	+ 1	+ 2	- 4
- same 3 months one year ago		+ 3	+ 2½	-	+11	+ 7½

e Export unit value index as a percentage of the import unit value index.

VALUE AND VOLUME OF EXPORTS AND IMPORTS EXCLUDING THE MORE ERRATIC ITEMS[f] (Balance of Payments basis)

Table 5

seasonally adjusted

		Value £ million fob		Volume Index 1980 = 100	
		Exports	Imports	Exports	Imports
1985		73819	76749	123.1	133.7
1986		67459	77528	126.0	142.4
1986	Q1	17094	18484	121.6	132.1
	Q2	16238	18440	123.0	136.8
	Q3	16367	19550	126.5	147.2
	Q4	17759	21054	133.0	153.3
1987	Q1	18125	19833	132.9	141.8
1986	Aug	5246	6615	121.9	149.4
	Sept	5600	6547	128.8	146.2
	Oct	5826	6700	130.2	148.5
	Nov	5997	7254	134.9	156.6
	Dec	5936	7100	133.9	154.7
1987	Jan	5765	6489	128.3	140.8
	Feb	6449	6884	141.2	147.4
	March	5910	6461	129.3	137.2
	Apr	6105	6691	134.3	144.6
Feb-Apr 1986		16637	18546	122.0	133.0
Nov-Jan 1987		17699	20842	132.4	150.7
Feb-Apr 1987		18464	20035	134.9	143.1
% Change					
Latest 3 month on					
- previous 3 months		+ 4½	- 4	+ 2	- 5
- same 3 months one year ago		+ 11	+ 8	+11	+ 7½

f These are defined as ships, North Sea installations, aircraft, precious stones, and silver.

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TRADE IN OIL[9]
(Balance of Payments basis)

seasonally adjusted

	Balance of Trade in oil	Exports of Oil					Imports of Oil				
		Total	Crude Oil [SITC (REV 2) 333.0]			Rest of Division 33	Total	Crude Oil [SITC (REV 2) 333.0]			Rest of Division 33
	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob
1985	+ 8104	16134	13006	79.6	163.4	3128	8029	4234	26.9	157.6	3796
1986	+ 4153	8221	6294	82.1	76.7	1927	4068	2321	32.6	71.2	1747
1986 Q1	+ 1889	3024	2429	22.2	109.3	594	1134	722	6.7	107.1	412
Q2	+ 772	1783	1211	18.6	65.1	572	1011	550	7.7	71.7	461
Q3	+ 646	1529	1120	19.7	57.0	408	882	432	8.6	50.0	450
Q4	+ 846	1886	1533	21.6	71.0	353	1041	617	9.6	64.5	424
1987 Q1	+ 1164	2225	1824	21.9	83.4	401	1061	624	7.9	79.3	437
1986 Aug	+ 159	440	330	6.4	51.9	111	282	140	2.9	47.8	142
Sept	+ 258	534	394	6.4	61.2	140	276	111	2.0	54.5	166
Oct	+ 226	629	511	7.2	71.4	118	403	201	3.2	63.5	202
Nov	+ 354	632	528	7.5	70.6	104	279	178	2.8	62.8	101
Dec	+ 266	625	494	7.0	71.0	132	359	239	3.6	66.8	121
1987 Jan	+ 383	731	600	7.4	81.2	131	348	209	2.8	75.2	139
Feb	+ 328	752	600	7.1	84.3	151	424	241	3.0	81.3	183
Mar	+ 454	743	624	7.4	84.6	119	289	173	2.1	81.7	116
Apr	+ 419	833	680	8.0	85.0	153	414	269	3.4	79.2	144
Feb-Apr 86	+ 1352	2422	1838	21.4	85.8	583	1069	631	7.0	89.6	439
Nov-Jan 87	+ 1003	1989	1621	21.8	74.3	367	986	625	9.2	68.1	361
Feb-Apr 87	+ 1200	2327	1904	22.5	84.6	423	1127	684	8.5	80.6	443
% Change											
Latest 3 months on previous 3 months		+ 17	+ 17	+ 3	+ 14	+ 15	+ 14	+ 9½	− 7½	+ 18	+ 23
– same 3 months one year ago		− 4	+ 3½	+ 5	− 1½	− 28	+ 5½	+ 8½	+ 21	− 10	+ 1

[9] Trade in petroleum and petroleum products. These figures differ from those published by the Department of Energy which are on a time of shipment basis (see paragraph 8 of the standard notes).

SECRET and personal
until release of press notice on 28 MAY 87 at 11.30 a.m.

TRADE IN GOODS OTHER THAN OIL
(Balance of Payments basis)

	Total								Excluding Erratics[f]			
	Value, £ million, fob (seasonally adjusted)			Unit value index 1980 = 100 (not seasonally adjusted)			Volume index 1980 = 100 (seasonally adjusted)		Value, £ million fob (seasonally adjusted)		Volume index 1980 = 100 (seasonally adjusted)	
	Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade[e]	Exports	Imports	Exports	Imports	Exports	Imports
1985	- 10202	61977	72259	141.8	141.8	100.0	110.6	133.0	57685	68719	114.9	142.8
1986	- 12407	64621	77028	145.1	141.5	102.6	115.2	140.5	59238	73460	117.7	151.1
1986 Q1	- 3116	15140	18257	143.0	140.0	102.1	108.2	133.8	14071	17350	111.9	143.3
Q2	- 2324	16003	18326	144.2	139.0	103.7	114.7	135.1	14455	17429	115.1	145.2
Q3	- 3519	16024	19544	145.3	140.5	103.4	114.7	143.5	14839	18668	118.5	154.3
Q4	- 3447	17454	20901	148.1	146.4	101.2	123.1	149.5	15873	20013	125.3	161.7
1987 Q1	- 2300	17411	19711	149.7	148.0	101.1	121.8	139.7	15899	18772	124.4	150.4
1986 Aug	- 1542	5040	6581	145.9	140.1	104.2	108.5	145.0	4805	6334	114.8	156.5
Sept	- 1088	5569	6658	145.9	142.0	102.7	119.1	146.6	5065	6271	121.4	155.6
Oct	- 941	5665	6607	147.5	145.0	101.7	119.2	142.2	5197	6298	122.1	153.0
Nov	- 1354	5937	7291	148.1	146.4	101.2	125.5	156.1	5365	6975	127.3	168.7
Dec	- 1153	5852	7004	148.6	147.7	100.6	124.6	150.2	5311	6741	126.5	163.4
1987 Jan	- 900	5504	6404	149.5	148.4	100.7	115.4	137.1	5034	6141	118.7	148.7
Feb	- 529	6221	6750	149.5	148.0	101.0	131.6	142.7	5697	6460	134.2	154.3
Mar	- 870	5686	6557	150.1	147.6	101.7	118.5	139.1	5168	6172	120.5	143.3
Apr	- 923	5739	6662	150.0	145.3	103.3	119.8	142.4	5272	6277	122.7	151.7
Feb-Apr 86	- 2882	15552	18434	143.6	140.9	101.9	110.8	133.7	14216	17477	112.9	143.0
Nov-Jan 87	- 3406	17292	20699	148.8	147.5	100.8	121.8	147.8	15710	19856	124.1	160.3
Feb-Apr 87	- 2323	17647	19969	149.9	147.0	102.0	123.3	141.4	16137	18909	125.8	151.4
% Change												
Latest 3 months on												
- previous 3 months		+ 2	- 3½	+ 1	- ½	+ 1	+ 1	- 4½	+ 2½	- 5	+ 1½	- 5½
- same 3 months one year ago		+ 13	+ 8½	+ 4½	+ 4½	-	+11	+ 6	+ 14	+ 8	+11	+ 6

f These are defined as ships, North Sea installations, aircraft, precious stones, and silver.

e Export unit value index as a percentage of the import unit value index.

SECRET and personal until release of press notice on 23 MAY 87 at 11.30 a.m.

EXPORTS BY COMMODITY

(Overseas Trade Statistics basis)

Table 8

£ million, fob, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures (PS): Chemicals	Semi-manufactures (PS): Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	(SNA): Passenger Motor Cars	(SNA): Other Consumer	(SNA): Intermediate	(SNA): Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
985	78392	4971	2128	16795	52506	48473	18458	9412	9046	30015	1343	5257	13475	9940
1986	73009	5478	2046	8683	54595	49697	18758	9692	9066	30939	1362	5712	13682	10183
1986 Q1	18198	1228	500	3177	12799	11838	4427	2289	2137	7412	299	1317	3343	2453
Q2	17832	1284	443	1922	13644	12214	4607	2394	2213	7607	340	1391	3353	2523
Q3	17632	1394	542	1614	13582	12506	4800	2470	2330	7706	362	1470	3407	2467
Q4	19347	1571	561	1970	14570	13139	4924	2539	2386	8215	361	1534	3579	2740
1987 Q1	19637	1372	624	2309	14642	13287	4880	2507	2374	8407	459	1660	3542	2745
1987 Feb	6955	486	225	781	5125	4674	1738	901	836	2936	133	616	1235	953
Mar	6444	432	183	767	4902	4419	1635	844	791	2784	165	532	1192	895
Apr	6623	446	192	864	4921	4463	1602	835	767	2861	182	591	1175	913
Nov-Jan 1987	19288	1489	601	2073	14429	12996	4781	2452	2330	8215	396	1573	3509	2738
Feb-Apr 1987	20022	1363	600	2413	14948	13556	4974	2580	2394	8581	480	1738	3602	2761
% change	+ 4	- 8½	-	+ 16	+ 3½	+ 4½	+ 4	+ 5	+ 3	+ 4½	+ 21	+ 11	+ 2½	+ 1

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

EXPORTS BY COMMODITY: VOLUME INDICES

(Overseas Trade Statistics basis)

Table 9

INDICES 1980 = 100, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures (PS): Chemicals	Semi-manufactures (PS): Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	(SNA): Passenger Motor Cars	(SNA): Other Consumer	(SNA): Intermediate	(SNA): Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1985	119.3	119.2	106.1	171.7	110.8	115.7	118.9	133.3	107.5	113.6	99.4	111.6	121.2	107.6
1986	123.6	129.6	117.1	175.5	114.0	116.9	121.9	139.4	108.1	113.8	93.2	117.5	120.4	106.9
1986 Q1	117.6	119	111	178	107	112	115	131	103	109	89	109	117	103
Q2	122.1	120	102	170	115	116	120	138	106	113	95	116	119	107
Q3	124.4	134	126	174	113	118	125	143	111	113	97	122	120	102
Q4	130.5	146	129	179	120	123	127	146	112	120	91	123	126	115
1987 Q1	130.2	129	145	183	119	122	126	143	112	120	114	133	120	114
1987 Feb	138.0	139	149	182	126	129	134	154	118	126	99	149	126	118
Mar	126.7	120	127	180	120	122	127	145	112	119	123	129	120	111
Apr	130.9	124	127	203	120	123	124	142	109	122	137	148	119	112
Nov-Jan 1987	130.0	139	143	182	118	121	123	141	109	120	98	126	123	116
Feb-Apr 1987	131.9	128	134	188	122	125	128	147	113	122	120	142	122	114
% Change	+ 1½	- 8½	- 6	+ 3½	+ 3	+ 3	+ 4	+ 4½	+ 3½	+ 2	+22	+13	- 1	- 1½

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

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until release of press notice on 28 MAY 87 at 11.30 a.m.

EXPORTS BY COMMODITY: UNIT VALUE INDICES
(Overseas Trade Statistics basis)

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1985	143.4	134	140	155	143	142	135	139	132	147	162	147	150	141
1986	136.5	140	123	81	147	148	138	141	135	154	182	157	157	146
1986 Q1	138.9	136	128	113	145	145	137	142	133	150	166	153	153	144
Q2	134.7	141	124	74	146	147	138	142	134	153	179	156	156	145
Q3	134.2	140	120	62	148	148	137	140	135	155	186	156	159	146
Q4	138.0	142	121	72	151	150	139	141	138	157	198	161	160	148
1987 Q1	140.5	141	122	82	152	153	141	144	139	160	201	164	163	150
1987 Feb	140.7	142	123	84	152	153	141	144	139	159	198	163	162	149
Mar	140.9	140	124	81	153	154	141	144	139	162	202	165	166	150
Apr	140.9	140	122	81	153	154	141	145	137	162	203	164	167	150
Nov-Jan 1987	138.9	142	120	75	151	151	140	142	139	158	200	162	160	148
Feb-Apr 1987	140.8	141	123	82	153	153	141	145	138	161	201	164	165	150
% change	+ 1½	- 1	+ 2½	+ 9	+ 1	+ 1½	+ ½	+ 2	- ½	+ 2	+ ½	+ 1	+ 3½	+ 1

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

EXPORTS BY AREA

Table 11

(Overseas Trade Statistics basis)

£ million, fob, seasonally adjusted

	Total K	Developed Countries: Total	European Community	Rest of W Europe	North America Total	North America USA	Other	Developing Countries: Total	Oil exporting countries	Other	Centrally planned economies
1985	78392	62787	38226	7438	13332	11519	3791	13876	5952	7924	1587
1986	73009	57709	35004	6963	12128	10380	3614	13139	5495	7644	1721
1986 Q1	18198	14493	8634	1745	3195	2737	919	3219	1389	1830	437
Q2	17832	13799	8328	1710	2880	2494	881	3451	1551	1900	446
Q3	17632	13944	8498	1709	2829	2432	909	3215	1317	1897	368
Q4	19347	15474	9545	1799	3225	2717	905	3254	1238	2016	470
1987 Q1	19637	15715	9330	1747	3676	3153	962	3401	1313	2088	437
1987 Feb	6955	5743	3320	687	1392	1223	344	1099	393	706	157
Mar	6444	5117	3087	581	1154	967	295	1176	480	697	143
Apr	6623	5346	3355	639	1044	883	308	1143	431	712	129
Nov-Jan 1987	19288	15293	9282	1713	3392	2878	906	3296	1250	2046	473
Feb-Apr 1987	20022	16206	9762	1907	3589	3072	947	3418	1304	2114	428
% change	+ 4	+ 6	+ 5	+ 11	+ 6	+ 6½	+ 4½	+ 3½	+ 4½	+ 3½	- 9½

K See paragraph 5 of Notes to Editors.

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until release of press notice on [illegible] MAY 87 at 11.30 a.m.

IMPORTS BY COMMODITY

Table 12

(Overseas Trade Statistics basis)

£ million cif seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
1985	85027	9337	5388	10664	58312	54934	19611	6901	12710	35322	4165	8884	11623	10649
1986	86066	10067	4988	6294	62833	59472	20713	7346	13367	38759	4809	10177	12706	11067
1986 Q1	20495	2452	1211	1729	14732	13883	5010	1797	3213	8873	1116	2275	2862	2619
Q2	20467	2419	1211	1522	14914	14087	5024	1795	3229	9063	1136	2412	2979	2537
Q3	21836	2564	1190	1502	16041	15199	5207	1831	3376	9992	1279	2653	3268	2792
Q4	23269	2632	1376	1541	17146	16303	5472	1922	3549	10832	1279	2838	3597	3118
1987 Q1	21819	2473	1386	1468	16148	15248	5377	1943	3434	9871	1054	2576	3289	2952
1987 Feb	7452	895	481	568	5407	5128	1854	679	1175	3274	307	904	1077	986
Mar	7245	785	448	431	5462	5090	1813	639	1174	3277	372	885	1101	920
Apr	7482	767	481	552	5561	5190	1827	655	1173	3362	366	870	1166	961
Nov-Jan 87	22882	2627	1422	1404	16985	16164	5404	1914	3490	10760	1221	2764	3595	3180
Feb-Apr 87	22180	2447	1410	1551	16430	15408	5494	1972	3522	9913	1044	2659	3343	2867
% change	- 3	- 7	- 1	+ 10	- 3½	- 4½	+ 1½	+ 3	+ 1	- 8	-14	- 4	- 7	- 10

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

IMPORTS BY COMMODITY: VOLUME INDICES

Table 13

(Overseas Trade Statistics basis)

INDICES 1980 = 100 seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1985	124.6	114.4	102.2	86.2	140.7	154.4	143.9	176.1	130.6	161.4	127.9	139.5	172.8	187.1
1986	132.8	123.5	108.7	93.4	148.2	163.0	152.0	188.0	137.2	170.4	131.6	158.3	187.0	183.1
1986 Q1	123.5	124	104	70	140	153	147	182	133	157	126	144	170	172
Q2	127.1	120	105	85	143	157	149	187	134	162	125	154	181	169
Q3	138.1	125	106	112	152	168	155	191	140	176	142	165	193	185
Q4	142.4	125	119	106	158	174	157	192	142	186	133	170	205	205
1987 Q1	130.9	120	122	91	146	161	152	191	136	166	103	156	185	187
1987 Feb	132.9	130	124	104	145	160	156	198	138	163	91	162	179	183
Mar	129.5	114	117	77	149	161	156	193	141	165	107	162	188	173
Apr	135.6	112	126	101	153	166	158	198	141	171	112	159	198	186
Nov-Jan 87	139.1	126	125	94	155	172	153	189	139	184	123	167	204	208
Feb-Apr 87	132.7	119	122	94	149	162	156	196	140	167	103	161	188	181
% change	- 4½	- 6	- 2	- ½	- 4	- 5½	+ 2	+ 4	+ 1	- 9½	- 16	- 3½	- 7½	- 13

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

SECRET and personal
until release of press notice on .... at 11.30 a.m.

Table 14

IMPORTS BY COMMODITY: UNIT VALUE INDICES
(Overseas Trade Statistics basis)

INDICES 1980 = 100 not seasonally adjuste

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1985	143.1	137	130	172	141	141	133	139	130	146	152	147	155	134
1986	132.5	136	113	97	143	144	133	141	130	152	170	148	158	141
1986 Q1	135.6	134	116	132	140	141	132	140	128	148	165	145	152	138
Q2	130.1	135	113	96	140	142	131	139	128	148	169	144	153	139
Q3	129.1	136	111	78	142	144	132	139	129	152	168	147	159	141
Q4	135.1	139	115	84	149	150	136	144	133	159	178	155	167	147
1987 Q1	137.9	138	117	94	151	152	138	147	135	162	189	155	167	151
1987 Feb	138.2	138	118	95	151	153	138	148	135	162	187	155	167	152
Mar	137.7	138	116	95	151	152	138	146	134	162	190	155	166	152
Apr	135.7	136	117	94	148	150	137	147	133	159	181	152	164	149
Nov-Jan 87	136.4	139	116	86	151	151	138	146	134	161	183	155	168	148
Feb-Apr 87	137.2	137	117	95	150	151	138	147	134	161	186	154	166	151
% change	+ ½	- 1	+ 1	+ 11	- ½	-	-	+ ½	- ½	-	+ 1½	- 1	- 1½	+ 2

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

IMPORTS BY AREA

Table 15

(Overseas Trade Statistics basis)

£ million cif seasonally adjustec

	Total K	Developed Countries: Total	European Community	Rest of W Europe	North America Total	USA	Other	Developing Countries: Total	Oil exporting countries	Other	Centrally planned economies
1985	85027	71665	41474	12102	11709	9926	6379	11327	2815	8512	1893
1986	86066	73285	44506	11864	10054	8468	6861	10514	1877	8637	1856
1986 Q1	20495	17651	10564	3088	2352	1970	1647	2376	498	1878	422
Q2	20467	17360	10566	2729	2420	2030	1645	2540	460	2080	466
Q3	21836	18569	11426	2896	2512	2138	1735	2670	408	2262	456
Q4	23269	19705	11950	3151	2771	2331	1833	2928	511	2418	511
1987 Q1	21819	18625	11411	3060	2435	2025	1720	2540	462	2078	482
1987 Feb	7452	6330	3868	1100	787	655	575	907	150	758	160
Mar	7245	6149	3743	1053	841	686	513	779	146	633	172
Apr	7482	6453	3912	1107	918	787	517	830	135	695	181
Nov-Jan 87	22882	19591	11955	3064	2721	2300	1850	2793	531	2262	470
Feb-Apr 87	22180	18933	11522	3260	2546	2128	1605	2517	431	2086	513
% change	- 3	- 3½	- 3½	+ 6½	- 6½	- 7½	- 13	- 10	- 19	- 8	+ 9½

K See paragraph 5 Notes to Editors.

SECRET and personal
until release of press notice on .... at 11.30 a.m.

COMMODITY ANALYSIS OF VISIBLE TRADE
(Balance of Payments basis)

£ million, seasonally adjusted

SITC (R2)	Food Beverages and Tobacco 0 + 1			Basic Materials 2 + 4			Fuels 3		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1985	4932	8522	- 3591	2144	4795	- 2651	16795	10233	+ 6562
1986	5439	9256	- 3817	2058	4410	- 2353	8683	5865	+ 2819
1985 Q2	1277	2157	- 880	537	1241	- 704	4481	2474	+ 2007
Q3	1260	2126	- 866	532	1173	- 641	3576	2134	+ 1442
Q4	1194	2083	- 889	504	1070	- 566	3862	2237	+ 1625
1986 Q1	1219	2242	- 1023	504	1092	- 588	3177	1637	+ 1540
Q2	1271	2209	- 937	445	1076	- 631	1922	1419	+ 503
Q3	1383	2372	- 989	545	1020	- 475	1614	1368	+ 246
Q4	1565	2433	- 868	564	1223	- 658	1970	1441	+ 530
1987 Q1	1354	2285	- 931	629	1232	- 603	2308	1413	+ 895

SITC (R2)	Semi-Manufactures 5 + 6			Finished Manufactures 7 + 8			Total Manufactures 5 - 8		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1985	20051	19949	+ 102	32221	35324	- 3103	52271	55273	- 3002
1986	20946	21559	- 613	33540	38324	- 4784	54486	59883	- 5397
1985 Q2	5207	5076	+ 131	8208	9101	- 893	13415	14177	- 761
Q3	4865	5125	- 260	7962	8379	- 417	12827	13504	- 678
Q4	4952	4900	+ 53	8096	8645	- 549	13048	13545	- 497
1986 Q1	4851	5292	- 441	7925	8745	- 819	12777	14037	- 1260
Q2	5221	5177	+ 43	8395	9047	- 653	13615	14224	- 609
Q3	5290	5361	- 71	8230	9898	- 1668	13520	15259	- 1739
Q4	5585	5729	- 144	8990	10634	- 1645	14575	16363	- 1788
1987 Q1	5474	5652	- 178	9190	9748	- 558	14664	15400	- 736

Monthly data at this level of detail are published in the Monthly Review of External Trade Statistics.

VISIBLE TRADE IN APRIL 1983

The visible trade balance changed from a surplus of £384 million in March to a deficit of £360 million in April as the value of exports declined and imports rose. The surplus on trade in oil dropped from £622 million in March to £474 million in April whilst the deficit on trade in non-oil goods increased from £238 million in March to £834 million in April.

The value of exports in April was £487 million (9 per cent) below the high March level. Deliveries of oil fell by £225 million and exports of non-oil goods, particularly passenger motor cars, semi-manufactures other than chemicals, and precious stones, were also lower than in March.

Total imports, at £5164 million, were £257 million (5 per cent) above the level in March. This increase was reflected in most of the major commodity groups, though imports of oil fell by £77 million.

The terms of trade index (excluding oil) remained unchanged as both the export unit value index (excluding oil) and the import unit value index (excluding oil) rose by 1 per cent (see table 7).

RECENT TRENDS

Visible Balance

In the period February to April 1983, there was a deficit on visible trade of £109 million compared with a surplus of £565 million in the period November 1982 to January 1983. The surplus on trade in oil fell by £55 million between the two periods whilst the deficit on trade in non-oil goods increased by £619 million.

Exports

Exports in the three months ending April 1983 were valued at £15.0 billion, an increase of 3½ per cent over the previous three months. Exports of oil declined by £187 million but deliveries of non-oil goods increased by £675 million.

The volume of exports in the latest three months was 1½ per cent above the level in the previous three months but marginally below the level in the corresponding three months of 1982. The strong upward trend in the volume of exports of oil seems to have levelled out in the last few months. Despite the lower figure for April, following the high figure in March, the underlying level in the volume of non-oil exports has not changed much since recovering towards the end of 1982.

Imports

Imports, valued at £15.1 billion in the latest three months were £1.2 billion (8½ per cent) above the level in the previous three month period. This increase is reflected in all of the major commodity groups with the exception of oil imports, which fell in value by nearly £150 million.

Import volume in the latest three months was 3½ per cent higher than in the previous three monthly period and 3 per cent above the figure for the corresponding three months of a year ago. While the volume of oil imports, which was falling during most of 1982, seems to have levelled out since the fourth quarter of last year, the latest figures for non-oil import volume provide further evidence that the underlying level has been increasing.

Terms of Trade (see note 3 and table 7)

The terms of trade index (excluding oil) fell by 2½ per cent in the latest three months as the import unit value index (excluding oil) rose by 6 per cent and the export unit value index (excluding oil) rose by 3½ per cent.

CONFIDENTIAL

FROM: A BOTTRILL

DATE: 22 May 1987

MR A C S ALLAN

cc: Sir T Burns
Mr Sedgwick
Mr Barrell
Mr Owen

FIRST QUARTER BALANCE OF PAYMENTS FIGURES

The Chancellor asked Sir T Burns for advice on the direction of any revisions to the invisibles figures to be published with the trade figures on 28 May and the quarterly balance of payments on 4 June. It is too early to answer this question with confidence since the CSO has not yet received returns from all Departments, and past experience suggests that the figures can change significantly at a late stage.

2. The trade figures press notice will contain any revisions to the CSO's projections for the first quarter, together with a projection for April. The out-turn for the first quarter on the limited information so far available appears likely to be an invisibles surplus of £1.6 billion compared to the £1.8 billion implied by the CSO's projections of £0.6 billion a month for January, February and March. The lower than projected out-turn reflects mainly temporarily higher payments to the EC as a result of the Community's budget problems. The CSO has not yet decided what revisions to make to its projections for the first quarter. It is possible that the rounded monthly figure will be revised down to £0.5 billion which would reduce the current surplus from £0.6 billion to £0.3 billion.

4. The over-payments to the EC were apparently repaid to the UK in April. A particular issue is the way in which the CSO will treat these repayments in preparing the invisibles projection for April to be published with the trade figures. Precedent is not clear as to whether the CSO will average the repayment over the three months of the quarter or show it all in April. I have forewarned the CSO that we shall wish to be convinced that they are following established procedures scrupulously.

4. The quarterly balance of payments press notice will contain any revisions to the 1986 out-turn. The information so far available suggests that the invisibles surplus was approximately £0.7 billion higher than previously estimated which would reduce the 1986 current deficit from £1.1 billion to £0.4 billion.

5. I cannot stress too strongly however in view of our previous experience in this area that too much weight should not be attached to these early partial CSO estimates for either the first quarter or 1986. In particular, the CSO is still awaiting returns on oil companies' activities which could change the picture significantly.

A BOTTRILL

PWP

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - MAY 1987

* The visible trade deficit rose to £0.4 billion in March compared with £0.2 billion in February and an average visible deficit of £0.9 billion a month in the second half of 1986. Combined with an unchanged invisibles projection of £0.6 billion, the current account showed a surplus of £0.2 billion in March and £0.6 billion in the first quarter.

* UK competitiveness, which improved by around 17 per cent in the year to the fourth quarter of 1986, has almost certainly deteriorated since then by perhaps some 6-8 per cent as a result of the firming of the exchange rate.

* G5 countries' domestic demand levelled out in the fourth quarter of 1986 and information so far this year suggests that industrial production has been flat. UK domestic demand continued to rise in the fourth quarter. The preliminary estimates show consumers' expenditure flat in the first quarter although other indicators point to a continuing rise in activity.

* Export volumes (excluding oil and erratics) fell by 1 per cent in the first quarter although in view of the volatility of recent figures it is perhaps too early to assess whether the underlying upward trend has stopped.

* Import volumes (excluding oil and erratics) fell by 7½ per cent in the first quarter but again the volatility of recent figures and doubts about seasonal factors make it difficult to assess whether underlying import volumes have levelled out.

* The terms of trade has firmed a little since December reflecting the sterling's appreciation and higher oil prices, only partly offset by a rise in commodity prices in SDR terms.

* The £0.6 billion current surplus in the first quarter compared with the FSBR projected current deficit of £2½ billion in 1987. Independent forecasts still point on average to a £2 3/4 billion deficit.

PAUL DAVIS
EA2 Division

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - APRIL 1987

Current account

1. The March trade figures, published on 1 May, showed a deficit on non-oil trade of £0.9 billion, partially offset by a surplus on oil trade of £0.5 billion. The value of non-oil exports and imports both fell sharply in March reflecting the fact that the February figures contained some catch up from the January figures which were badly affected by the severe weather. However, non-oil exports fell more rapidly than non-oil imports leading to an increase of £0.3 billion in the non-oil deficit. The oil trade surplus rose by just over £0.1 billion, reflecting a fall in oil imports which was partly due to oil companies holding back on purchases of oil at fixed OPEC prices.

TABLE 1: CURRENT ACCOUNT

£ billion

		Current balance	Visible total	of which: oil	Manufactures	Other goods	Invisibles balance
1985		2.9	-2.2	8.1	-3.0	-7.3	5.1
1986		-1.1	-8.3	4.2	-5.4	-7.0	7.2
1986	Q1	0.7	-1.2	1.9	-1.3	-1.9	1.9
	Q2	-0.1	-1.6	0.8	-0.6	-1.7	1.5
	Q3	-0.9	-2.9	0.6	-1.7	-1.8	1.9
	Q4	-0.8	-2.6	0.8	-1.8	-1.7	1.8
1987	Q1	0.6	-1.2	1.2	-0.8	-1.5	1.8*
January 87		0.1	-0.5	0.4	-0.4	-0.5	0.6*
February		0.4	-0.2	0.3	0.0	-0.5	0.6*
March		0.2	-0.4	0.5	-0.3	-0.5	0.6*

*CSO projection

CHART 1: CURRENT ACCOUNT

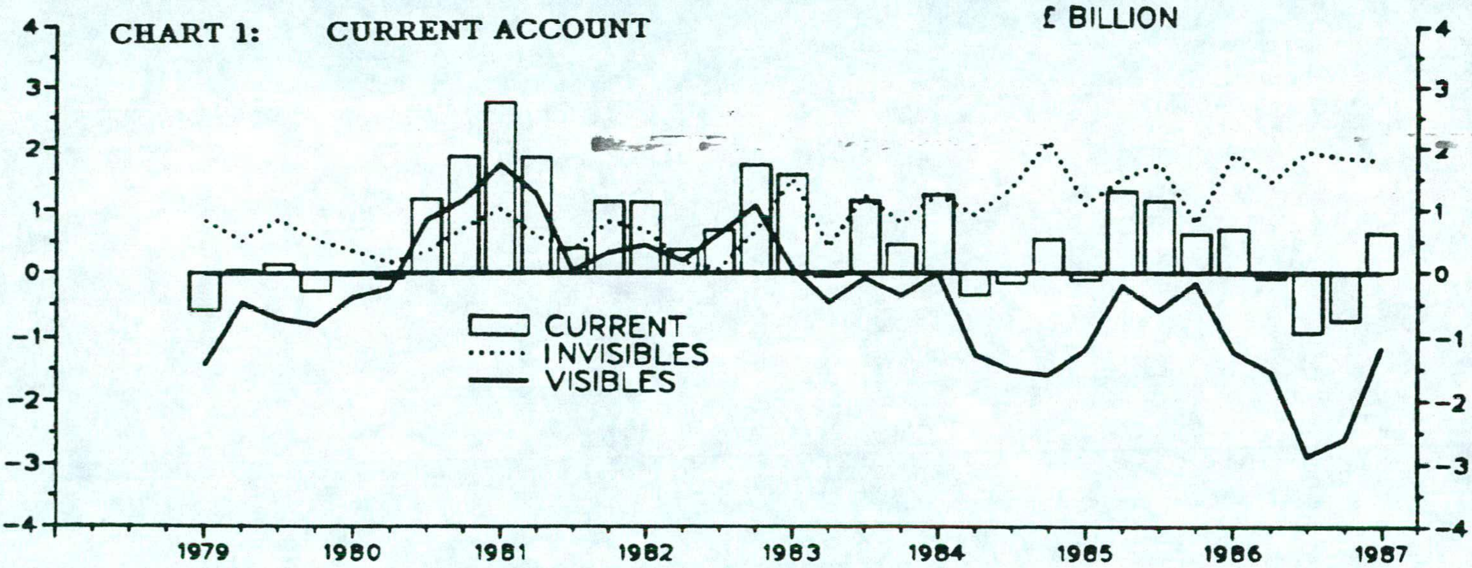
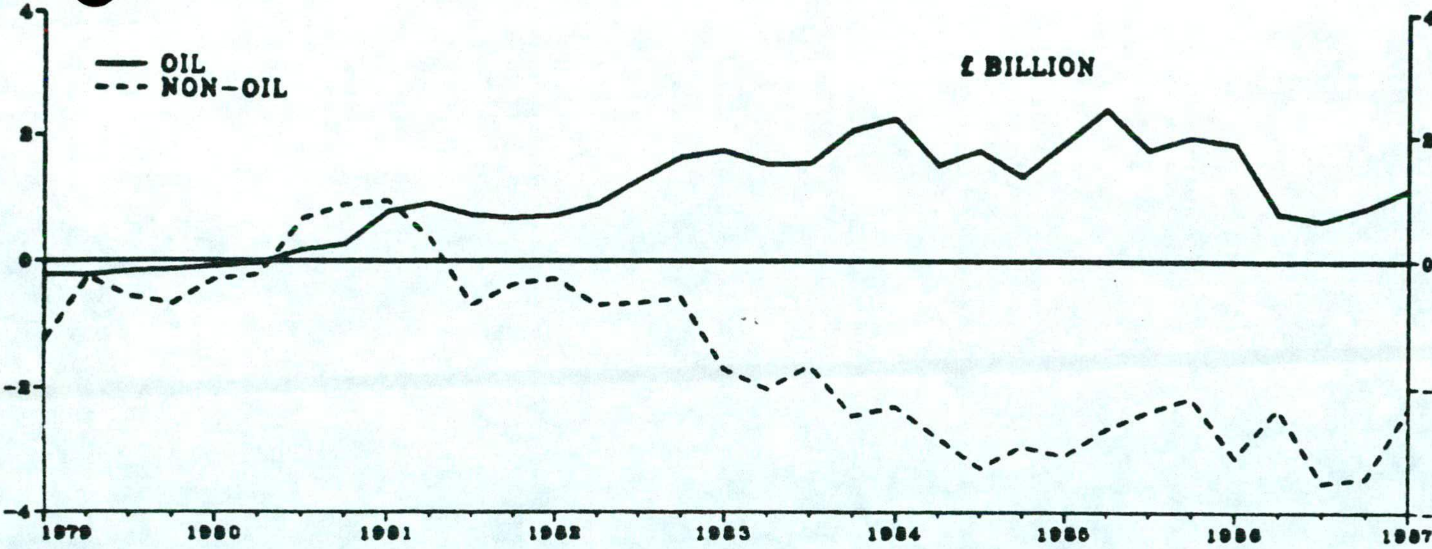


CHART 1A: VISIBLE BALANCE



DETERMINANTS OF UK TRADE

Competitiveness

2. UK competitiveness (as measured by relative actual unit labour costs in manufacturing) improved by around 17 per cent in the year to the fourth quarter of 1986 but has deteriorated since the autumn as the exchange rate has strengthened. By mid May the exchange rate was nearly 8 per cent higher than in the fourth quarter, while UK unit labour costs have probably been growing at a similar rate to those elsewhere. Much of the appreciation has occurred since the middle of the first quarter, and is not therefore fully reflected in the average relative unit labour costs in the first quarter shown in table 2.

CHART 2: UNIT LABOUR COSTS IN MANUFACTURING

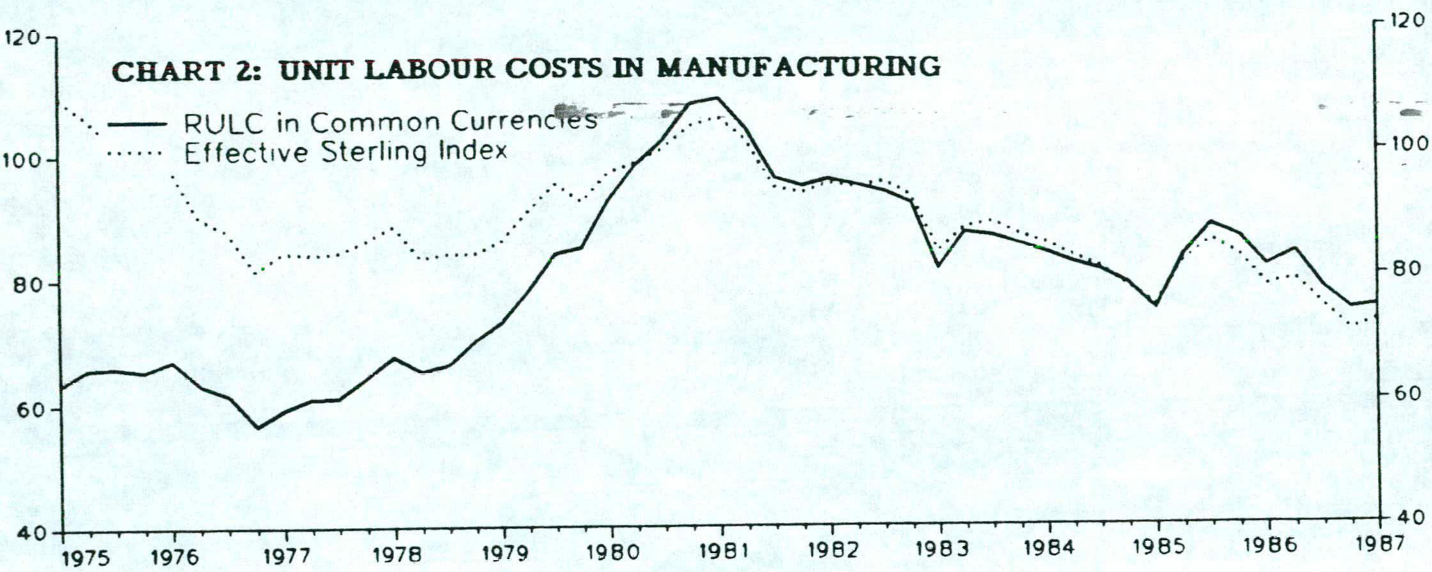


TABLE 2: RELATIVE UNIT LABOUR COSTS IN MANUFACTURING

(% changes on a year earlier in brackets)

		Relative unit labour costs indomestic currencies 1980=100		Export weighted exchange rate index 1975=100		Relative unit labour costs in common currencies 1980=100		Sterling exchange rate index 1975=100	
1985		100.4	(2.6)	77.0	(-0.6)	83.9	(1.9)	78.2	(-0.6)
1986		104.0**	(3.6)	68.8	(-10.6)	77.6**	(-7.5)	72.8	(-7.0)
1986	Q1	104.1	(7.2)	71.9	(-0.3)	81.2	(7.0)	75.1	(4.2)
	Q2	104.8	(5.2)	72.3	(-8.4)	82.2	(-2.6)	76.1	(-3.5)
	Q3	103.0*	(1.4)	67.3	(-16.6)	75.2*	(-15.5)	71.9	(-12.4)
	Q4	103.9**	(1.1)	63.5	(-17.6)	71.6**	(-16.9)	68.2	(-14.6)
1987	Q1	103.6**	(-0.5)	64.5	(-10.3)	72.5**	(-10.7)	69.7	(-7.2)
1987	January							68.9	(-10.1)
	February							69.0	(-7.0)
	March							71.9	(-4.4)
	April							72.3	(-5.2)

* estimate

** projection

World trade and domestic demand

3. G5 countries' domestic demand, which grew strongly in the second and third quarters of 1986, levelled out in the fourth quarter reflecting in particular weakness in the US and Japan, and looks likely to be weak in Germany in the first quarter. G5 industrial production has also been flat in recent months and there remains no clear sign of a strong recovery in G5 export volume growth. UK domestic demand continued to rise in the fourth quarter but at a slower rate than earlier in the year. Retail sales in the first quarter were a little below the high levels recorded in the fourth although the figure for April shows strong growth resuming. The first quarter may have been distorted by bad weather. Industrial production rose slightly in the first quarter.

TABLE 3: INDICATORS OF DEMAND

Indices 1980=100

		G5 Countries			UK		
		Export volumes	Domestic demand	Industrial production	Export volumes**	Domestic demand	Manufacturing production
1985		110	113.2	112.0	114.9	111.0	103.8
1986		110	117.5	113.0	117.7	114.6	104.6
1986	1	107	115.5	112.7	111.9	113.9	102.6
	2	112	117.3	112.9	115.1	113.3	103.5
	3	106	118.5	113.4	118.5	115.2	104.8
	4	115	118.7	113.2	125.3	116.0	107.4
1987	1				124.2		
January 87				113.0	118.5		105.3
February				114.2	134.0		107.6
March					120.3		

* Not seasonally adjusted

** Excluding oil and erratics

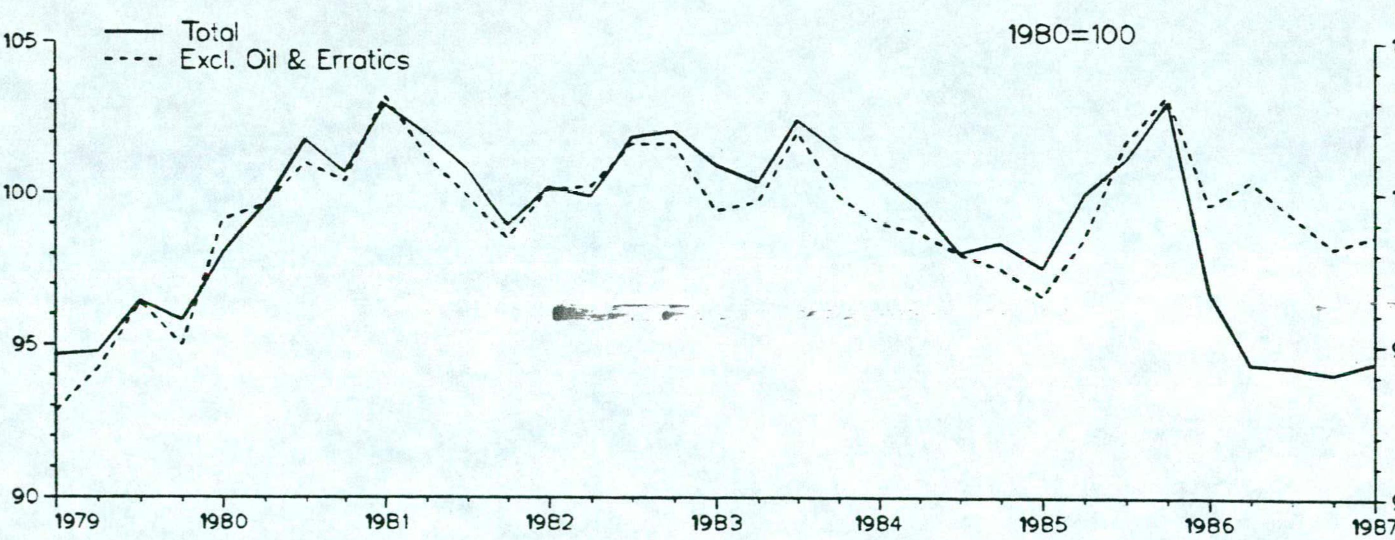
VISIBLE TRADE

TABLE 4: VISIBLE TRADE VALUES, VOLUMES AND TERMS OF TRADE

	Exports	Imports	Balance	Terms of Trade	Ratio: Export volume Import volume
1985	78.1	80.3	-2.2	100.4	94.2
1986	72.8	81.1	-8.3	94.9	91.9
1986 1	18.2	19.4	-1.2	96.7	94.1
2	17.8	19.3	-1.6	94.4	94.6
3	17.6	20.4	-2.9	94.2	88.5
4	19.3	21.9	-2.6	94.1	91.0
1987 1	19.5	20.7	-1.2	93.8	97.7
January	6.2	6.7	-0.5	93.8	95.5
February	6.9	7.2	-0.2	93.9	100.2
March	6.4	6.8	-0.4	93.6	97.3
% change					
1987 Q1 on same period year earlier	7½	7		-3	4
1987 Q1 on previous quarter	1	-5½		-½	7½
March on February	-7½	-4½		-½	-3

* based on average value indices

CHART 3: TERMS OF TRADE



Exports

4. Exports fell sharply in March. Distortion in the early months of the year make it difficult to assess whether the underlying trend in export volumes has levelled off. The volume of non-oil exports (excluding erratics) in the first quarter was 1 per cent lower than in the previous quarter. Within the total, the volume of exports of manufactures fell slightly (despite a 25 per cent rise in car exports), while exports of food, drink and tobacco declined sharply from the exceptionally high levels at the end of 1986. Recent exports of basic materials have been inflated due to re-exports of Spanish olive oil to Italy, exploiting a peculiarity in the CAP price regime. Hence all of the recent rise in basic materials exports should be discounted. The volume of exports of gold, which had boosted the export figures in recent months, fell greatly between February and March. The CBI April survey shows further improvement in export order books.

TABLE 5: EXPORT VOLUMES

		Total exports*	Total exports (~~excluding~~ oil and eratics*)	Manufactures (excluding erratics)	Food, drink and tobacco	Basic materials	Fuel
1985		118.7	114.9	115.7	119.2	106.1	171.7
1986		123.1	117.7	116.9	129.6	117.1	175.5
1986	1	117.5	111.9	111.7	118.7	110.7	178.3
	2	121.9	115.1	115.8	119.8	102.3	170.4
	3	122.6	118.5	117.6	133.5	126.3	174.3
	4	130.5	125.3	122.6	146.2	128.9	178.9
1987	1	129.7	124.2	122.2	129.0	144.8	183.1
January		125.0	118.5	116.0	128.1	158.7	187.2
February		137.8	134.0	129.0	138.9	148.6	182.2
March		126.3	120.3	121.7	120.0	127.0	179.9
% change on same period 1987 Q1 year earlier		10	11	9½	8½	31	2½
1987Q1 on previous quarter		-½	-1	-½	-12	12½	2½
Mar on Feb		-8½	-10	-5½	-13½	-14½	-1½

* BOP basis

Exports by geographical destination

8. The value of exports to the US and the EC fell back a little in March - growth in exports to these markets has accounted for most of the recovery in the value of exports since mid 1986. Exports to oil exporters increased by about 22 per cent in March, recovering further from the falls of the second half of 1986.

Imports

9. Import volumes (excluding oil and erratics) fell by 4 per cent between February and March. In the first quarter as a whole, volume figures were down by 7½ per cent on the previous quarter, but up 4½ per cent on the corresponding period a year ago. In the first quarter food and basic material imports seemed to be falling from their exceptionally high end 1986 levels as expected, though the trade in olive oil has been distorting recent figures for basic materials somewhat. Fuel imports in the first quarter were depressed by resistance to OPEC price rises. Within manufactured goods, most categories were lower, with a particularly steep fall in car imports. The volatility of recent figures however makes it difficult to assess the underlying trend. The fall in import volumes is consistent with the evidence of some temporary slowing down in domestic demand growth in the first quarter, but imports may start growing again as domestic activity grows.

TABLE 8: IMPORT VOLUMES

1980=100

	Goods*	Goods less oil and erratics*	Food, Drink and tobacco	Basic materials	Fuels†	Manufactures less erratics
1985	126.0	142.8	114.4	102.2	86.2	154.4
1986	133.9	151.1	123.5	108.7	93.4	163.0
1986 1	124.9	143.3	123.5	104.1	70.1	153.3
2	128.8	145.2	119.7	105.4	85.3	156.9
3	138.5	154.3	125.5	106.1	111.9	167.6
4	143.4	161.7	125.3	119.4	106.2	174.4
1987 1	132.8	149.8	120.2	121.5	90.8	160.5
January 1987	130.9	148.0	116.1	123.6	91.5	160.2
February	137.5	153.8	130.4	124.3	103.6	160.1
March	129.8	147.5	114.2	116.6	77.2	161.3
% change						
1987 Q1 on same period a year earlier	6½	4½	-2½	16½	29½	4½
1987 Q1 on previous quarter	-7½	-7½	-4	1½	-15	-8
March on February	-5½	-4	-12½	-6	-25½	½

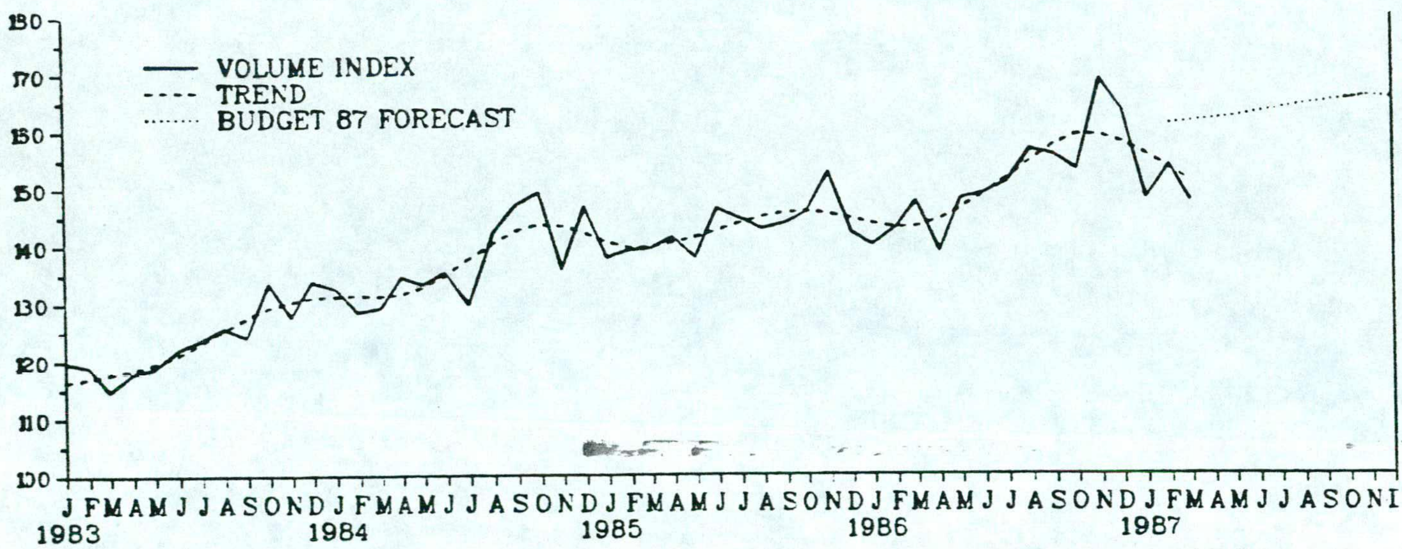
† Figures affected by coal strike

* Balance of payments basis

TABLE 9: IMPORT VOLUMES OF MANUFACTURES

		Semi manufactures	Finished manufactures	of which: Passenger motor cars	Other consumer goods	Inter-mediate goods	Capital goods
1985		143.9	161.4	127.9	139.5	172.8	187.1
1986		152.0	170.4	131.6	158.3	187.0	183.1
1986	1	147.3	157.2	126.2	144.5	169.8	172.4
	2	149.2	162.1	125.0	154.2	180.8	169.5
	3	154.8	176.0	142.2	164.6	192.6	185.2
	4	156.6	186.4	133.0	170.1	204.9	205.4
1987	1	152.3	166.0	102.6	156.0	184.9	186.8
January 1987		145.2	169.6	109.9	143.9	187.5	204.5
February		155.7	163.0	91.4	161.8	178.9	183.1
March		155.9	165.2	106.6	162.4	188.3	172.9
% change 1987 Q1 on same period year earlier		3½	5½	-18½	8	9	8½
1987 Q1 on previous quarter		-2½	-11	-23	-8½	-9½	-9
March to February		0	1½	16½	½	5½	-5½

CHART 6: NON OIL IMPORT VOLUMES EXCLUDING ERRATICS



Import Prices

10. In the first quarter, import prices were about 2 per cent higher than in the previous quarter. Manufacturing import prices grew by 1½ per cent over the period, and fuels by 11½ per cent. The basic materials import price fell by 1 per cent in the first quarter reflecting the firmer exchange rate, partly offset by a rise in commodity prices in SDR terms.

TABLE 10: IMPORT PRICES*

1980=100

		Imports**	Imports** (excluding oil and erratics)	Manufactures (excluding erratics)	Food, drink and tobacco	Basic materials	Fuel
1985		138.3	134.1	131.7	132.6	130.2	180.0
1986		131.5	135.5	135.1	132.5	113.3	98.0
1986	1	134.8	134.9	134.1	129.1	114.9	143.5
	2	130.4	133.8	132.9	131.4	113.5	103.8
	3	128.1	134.8	134.3	132.8	110.8	78.1
	4	132.9	137.9	138.4	136.5	113.8	84.4
1987	1	135.4	139.2	140.7	133.7	112.7	94.2
January 1987		134.0	138.2	139.5	133.2	109.6	89.5
February		135.6	140.0	142.3	133.9	114.7	95.7
March		136.9	139.4	140.2	134.1	113.9	97.4
% change 1987 Q1 on same period year earlier		½	3	5	3½	-2	-34½
1987 Q1 on previous quarter		2	1	1½	-2	-1	11½

* average value indices

** BOP basis

EXPORT SHARES AND IMPORT PENETRATION

11. On the basis of available information to the fourth quarter of 1986 it appears that UK manufacturing export volume growth has been considerably faster than growth of other developed countries' exports during 1986. This maintains the underlying improvement in UK relative performance, which has been evidence since 1982. In the fourth quarter of 1986 imports grews faster than total final expenditure, though it is likely that this rise in import penetration was at least partially reversed in the first quarter of 1987.

TABLE 11: UK EXPORT AND IMPORT PERFORMANCE

Per cent

		UK share of developed countries exports*		Import Penetration**	
		Volume	Value	Volume	Value
1985		9.4	8.2	16.5	16.1
1986		9.5	8.0	16.9	16.2
1986	1	9.2	7.8	16.3	15.7
	2	9.5	8.3	16.4	15.7
	3	9.4	7.8	17.2	16.5
	4	9.8	7.9	17.6	17.0

* Manufactures, weighted by UK markets

** Imports (excluding oil) as a percentage of total final expenditure

PROSPECTS

12. The FSBR projected a current account deficit of £2½ billion in 1987. This compares with independent forecasts which are on average projecting a deficit of £2.7 billion in 1987 and £2.5 billion in 1988: In forecasts received since the Budget, projected invisibles surpluses have been uniformly reduced, following downward revisions to data, published in early March. Revisions to projected trade balances have been minimal apart from Phillips and Drew who reduced their visible deficit for 1987 by over £1 billion, in the light of the better outturn in the early months of 1987.

TABLE 12: CURRENT ACOUNT (£ billion

	1987	1988	1989	1990
CBI (March)	-2.0	-2.0		
OECD (December)	-3.4	-6.0*	-	-
National Institute (February)	-2.6	-4.0	-	-
LBS (March post Budget update)	-1.9	-0.7		
Phillips and Drew (April)	-2.8	-3.3	-2.4	-1.7
Goldman Sachs (post Budget)	-2.1	-3.2		
Henley (April)	-2.8	-2.8	-2.1	-2.7
Oxford (January)	-1.9	-1.1	-1.8	-2.6
Liverpool (March)	-1.7	-0.2	-0.8	-0.3
Independent Average†	-2.8	-2.6	-	-
HMT (FSBR)	-2½	-2*		

† Based on sample used in regular EB comparison

* 1988H1, annualised

INTERNATIONAL COMPARISONS

13. The US current deficit levelled off in the first three quarters of 1986, but increased further in the fourth quarter. The German and Japanese surpluses have shown no sign of falling from the very high levels reached at the beginning of 1986.

TABLE 13 COMPARISON OF CURRENT ACCOUNTS AS % OF NOMINAL GDP/GNP FOR THE G5

		US	Japan	Germany	France	UK	Total
1982		-0.3	0.6	0.6	-2.2	1.4	0.1
1983		-1.4	1.8	0.6	-1.0	1.0	-0.3
1984		-2.8	2.8	1.1	-0.1	0.4	-0.6
1985		-2.9	3.7	2.1	0.0	0.8	-0.3
1986		-3.3	4.4	4.0	0.5	-0.3	-0.1
1986	1	-3.3	3.6	3.9	-0.2	0.7	-0.2
	2	-3.3	4.9	3.7	0.6	-0.1	-0.0
	3	-3.3	4.4	4.7	0.5	-1.0	-0.1
	4	-3.4	4.8	3.8	1.1	-0.8	-0.1

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Foreign and Commonwealth Office

London SW1A 2AH

28 May 1987

Dear Charles,

UNFICYP Mandate Renewal

The present mandate of the UN Force in Cyprus (UNFICYP) expires on 15 June. The Security Council will meet in the preceding week to decide whether to renew it. This letter summarises developments in the last 6 months, and proposes that the UK should support renewal.

Following Greek Cypriot unwillingness to accept the proposals for a settlement put forward by the UN Secretary General in March last year, the UN have been seeking a way to avoid deadlock. They have proposed to the two sides parallel discussions with an open agenda to try to find a way forward. After some hesitation, the Greek Cypriots have accepted. The Turkish Cypriots have not: they fear that these talks would undermine the March 1986 proposals. The UN Secretary-General is now considering the early appointment of a new permanent Special Representative (which would be necessary in any case at the beginning of next year, when the present Acting Special Representative retires) as another means of filling the gap.

Thus, the immediate prospects for progress in Cyprus are not good. The Presidential election in the south next February is a further inhibiting factor. Although we and the UN judge the likelihood of conflict to be low, the pre-election period and the lack of progress with the UN initiative could create an atmosphere in which tension could rise sharply. We therefore consider it essential for the protection of British assets in Cyprus that the UNFICYP mandate should be renewed.

A complication is that the Swedes announced in February that unless certain conditions were met they would withdraw from UNFICYP in January 1988. Their concerns are primarily financial; they do not have the same direct interests in Cyprus as we do and an increased strain has been put on their resources by their decision to contribute additionally to UNIFIL. In order to try to alleviate the

/Swedes'

Swedes' problem, the Secretary General has taken soundings of members of the Security Council about a possible change in the funding of the force from voluntary to assessed contributions. We have supported this and, with most of the other troop contributors, have lobbied strongly in favour. The change would also have offered us some savings. But our lobbying has shown that there is no chance of the switch being accepted at present. The Secretary General has now decided not to press it when UNFICYP's mandate is next renewed. We believe that this is right: to do so would invite certain rejection and close off a possible option for the future. But UNFICYP costs remain a serious problem which we shall have to raise with other departments again in the near future. Meanwhile, the Foreign Secretary proposes that the UK Mission in New York should be instructed:

(a) to renew our endorsement of the Secretary General's mandate to pursue his mission of good offices;

(b) to support proposals of the Secretary General for extension of UNFICYP's mandate for a further 6 months;

(c) to undertake that the UK will continue to contribute to UNFICYP during the period of the next mandate.

I should be grateful for any comments which you or other copy recipients may have by 5 June, as we will need to send instructions to New York early in the following week.

I am sending copies of this letter to the Private Secretaries of all members of OD and to Trevor Woolley (Cabinet Office).

Yours ever,

Lyn Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

29 May, 1987.

Dear Lyn,

UNFICYP MANDATE RENEWAL

Thank you for your letter of 28 May about the renewal of UNFICYP's mandate.

Subject to the views of colleagues, the Prime Minister agrees that we should support renewal of UNFICYP's mandate in the terms suggested in your letter. She would, however, want us to put firmly on record our intention of insisting on a full discussion in the ensuing six months on changing UNFICYP's funding from voluntary to assessed contributions.

I am sending copies of this letter to the Private Secretaries to the members of OD and to Trevor Woolley (Cabinet Office).

Yours sincerely,

Charles Powell

(C.D. Powell)

CH/EXCHEQUER
REC. 1 JUN 1987
ACTION CST
COPIES TO

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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