

PO/CH/NL  
678

PART.A

1987-88 CIVIL SERVICE  
STATISTICS

2-7-87







1987 papers on  
Civil Service Statistics

Sort out  
a title part. A





Chancellor of the Duchy of Lancaster

C.  
You may like to see. ~~Other~~ officials are checking for fact. Either I can pass on your comments to A. Lansley, or you could raise at the bilateral, though technically beyond Mr Tebbit's deadline. I've made a few comments. The extraordinary thing is that he doesn't mention BGC once.  
AH

psr pass on to A. Lansley  
born Ya 2, but not X,  
when M-T has a Jan pr.  
CABINET OFFICE  
WHITEHALL, LONDON SW1A 2AS  
Tel No: 233 3299  
7471  
7 January 1987  
points out to  
him: he will  
attend to

Andrew Hudson Esq  
Private Secretary to the  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON  
SW1

CH/EXCHEQUER	
REC.	07 JAN 1987
ACTION	Mr M. Brown
COPIES TO	Mr Monck, Mr DJL Moore, Mr Culpin, Mr MC Intyre, Mr Tarbowski, Mr Cropper

Any comments a.s.a.p., please. Worth enclosing "privatisation briefing pack?"

Dear Andrew,

**INTERVIEW WITH INTERNATIONAL HERALD TRIBUNE**

The Chancellor of the Duchy has agreed to give an interview to the International Herald Tribune on the subject "Privatisation and benefits to industry". He will see the journalist concerned on Friday 9 January.

He wishes to have a paper to hand to which he could speak and, possibly, to hand the paper over to the journalist.

We have prepared the attached draft, on which I should be most grateful for any comments. In particular, can a figure be estimated for the end of the fourth paragraph on page 4 of the draft, which is intended to give an impression of the magnitude of the benefit in financial terms of the BT sale receipts.

I am also sending a copy of this letter and attachment to Mike Gilbertson (DTI) and to Jonathan Cunliff (Dtp), noting that we must take especial care to avoid references to British Airways.

I should be grateful for any comments by lunch-time on Thursday 8 January.

Yours Sincerely,  
Andrew Hudson

ANDREW LANSLEY  
Private Secretary





Chancellor of the Duchy of Lancaster

SPEAKING NOTE FOR THE INTERNATIONAL HERALD TRIBUNE ON PRIVATISATION  
AND BENEFITS TO INDUSTRY

*Mention  
BGC?* With the forthcoming moves into the private sector of BA, Rolls-Royce and the British Airports Authority, this Conservative Government will have achieved a reduction of nearly half in the size of the commercial undertakings in the hands of the state, rather than the private sector. In 1979, the state-owned industrial sector in Britain accounted for 10½ per cent of our GDP. That is a measure of the monolith we inherited. It is now easy to forget how radical, and how little precedented, was a policy of privatisation back in 1979.

Why, then, was it embarked upon? What benefits was it intended to bring? Has it succeeded?

*x* It has often been said that the impetus to privatisation was wholly ideological. That is by no means the Conservative way. More than anything else, we are persuaded by the evidence of how things actually work. The nationalised industries in Britain were a palpable failure. Whereas it was said in the 1940's that under nationalisation, "the quality of service will tend to advance and the price charged will tend to fall", the reverse was shown to be the case.

Between the mid 1960's and 1979 the return on capital employed of the nationalised industries was significantly and consistently below that of the private sector. And was getting worse. In the 1970's the nationalised industries' aggregate return on capital was around zero.

By any rational interpretation, this meant that there was significant resource cost to the investor; in this case, the taxpayer. In terms of the national economy, it represented a major, and continuing, mis-allocation of resources. It was a constant drain on the vitality of the economy.



*difficult. Nor are  
all many NIs exposed to  
competition (eg BA state-owned), but privatised  
& BAC exposed to very little  
competition - a pt  
as often  
(unof)  
attached.*

Nor was there any compensating benefit through product pricing. Knowing that their customer was captive, it was too often all too easy for control of costs to be lost. So, nationalised industry prices rose more rapidly on average than the general rate of inflation. And this often comprised periods of artificial (because it was politically dictated) price restraint with the inevitable subsequent catching-up, causing sharp damage to industrial customers for these utilities and basic commodities.

Our advantage in 1979 was that we could see clearly where others (themselves blinkered by an almost sentimental attachment to state socialism or determined to exercise central government control of the economy and therefore of society in accordance with their political views) could not. That, in the long run, it was only through exposures to competition, in the market-place, under the discipline of private-sector ownership, with the requirement to provide an adequate return on capital, that these industries would make the contribution to improving economic performance of which they were capable.

*12*

I was able to play an early part; as a junior Minister of the Department of Trade in 1980 I was responsible for the legislation which is now being used to denationalise British Airways. I was Minister for Industry in early 1981 when British Aerospace was returned to the private sector. Subsequently the Government shareholding has been reduced to nil, with the proviso of a "special share" to secure specific national interests.

Later, in 1984, as Secretary of State for Trade and Industry, I sent British Telecom down the slip-way into the private sector, alongside Jaguar, Inmos and substantial parts of British Steel.

It has taken longer for some companies to come to the market than others. To an extent, more recently, the capacity of capital markets has played a part in this. It has also been right in each case to be sure that market conditions, capital structure, management and the like are properly arranged before being sure that the rigorous test of a major share sale can be faced.



A small point but this could be better put. The spur of privatisation has improved finances and standards. But we aim to make & maintain these such improvements in all NIs, even where privatisation is not an immediate option.

-3-

X

But it would be wrong to infer that the improvements in the financial situation of nationalised industries in recent years could be sustained indefinitely while they remain in the ~~in the~~ public sector. It is not least because of the anticipation of privatisation that managers of nationalised industries have been able to do so much.

British Telecom provides a classic example of this whole process. In the years before the run-up to privatisation, BT was more like a colonial administration than a business. Its staff, sent out to the provinces, disbursed telephones like trinkets to the natives. Never quite enough; always leave them wanting a little more.

If there was a decision to be made, it would pass through endless tiers of management, to the point at the centre where those taking the decisions were being asked hopelessly detailed questions about local problems. Despite a turnover which would dwarf almost all private sector companies, BT had only one profit centre, its accounts were still civil service-style cash book accounts and were annually qualified. Staff management owed more to hierarchy and the "Peter" principle than the desire to motivate and reward. They were by no means customer-orientated.

BT's customers will now testify to the change. Those who use BT's telecommunications in the City of London will now know that they are as good as anything in the world. For the domestic customer there is no waiting list for a 'phone. BT is now publishing again its quality of service indices.

The transformation of our telecommunications environment illustrates several aspects of the privatisation policy.

One is that the workforce of BT which now is achieving so much is very largely the same as that of several years ago. There was never anything wrong with their abilities; what they now have is the motivation and incentive. As a result, unit costs have fallen by at least 5 per cent annually.



The second is the contribution which competition has made. Mercury, and its parent Cable and Wireless, have provided a competitive force - relatively small in some aspects of BT's business - but nonetheless potent. Prices, in particular, are responding to this real market pressure. BT's prices, according to the report of the Director-General of Telecommunications, their "watchdog", have fallen by 8.5% in real terms over the last three years.

Thirdly, a competitive BT is having an equally rigorous effect on its equipment suppliers. There will be those who take conflicting views about recent developments in that industry, but there can be no doubt that the commercial application of BT's purchasing muscle can only lead to a more internationally competitive British telecommunications equipment industry.

Fourthly, the wider ownership of shares, which went through a step change with the flotation of BT, has brought an entirely new perspective to literally millions of Britons. They now wish actively to have a stake in companies, often including that in which they work. It is no small boost, too, to the liquidity of the UK's equity markets.

And this has shown dividends, literally, to the Exchequer. In the year ended 31 March 1979, the telecommunications business of the Post Office provided £448m in interest payments to the Government. But in the year ended 31 March 1986 a total of £1366m was payable or earmarked for Government by BT in the form of interest, dividends and tax on profits. This takes no account of the nearly £4 billion of receipts from the BT sale, [which, counted as negative public expenditure, might be considered to have offset the equivalent borrowing requirement which would have had a continuing interest cost now accumulating to several hundreds of millions of pounds.]

[Para on BGC here, ~~the~~ I think.]  
The benefits of privatisation to industry can be summarised, therefore, in the following categories:

- expansion of the private tradeable sector, with consequent expansion of business opportunity;

Surely not this. Either omit, or say something like "Without which, for a given level of borrowing, tax would have had to be higher or public expenditure lower, or both."



- more effective regulation of utilities and reduction of political "stop-go";
- bringing a major additional part of industry into line in terms of their commercial constraints, including the discipline of providing a return on shareholders' capital, servicing debt at market rates, meeting their own capital needs, commercial pricing;
- the privatisation issues have widened the base of the stock market, improved liquidity and, through invigoration of individual share ownership, improved the UK equity market for companies seeking capital. The effect on other companies seeking a public quotation has been noted;
- the state-owned industries no longer represent a major mis-allocation of resources, entailing a huge financial drain, through taxes, and a physical liability, throughout the inefficient corruption of capital and physical resources for industry;
- the new privatised companies provide a reinvigorated source of industrial innovation and market impetus;
- not least, ending the confusion of discussions in Government in which Ministers had to balance the needs of capital expenditure on BT or BSC against those of pensions or nurses pay.

*industry includes employees!* From the standpoint of industry alone, leaving aside the interests of the employees, customers, shareowners, taxpayers and Government, privatisation has shown its worth. H

Hardly wonder, therefore, that the concept of privatisation is now finding enthusiastic advocates in the Governments of France, Japan, Germany, the United States, Sweden, and a host of others from Canada to Sri Lanka.



The British Government has every intention of proceeding with its privatisation programme. It has been a clear success, which others wish to emulate. The advantages of competition have been made abundantly clear, which is significant as a pointer to the economic merits of a free-market system. The merits of tough, transparent regulation of monopoly aspects over "hands-on" control by Government Departments have also been shown.

This has been a major radical ingredient of this Government's efforts to improve the supply side of the UK economy. It has shown its success. It will be a contributing factor in the continued improving relative position of the UK economy.



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*Off who have taken below: PLWP*

FROM MRS M E BROWN  
DATE 8 January 1987

MR HUDSON

*C.*  
*AMH*  
All the official suggestions have been taken by Mr Tebbitt's office, except one on p. 4 - see my note. If you feel strongly about it, you could raise it at bilateral. *AMH*

Mr Moore  
Mr Culpin  
Mr McIntyre  
Mr Cropper

*1 spoke to Mr T, left in touch to decide, with Mr Cropper, Mr Moore, Mr Culpin, Mr McIntyre, Mr Cropper*  
*on the 1st of 2/87*  
*1 had with Mr Cropper*  
*balance*  
*payor in*  
*the 1st*  
*with a v. important point (the domestic situation)*

**INTERVIEW WITH INTERNATIONAL HERALD TRIBUNE**

You asked for comments on the speaking note on privatisation, which Mr Tebbitt's Private Secretary sent to you yesterday.

2 I have marked some, mainly presentational, points on the attached copy of the text.

3 There are only two major changes, both on page 4. The first paragraph needs to refer to price regulation as well as competition. I suggest expanding the paragraph to read:

"The second is the contribution which competition has made. Mercury, and its parent Cable and Wireless, have provided a competitive force - relatively small in some aspects of BT's business - but nonetheless potent. Prices, in particular, are responding to this real market pressure. And to the extent that competition is not there to keep prices in check, we have established a system of independent regulation including price controls on BT's main charges. The regulated charges are allowed to rise by no more than the increase in the Retail Price Index minus 3 per cent. BT's regulated charges, according to the report of the Director-General of Telecommunications, their "watchdog", have fallen by 8.5 per cent in real terms since privatisation in November 1984."

4 The fourth paragraph on page 4 gets into very tricky territory and we would prefer it to be omitted. By highlighting the growth in BT dividends to the Government since privatisation (through the retention of the Government's shareholding in BT), it provides



CONFIDENTIAL

a case for retaining Government stakes in such companies - not selling them off. Further, we cannot prove that the receipts from a privatisation sale have reduced the PSBR below what it would otherwise have been, and Ministers do not normally cite the receipts as a reason for the privatisation programme.

5 As requested, a privatisation pack is enclosed. I suspect that Mr Tebbit's Office already has one, since much of the text of his speaking note has been drawn from one of Mr John Moore's speeches which is included in the pack.

Mary Brown .

MRS M E BROWN

PE2





Chancellor of the Duchy of Lancaster

SPEAKING NOTE FOR THE INTERNATIONAL HERALD TRIBUNE ON PRIVATISATION  
AND BENEFITS TO INDUSTRY

*In Case*  
With the forthcoming moves into the private sector of *British Airways,* BA, Rolls-Royce and *BAA (formerly)* the British Airports Authority, this Conservative Government will have achieved a reduction of *announced 40 per cent* ~~nearly half~~ in the size of the commercial undertakings in the hands of the state, rather than the private sector. In 1979, the state-owned industrial sector in Britain accounted for 10½ per cent of our GDP. That is a measure of the monolith we inherited. It is now easy to forget how radical, and how littleprecedented, was a policy of privatisation back in 1979.

Why, then, was it embarked upon? What benefits was it intended to bring? Has it succeeded?

*X* It has often been said that the impetus to privatisation was wholly ideological. That is by no means the Conservative way. More than anything else, we are persuaded by the evidence of how things actually work. The nationalised industries in Britain were a palpable failure. Whereas it was said in the 1940's that under nationalisation, "the quality of service will tend to advance and the price charged will tend to fall", the reverse was shown to be the case.

Between the mid 1960's and 1979 the return on capital employed of the nationalised industries was significantly and consistently below that of the private sector. And was getting worse. In the 1970's the nationalised industries' aggregate return on capital was around zero.

By any rational interpretation, this meant that there was significant resource cost to the investor; in this case, the taxpayer. In terms of the national economy, it represented a major, and continuing, mis-allocation of resources. It was a constant drain on the vitality of the economy.



Nor was there any compensating benefit through product pricing. Knowing that their customer was captive, it was too often all too easy for control of costs to be lost. So, nationalised industry prices rose more rapidly on average than the general rate of inflation. And this often comprised periods of artificial (because it was politically-dictated) price restraint with the inevitable subsequent catching-up, causing sharp damage to industrial customers for these utilities and basic commodities.

Our advantage in 1979 was that we could see clearly where others (themselves blinkered by an almost sentimental attachment to state socialism or determined to exercise central government control of the economy and therefore of society in accordance with their political views) could not. That, in the long run, it was only through exposures to competition, in the market-place, under the discipline of private-sector ownership, with the requirement to provide an adequate return on capital, that these industries would make the contribution to improving economic performance of which they were capable.

I was able to play an early part; as a junior Minister of the Department of Trade in 1980 I was responsible for the legislation which is now being used to denationalise British Airways. I was Minister for Industry in early 1981 when British Aerospace was returned to the private sector. Subsequently the Government shareholding has been reduced to nil, with the proviso of a "special share" to secure specific national interests.

Later, in 1984, as Secretary of State for Trade and Industry, I sent British Telecom down the slip-way into the private sector, alongside Jaguar, Inmos and substantial parts of British Steel.

It has taken longer for some companies to come to the market than others. ~~To an extent, more recently, the capacity of capital markets has played a part in this.~~ It has ~~also~~ been right in each case to be ~~sure~~ that market conditions, <sup>35</sup> capital structure, management and the like are properly arranged before being sure that the rigorous test of a major share sale can be faced.



But it would be wrong to infer that the improvements in the financial situation of <sup>many of our</sup> nationalised industries <sup>had improved</sup> in recent years, could be sustained indefinitely while they remain in the in the public sector. \*  
It is not least because of the anticipation of privatisation that managers of nationalised industries have been able to do so much.

British Telecom provides a classic example of this whole process. In the years before the run-up to privatisation, BT was more like a colonial administration than a business. Its staff, sent out to the provinces, disbursed telephones like trinkets to the natives. Never quite enough; always leave them wanting a little more.

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One is that the workforce of BT which now is achieving so much is very largely the same as that of several years ago. <sup>- but slimmer and more efficient.</sup> There was never anything wrong with their abilities; what they now have is the motivation and incentive. As a result, unit costs have fallen by at least 5 per cent annually.



[ see re-draft ]

The second is the contribution which competition has made. Mercury, and its parent Cable and Wireless, have provided a competitive force - relatively small in some aspects of BT's business - but nonetheless potent. Prices, in particular, are responding to this real market pressure. BT's prices, according to the report of the Director-General of Telecommunications, their "watchdog", have fallen by 8.5% in real terms over the last three years.

Thirdly, a competitive BT is having an equally rigorous effect on its equipment suppliers. There will be those who take conflicting views about recent developments in that industry, but there can be no doubt that the commercial application of BT's purchasing muscle can only lead to a more internationally competitive British telecommunications equipment industry.

*and another with the recent flotation of British Gas,*

Fourthly, the wider ownership of shares, which went through a step change with the flotation of BT, has brought an entirely new perspective to literally millions of Britons. They now wish actively to have a stake in companies, often including that in which they work. It is no small boost, too, to the liquidity of the UK's equity markets.

*Mr. Tebbit is very keen on this point. If you feel strongly it should go, its you may like to mention it.*

~~And this has shown dividends, literally, to the Exchequer. In the year ended 31 March 1979, the telecommunications business of the Post Office provided £448m in interest payments to the Government. But in the year ended 31 March 1986 a total of £1366m was payable or earmarked for Government by BT in the form of interest, dividends and tax on profits. This takes no account of the nearly £4 billion of receipts from the BT sale which, counted as negative public expenditure, might be considered to have offset the equivalent borrowing requirement which would have had a continuing interest cost now accumulating to several hundreds of millions of pounds.~~

*Deletion agreed with PS/Mr Tebbit*

The benefits of privatisation to industry can be summarised, therefore, in the following categories:

- expansion of the private tradeable sector, with consequent expansion of business opportunity;



- more effective regulation of utilities and reduction of political "stop-go";

- bringing <sup>expansively</sup> a major additional part of industry <sup>to real market forces,</sup> ~~into line in terms of their commercial constraints,~~ including the discipline of providing a return on shareholders' capital, servicing debt at market rates, meeting their own capital needs, commercial pricing;

- the privatisation issues have widened the base of the stock market, improved liquidity and, through invigoration of individual share ownership, improved the UK equity market for companies seeking capital. The effect on other companies seeking a public quotation has been noted;

- the state-owned industries no longer represent a major mis-allocation of resources, entailing a huge financial drain, through taxes, and a physical liability, throughout the inefficient <sup>allocation</sup> ~~corruption~~ of capital and physical resources for industry;

- the new privatised companies provide a reinvigorated source of industrial innovation and market impetus;

- not least, ending the confusion of discussions in Government in which Ministers had to balance the needs of capital expenditure on <sup>for instance</sup> BT or BSC <sup>British Gas</sup> against those of pensions or nurses pay.

From the standpoint of industry alone, leaving aside the interests of the employees, customers, shareowners, taxpayers and Government, privatisation has shown its worth.

Hardly wonder, therefore, that the concept of privatisation is now finding enthusiastic advocates in the Governments of France, Japan, Germany, the United States, Sweden, and a host of others from Canada to Sri Lanka.



The British Government has every intention of proceeding with its privatisation programme. It has been a clear success, which others wish to emulate. The advantages of competition have been made abundantly clear, which is significant as a pointer to the economic merits of a free-market system. The merits of tough, transparent regulation of monopoly aspects over "hands-on" control by Government Departments have also been shown.

This has been a major radical ingredient of this Government's efforts to improve the supply side of the UK economy. It has shown its success. It will be a contributing factor in the continued improving relative position of the UK economy.



*pay*



FROM: MRS D C LESTER  
DATE: 19 January 1987

MR CROPPER

cc Sir P Middleton  
Sir A Fraser - C&E

**HONOURS**

The Chancellor has seen your minute of 15 January and has noted the contents.

*Debbie Lester*

MRS D C LESTER



3215/49

HONOURS IN CONFIDENCE

FROM: P J CROPPER  
DATE: 15 January 1987

CHANCELLOR

*WOM:*

cc Sir P Middleton  
Sir A Fraser C & E

HONOURS

I noted that John Avery Jones did not work his way to the top of the pile at New Year. The Permanent Secretary tells me that his name will remain on the pending list.



P J CROPPER

CONQUEROR





**THE NIKKO SECURITIES CO., (EUROPE) LTD.**

Nikko House, 17 Godliman Street, London EC4V 5BD

Telephone: 01-248 9811

Telex: 884717

Cable Address: NIKOSE LONDON EC4

WE WERE SORRY YOU WERE UNABLE TO ATTEND  
OUR SEMINAR CONDUCTED BY  
MR MATSUKAWA  
ON JANUARY 23RD, 1987.

HOWEVER PLEASE FIND ENCLOSED A TRANSCRIPT OF HIS SPEECH  
"THE JAPANESE ECONOMY IN 1987"  
FOR YOUR PERUSAL



BIOGRAPHICAL NOTE ON MR MICHIIYA MATSUKAWA

Mr MATSUKAWA graduated from the Tokyo University in 1947 and immediately joined the Ministry of Finance. Since then he has held many important roles of office within the Ministry of Finance and has also held diplomatic posts including that of Consul in the Consulate General of Japan in New York, and Counsellor (Financial) at the Embassy of Japan in Washington DC.

In 1973, he became Director General of the International Finance Bureau, and then Director General of the Finance Bureau, and in 1976, went on to take up the position of Vice-Minister of Finance for International Affairs. His last office, before leaving the Ministry of Finance in 1980, was that of Special Advisor to the Minister.

Mr MATSUKAWA joined the Nikko Group in 1980 as Senior Adviser to the President and now, among various activities in and out of Japan, commands the titles of Chairman of the Institute, The Nikko Research Center Ltd, and the Chairman of the Board, Nikko International Capital Management Co, both in Tokyo.



## Key Figures on the Japanese Economy

- Table 1 Outlook for the Japanese Economy in Fiscal 1987
- Table 2 Outlook for the Japanese Economy in 1987
- Table 3 Trade Balance by Area
- Table 4 Japan's International Balance of Payments
- Table 5 Long-Term Capital Balance Breakdown

Prepared for the Seminar  
Jan. 23, 1987 (London)  
Jan. 27, 1987 (New York)

by

Michiya Matsukawa  
Chairman of The Nikko Research Center, Ltd.  
Senior Advisor to President of The Nikko Securities Co., Ltd.



Table 1 Outlook for the Japanese Economy in Fiscal 1987  
(Year-to-year changes in %)

Fiscal Year	1985	1986(E)	1987(E)
<b>* Growth Rate *</b>			
Nominal GNP	5.9	4.1	3.1
Real GNP	4.3	2.4	2.7
(1) Domestic Demand	3.7	4.5	3.6
a) Demand from Private Sector	4.9	3.7	3.9
-Private Consumption	2.6	3.7	3.3
-Private Housing Construction	2.9	11.6	6.2
-Fixed Capital Investment	12.9	4.3	3.8
-Inventory Investment	8.7	(-)64.7	70.3
b) Demand from Public Sector	(-) 1.6	8.0	2.4
-Gov't Expenditures	1.9	3.3	3.0
-Gov't Investment	(-) 6.4	9.1	6.7
(2) Overseas Balance	19.9	(-)45.4	(-)35.2
-Exports, etc.	1.8	(-) 4.5	(-) 2.3
-Imports, etc.	(-) 2.4	7.2	2.5
Mining & Mfg. Production	3.5	(-) 0.8	0.4
Wholesale Prices	(-) 2.9	(-) 9.6	(-) 0.2
Consumer Prices	1.9	0.0	0.5
<b>*Contribution Rate to Real GNP Growth Rate*</b>			
Domestic Demand	3.6	4.3	3.5
-Demand from Private Sector	3.9	3.0	3.1
-Demand from Public Sector	(-) 0.3	1.3	0.4
Overseas Balance	0.7	(-) 1.9	(-) 0.8

Note: Imports, etc. & Gov't Investment of 1986 include those of the gold bullion for the commemorative coin.

Balance of Payments Outlook(\$ billion)

Fiscal Year	1985	1986(E)	1987(E)
Current Balance	55.0	87.2	73.9
Trade Balance	61.6	94.0	80.1
Exports	180.7	207.6	203.8
(Year-to-year change in %)	( 7.6)	(14.9)	(-1.8)
Imports	119.1	113.6	123.7
(Year-to-year change in %)	(-2.6)	(-4.6)	( 8.9)
Long-term Capital Balance	(-) 73.2	(-)135.0	(-)110.0
Basic Balance	(-) 18.2	(-) 47.8	(-) 36.1

Note :(-)denotes deficit.



Table 2 Outlook for the Japanese Economy in 1987  
(Year-to-year changes in %)

Calendar Year	1985	1986 (E)	1987 (E)
<b>* Growth Rate *</b>			
Nominal GNP	6.3	4.2	3.0
Real GNP	4.7	2.4	2.8
(1) Domestic Demand	3.8	4.0	4.0
a) Demand from Private Sector	5.0	3.6	4.0
-Private Consumption	2.6	3.1	3.7
-Private Housing Construction	2.6	9.1	8.5
-Fixed Capital Investment	12.3	6.4	3.9
-Inventory Investment	62.1	(-)56.8	(-) 2.9
b) Demand from Public Sector	(-) 1.7	5.9	4.0
-Gov't Expenditures	2.0	3.1	3.2
-Gov't Investment	(-) 6.6	5.1	9.2
(2) Overseas Balance	29.8	(-)35.2	(-)43.8
-Exports, etc.	5.3	(-) 5.0	(-) 3.2
-Imports, etc.	(-) 0.1	3.7	4.0
Mining & Mfg. Production	4.6	(-) 0.2	(-) 0.2
Wholesale Prices	(-) 1.1	(-) 9.2	(-) 2.7
Consumer Prices	2.0	0.6	(-) 0.2
<b>*Contribution Rate to Real GNP Growth Rate*</b>			
Domestic Demand	3.7	3.9	3.9
-Demand from Private Sector	4.0	2.9	3.2
-Demand from Public Sector	(-) 0.3	1.0	0.7
Overseas Balance	1.0	(-) 1.5	(-) 1.2

Note: Imports, etc. & Gov't Investment of 1986 include those of the gold bullion for the commemorative coin.

Balance of Payments Outlook(\$ billion)

Calendar Year	1985	1986 (E)	1987 (E)
Current Balance	49.2	83.2	77.0
Trade Balance	56.0	90.1	84.0
Exports	174.0	205.4	202.7
(Year-to-year change in %)	( 3.4)	(18.0)	(-1.3)
Imports	118.0	115.3	118.7
(Year-to-year change in %)	(-4.8)	(-2.3)	( 3.0)
Long-term Capital Balance	(-) 64.5	(- 124.4)	(- 114.6)
Basic Balance	(-) 15.4	(-) 41.2	(-) 37.5

Note :(-)denotes deficit.



Table 3

## Trade Balance by Area

(US \$ billion)

	1982			1985			1986			Changes in Trade Balance between '82 and '85	Changes in Trade Balance between '85 and '86
	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance		
Developed Area	68.0	48.4	19.6	102.5	53.1	49.4	131.2	62.2	69.0	+29.8	+19.6
U.S.A.	36.3	24.2	12.1	65.3	25.8	39.5	80.5	29.0	51.5	+27.4	+12.0
Western Europe	21.6	10.1	11.5	25.2	12.4	12.8	37.5	18.1	19.3	+ 1.3	+ 6.5
Developing Area	62.4	76.1	▲ 13.7	57.0	67.9	▲ 10.9	63.9	56.1	7.9	+ 2.8	+18.8
South East Asia	31.8	30.0	1.8	33.2	30.3	3.0	41.8	29.6	12.2	+ 1.2	+ 9.2
Middle East	16.9	37.8	▲ 20.8	12.2	29.9	▲ 17.8	9.8	18.4	▲ 8.6	+ 3.0	+ 9.2
Latin America	9.1	6.3	2.8	8.5	6.2	2.3	9.5	6.2	3.3	- 0.5	+ 1.0
Africa	4.2	1.6	2.6	2.5	1.1	1.4	2.2	1.4	0.8	- 1.2	- 0.6
Communist Bloc	8.4	7.4	1.0	16.2	8.5	7.7	14.1	8.2	5.8	+ 6.7	- 1.9
Total	138.8	131.9	6.9	175.6	129.5	46.1	209.2	126.5	82.7	+39.2	+36.6

Note: Customs Clearance Basis, FOB prices for exports and CIF prices for imports.

Source: Ministry of Finance, "The Summary Report on Trade of Japan"



Table 4

## Japan's International Balance of Payments (IMF Definition)

(US \$ million)

	Exports	Imports	Trade Balance	Current Balance	Long-term Capital Balance	Basic Balance	Gold & Foreign Exchange Reserves (*)	Ratio of Trade Balance to GNP (%)
1965	8,332	6,431	1,901	932	▲ 415	517	2,107	2.1
'70	18,969	15,006	3,963	1,970	▲ 1,591	379	4,399	1.9
'75	54,734	49,706	5,028	▲ 682	▲ 272	▲ 954	12,815	0.9
'80	126,736	124,611	2,125	▲ 10,746	2,394	▲ 8,352	25,232	0.2
'81	149,522	129,555	19,967	4,770	▲ 6,449	▲ 1,679	28,403	1.7
'82	137,663	119,584	18,079	6,850	▲ 14,969	▲ 8,119	23,262	1.7
'83	145,468	114,014	31,454	20,799	▲ 17,700	3,099	24,496	2.7
'84	168,290	124,033	44,257	35,003	▲ 49,651	▲ 14,648	26,313	3.4
'85	174,015	118,029	55,986	49,169	▲ 64,542	▲ 15,373	26,510	4.2
'86(P) (Jan/Nov)	186,397	103,907	82,490	76,607	▲116,410	▲ 39,803	41,980	—

Note: 1. (\*) End of year or month.

2. ▲ Indicates deficit.

3. (P) Provisional figures.

Source: The Bank of Japan, "Balance of Payments of Japan"



Table 5

## Long-Term Capital Balance Breakdown

(US \$ million)

	Net Balance	Assets								Liabilities	Investments in Securities	Reference: Current Balance
		Direct Investments	Trade Credits	Loans	Investments in Securities	Stock & Shares	Bonds	Yen- Denominated Bonds, etc.				
1965	▲ 415	446	77	243	115	0	N.A	N.A	N.A	31	11	932
'70	▲ 1,591	2,031	355	787	628	62	N.A	N.A	N.A	440	296	1,970
'75	▲ 272	3,392	1,763	29	1,295	24	▲ 7	▲ 41	72	3,120	2,753	▲ 682
'80	2,394	10,817	2,385	717	2,553	3,753	▲ 213	2,996	970	13,141	13,113	▲ 10,746
'81	▲ 6,449	22,809	4,894	2,731	5,083	8,777	240	5,810	2,727	13,137	13,220	4,770
'82	▲ 14,969	27,418	4,540	3,239	7,902	9,743	151	6,076	3,516	12,449	11,860	6,850
'83	▲ 17,700	32,459	3,612	2,589	8,425	16,024	661	12,505	2,858	14,759	14,148	20,799
'84	▲ 49,651	56,775	5,965	4,937	11,922	30,795	951	26,773	3,971	7,124	7,194	35,003
'85	▲ 64,542	81,815	6,452	2,817	10,427	59,773	995	53,479	5,299	17,273	16,741	49,169
'86(P) (Jan/Nov)	▲ 116,410	116,053	10,968	1,740	7,557	91,397	5,498	84,097	1,802	▲ 357	▲ 364	76,607

Note: 1. ▲ Indicates deficit.

2. (P) Provisional figures.

Source: The Bank of Japan, "Balance of Payments of Japan"





"THE JAPANESE ECONOMY IN 1987"

Transcript of the speech given by

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(Subject to changes upon delivery)

Chairman of the Institute,  
The Nikko Research Center, Ltd, Tokyo

at a Seminar held by

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The Nikko Research Centre Ltd, London office

at the Inn on the Park Hotel, London, 23 January 1987



## THE JAPANESE ECONOMY IN 1987

It is always a great pleasure for me to come here to London (New York) at the beginning of the year to explain about the Japanese economy. As the Japanese economy has been substantially internationalised and as the Japanese financial market was more closely interwoven with the leading world financial centres through last year, interest in Japan among the foreign businessmen and economists has evidently intensified. I am happier in this sense to have another chance to make a speech on present-day Japan at this gathering of our friends.

Today I would like to present my view on late developments in the Japanese economy with emphasis on (1) the yen rate, (2) economic developments in the Fiscal Year 1987 and (3) capital outflows from Japan.

The important factor which affected the development of Japan's economy last year was undoubtedly the rapid appreciation of the yen against the dollar. The average rate of the yen during 1986 was ¥ 168.03 to \$ 1.00 as against ¥ 238.03 in 1985, or an appreciation of 41.6%. This rate of appreciation was very large. Besides, the tempo of appreciation was rapid and without many ups and downs and it



was rather straight-line steady appreciation for 17 months, from February 1985 through August 1986.

The appreciation was especially serious during the 12 months starting from September, 1985. As you are well familiar, the yen rate was around ¥ 240 to \$ 1.00 at the time of the Plaza Agreement by the Group of Five Finance Ministers in late September of 1985, a rate which went up to around ¥ 200 at the beginning of 1986 and then moved up continuously until it broke the past record and reached a peak at ¥ 152.55 on August 20, 1986. For the last four months of 1986, it was staying in a narrow range of ¥ 160 to ¥ 164, which was believed to be the agreed upon level between the Finance Minister of Japan and the Secretary of the Treasury of the United States, reflecting the relative strength of the economic fundamentals of these two countries.

However, since the beginning of 1987, it has again started rising regardless of heavy interventions in the exchange market by the Bank of Japan and is now moving to around ¥ 150.

This was more than a 50% appreciation of the yen within one year, which was large and rapid enough to cause strong destructive effects upon Japanese businesses, just like repeated strong body blows in a boxing game, and was serious enough to create extremely pessimistic sentiments for the



future among Japanese businessmen. 'Yen Shock' and 'Yen Depression' are the expressions popularly used by newspapers and magazines in Japan over recent months.

Just one year ago at the beginning of 1986, it was hardly foreseen in Japan that the yen rate would have appreciated so much within such a short period. Until the spring of last year when the rate was moving up toward ¥ 180, most of the exporters in Japan or export-related businesses were considered to have hedged their possible exchange risks in the money markets and thus were able to avoid suffering much from the shortfalls of their export proceeds in yen terms. However, as the yen continued to rise, financial techniques, such as forward contracts and swap arrangements, were not necessarily able to insure the full amount of yen receipts at such levels satisfactory to the exporters in Japan.

Theoretically it is anticipated that changes in the exchange rate will invite proportionate changes in the prices of the goods, exported or imported under the new exchange rates. When the yen rises, dollar prices of the goods imported from Japan are anticipated to rise proportionately according to economic theory. But in reality, this does not take place. With respect to those commodities which are strongly needed in the importing countries and where exporters are in a relatively stronger position, selling prices in the importing countries can be changed in proportion to the



exchange rate changes and cause the yen export prices to be fully paid. However, those are rather exceptional cases. In many cases, the market conditions in 1986 were rather buyers' markets, especially those markets facing severe competition with the similar goods made in the so-called newly industrialised countries. In early 1977 to late 1978 when the yen appreciated by more than 50% to ¥ 175.50, the difference in the dollar price due to the yen appreciation was shifted to the dollar selling price of goods by about 80% on the average. This time since early 1985, however, it was less than 50% on the average, by which the dollar prices have been increased because of the dearer yen.

Of course, a variety of efforts have been made by the Japanese manufacturers to cope with the late appreciation of the yen so that the competitiveness of their products in foreign markets will not be weakened because of that yen appreciation, though they raised the selling prices wherever possible. Nevertheless when they could not do so for various reasons, they started cutting manufacturing costs or limiting waste as much as they could. When they could not find any other ways to minimise the cost along these lines, manufacturers reviewed the possibilities of purchasing necessary materials or parts from the countries where the prices are becoming cheaper due to changes in the exchange rates or moving their production bases to foreign countries,



mostly to neighbouring developing countries or to the importing countries themselves.

When shifting foreign exchange differentials to the buyers or cutting manufacturing costs were not sufficient to cover the declining proceeds in yen, they were forced to squeeze their profits rather than lose their market shares in the importing countries. The periodic survey of the corporate profits of the leading 380 manufacturing industries (by the Nikko Research Center) reveals that their aggregate profit in the Fiscal Year of 1986, which is going to end in March, 1987, will be 36.9% lower than that of the Fiscal Year 1985. In particular, the aggregate profit of the export-related 198 businesses, which include those of steel, machineries, electronics, ship-building and automobiles, will decline by 62.6%.

In a sharp contrast with the declining profit in the manufacturing industries, there are many industries which are being benefited by the strong yen. They are mostly in the non-manufacturing sector and include, among others, electricity, gas, petroleum and foodstuffs. The aggregate profit of the leading 199 non-manufacturing companies, other than the financial businesses, will be 7.5% higher in Fiscal Year 1986 than that of 1985. And thus the year of 1986 has been characterised by the dipolarisation of Japan's industries.



As the big manufacturing industries in Japan are more or less carrying out their businesses internationally and are heavily dependent on exports and as the yen rate is not likely to come back to a comfortably cheap level as was seen in 1983 or 1984 when the average rate was about ¥ 237 to \$ 1.00, these companies are now forced to re-examine their mid-term business strategy and to rewrite their basic future plans.

Some of them have reached the conclusion that their present production capacities will have to be reduced by closing down less efficient plants. In many cases, conclusions also dictate that their operations be diversified so as to absorb the excess labour forces in the new areas as far as is possible. Where this is impossible, some of the labour forces will have to be discharged. Reportedly, many high steel mills are to be closed within a few years. So are the large ship-building yards. Thousands of workers at these plants are to be discharged. These actions are not necessarily uncommon in the United States or in European countries but they are extremely unusual in Japan where employment security has been well respected for a long time.

In addition, this development disturbing the tranquility of the labour market is taking place coincidentally with the closure of about half of the coal mines in Japan, as the domestic coal becomes uncompetitive with the imported one,



and with the privatisation of the National Railway Corporation, which is feasible only through the discharge of about 60,000 employees from the public railroad business. All this news has produced extremely uneasy sentiment in the labour market and, in turn, an unnecessarily pessimistic perspective to the economy as a whole.

There is another factor which is adding unduly dark sentiment among the Japanese about the future of the economy. It is the calmness in the price movement. Of course, this is due to the strong yen and cheap prices of primary products, including oil, but very ironically the calmness has been easily associated with the Great Depression of the Thirties and is giving wrong signals about the picture of the economy to the general public. The rate of inflation has been far less than estimated at the beginning of the year. The wholesale price was down by almost 10% (9.6%) within the single year of 1986 and the consumer price last December stayed at exactly the same level it had stood a year earlier.

Thus, for example, when the Government added fiscal stimulus to the national economy through a Supplementary Budget in October, with the aim of adding budgetary expenditure as large as 3 trillion yen (3.6 trillion yen in a wider sense, which was about the equivalent of \$ 2.3 billion), the total amount of the revised budget was not changed much in its



nominal amount and its economic effects were discounted psychologically. Similar types of psychological misleadings were found with respect to the wage increase. Though the rate of the wage increase was not so high as in the past years, it was actually higher in real terms than it looked. Thus toward the end of the year, more and more attention was shifted toward securing the jobs themselves rather than obtaining more wage hikes and bonuses.

The yen rate peaked out in August last year at ¥ 152.90, almost at the same time the oil price, measured by the average import price in Japan, bottomed out at \$ 10.34 per barrell in August last year. Though these changes suggest some improvements in important conditions, the Japanese economy in 1987 will remain under difficult circumstances as it did last year. These circumstances include:

- the rate of the yen will not come down lower, for instance, to ¥ 170, which is strongly longed for by most of the manufacturing industries, but will rather tend to go up;
- the dipolarisation between suffering manufacturing industries and prosperous non-manufacturing industries will continue;



- there are no indications that the huge trade surplus will disappear quickly enough to calm down the frustrations of trade partners;
- instead, there are indications that the trade frictions with Japan will widen and intensify further;
- Japan's huge budget deficits will continue to be a major issue domestically for the Government;
- the monetary policy in Japan has been kept extremely relaxed and the money supply tends to be increased as a result of interventions in the exchange market, while interest rates remain at the lowest postwar level; and
- the future of the global economy will continue to be ambiguous.

Nevertheless, we expect that the Japanese economy in 1987 will be a little brighter than that of 1986. Speaking of the manufacturing industries, even if the yen stays at a relatively high level, Japanese companies, which had marvellous records in overcoming the two series of oil shocks and the two periods of rapid appreciation of the yen in the past fifteen years, will gradually adapt themselves to the sudden and large currency changes and, at the same time, the beneficial effects of the strong yen will



gradually pervade the entire economy through the lowering of production costs. Where they find it difficult to adapt themselves to the late developments, including the rapid success of the developing countries in making their products strongly competitive with Japanese goods, Japanese companies are ready to abandon the traditional wisdom of solving every difficulty within Japan and are actively exploring the possibility of deploying their production basis on a global scale, i.e., a strategy of direct investments abroad.

Regarding the non-manufacturing sector, the depressionary effects of the dearer yen were found primarily within the manufacturing sector during 1986 but these will gradually spill over into the non-manufacturing sector too, mostly through the weakening of the demands of faltering manufacturing companies. However, as these effects will affect only indirectly the non-manufacturing industries, they will not cause any serious damage but will only drag down the business performances of the non-manufacturing industries slightly.

Generally speaking, there were three rapid changes in the first eight months of 1986; namely, low interest rates, cheap oil and the weaker dollar. From the autumn, these underwent slow and gradual adjustments in the other direction for four months. However, since the beginning of the new year, the foreign exchange markets have become



unstable again and the yen is once more appreciating. Even if the oil price should rise more or even if the yen strengthens further, these changes, as far as can be foreseen, will be only to a minor extent and will not work as disruptive elements in the economy as they did last year.

The Government of Japan, having recognized the graveness of the recessionary effects of the strong yen and having modified its extremely austere stance of public spending, is now gradually stimulating domestic demand. It is now proposing the Fiscal Year of 1987 budget which is, however, sometimes criticised as another austerity budget. Though the total amount of the budget is not increasing much, it should not be overlooked that the Government Loan and Investment Program, which is often nicknamed the Second Budget, has been increased substantially in order to cause more government-financed public works to be carried out. At the same time, a bill for revising the whole tax system has also been prepared which will stimulate private business activities and contribute to the increase of domestic private demand.

For the coming Fiscal Year of 1987, the Government estimates the growth rate of the Gross National Product (GNP) as 3.5%, which seems to be a little more optimistic and higher than most of the forecasts by the private research institutions. For instance, we, the Nikko Research Center, forecast that



Japan's GNP will grow at a rate of 2.7% in the FY -1987, a rate which is slightly higher than that of the FY 1986, which is now estimated to be 2.4%.

As the external balance in the National Account remains a negative factor again in FY 1987, this 2.7% growth means that the Gross Domestic Demand (GDP) will rise by 3.5%, a proper rate for the sustainable growth of the economy, but it will be offset by the external negative balance of 0.8% because the trade surplus is going to decrease by \$ 14 billion in 1987.

There are, however, not many differences between the Government estimate and our forecast with respect to most of the basic features of economic development in 1987. The only major difference is found in the rate of increase in private fixed investments, where the Government is foreseeing much stronger pick-ups of 6.6% than our conservative forecast of 3.8%.

Now let me explain some of the important points in our forecasting of the 1987 economy.

First with respect to the yen rate and the trade surplus.

As the exchange rate these days is determined by many different factors, which are extremely difficult to foresee,



it is impossible to make a precise estimation of the yen rate in 1987. For the purpose of calculating the economic forecast in early December of last year, the yen rate was assumed to be ¥ 161.50 as the average of FY 1987. As there would be the continuously strong pressure of capital outflow from Japan and as the trade surplus would not decrease much because of the still-existing adverse J-curve effects of the stronger yen, the rate of the yen would not move much in either direction from the then-existing level, for instance, not weaker than ¥ 172 nor stronger than ¥ 148.

As a matter of fact, however, the yen has already become stronger than ¥ 155 since early January and the Bank of Japan has reportedly intervened in the exchange market with several billion dollars to prevent or to slow down another wave of the rapid appreciation of the yen, though the basic underlying trend is considered to be toward a stronger yen. As this yen rate is very harsh for most of the exporting industries and, in turn, for the manufacturing industries as a whole, it has become a matter of strong political concern to keep the yen rate from rising much above the ¥ 160, the level of October, 1986. Both Finance Minister Mr. Miyazawa and the Governor of the Bank of Japan, Mr. Sumita, expressed their desire publicly of keeping the yen rate from rising much, regardless of the size of the funds required for intervening in the market.



Even with this strong yen, Japan's trade is expected to register again another huge surplus in 1987, probably as large as \$ 80 billion, though its magnitude will be slightly smaller, specifically about \$ 14 billion smaller than that of FY 1986. Exports are estimated to decrease only by 1.8% and imports to rise by 8.9%.

If the price of the primary commodities, including the oil price, starts rising, this will momentarily affect the trade balance of Japan in 1987. If it does not happen, it will be only in 1988 or later that Japan's trade surplus will show a substantial decline, enough to erase the frustrations of foreign countries with respect to their trade imbalance with Japan.

In this connection, attentions are now being focussed on the late developments within the protectionist movement in the U.S. Congress where the Democrats are now occupying the absolute majority and where the possibility of legislating import restriction laws is rising very fast. Still, it is premature to evaluate how effectively those possible legislations might work to minimise the trade deficits of the U.S.A. without seriously jeopardising the future of the world's trading system, which is the most important pillar of the free world.



Secondly with respect to the development of the domestic economy.

It is certain that the worsening of the labour market situation and the smaller size of the expected wage hike this year will make the behaviour of consumers cautious and conservative, but the price stability and the steady growth of the economy as a whole kept the private consumption very strong in 1986 at a level 3.7% higher in real terms than in 1985. These factors will again keep the level of private consumption from falling much in 1987 (3.3% increase in real terms) from that of the previous year.

Private housing construction will stay strong in 1987 with low interest rates in the money market, plenty of money flowing into the housing market both from the public and private sources and the cheap prices of construction materials. The only undesirable condition in this perspective is the sky-rocketing inflation of land prices which almost prohibits purchases of land to average wage earners. But the rate of increase in housing construction was very high in 1986 (it increased by 11.6%) and its rate of increase in 1987 will be slightly down to a 6.2% increase.

Private investment into fixed assets is another item which shows the slowing down of the rate of increase, namely from



a 4.3% increase in 1986 to 3.8% in 1987. This is mainly due to the export market ambiguity which discourages export-related businesses from investing in fixed assets. Some of these firms are, as explained earlier, choosing a strategy of using their capital abroad in a form of direct investment rather than expanding their plants in Japan or innovating them. Some others are investing their cash in hand into the money market and gaining financial returns for the time being. In extreme cases, some companies are making more profit through their financial operations than from their ordinary businesses.

The characteristic climate of the economy in 1986, namely low demand and cheap money, has made the level of inventories extremely low and the total amount of inventory investments in 1986 is declining to a level about 65% smaller than in 1985. However, toward the end of 1987, inventories will probably resume momentum and will increase by 70% over the previous year's investment.

Adding all these factors together with the public factors, the Gross Domestic Product (GDP) will be rising by 3.5% in real terms in FY 1987, the same as the GDP growth rate in FY 1986. This means that, regardless of the continuing difficulties seen in the manufacturing industries, Japan's economy as a whole is expected to attain steady growth in the new year.



However, this GDP growth will be partly offset by the external account. Though there will still remain a huge trade surplus, the slackening exports and rising imports will work as a negative factor, at least statistically, to the economic growth and these will offset the domestic growth rate by 0.8% in FY 1987, which is only a little smaller than the 1.9% negative rate of the external account in FY 1986.

(Note) In this calculation of GDP and the external account, the importation of gold bullion in FY 1986 for the minting of commemorative coins is included. With this adjustment, the GDP growth rate appears a little higher and the offsetting rate of the external account will also increase by the same magnitude, the rate of GNP growth being left unchanged.

Thirdly with respect to the issues related to the 1987 budget.

The budget bill for the Fiscal Year 1987, which was just submitted to the Diet (Parliament), contains several important features, both politically and economically. For instance:



- the size of the budget, its deficits, defense appropriation (in percentage terms of GNP) and the budget to stimulate domestic demand;
- simplification of the income tax and the introduction of a large scale sales tax.

There are two types of criticism directed against this budget, especially among the opponent parties of the Diet. One is an economic question, asking whether the fiscal stimulus is enough to sustain Japan's faltering economy and to prevent the worsening of the labour situation. The other is a more or less political criticism, asking whether the words of the Prime Minister during the election campaign of last July and on many other occasions are well observed or not, especially in connection with not introducing a large scale indirect tax, like VAT.

As to the role of the budget in stimulating the economy, what should be well understood is that the present economic difficulties in Japan are not simple cyclical problems but rather structural and sectoral problems, which cannot be solved by increasing the size of the budget. Besides, the tax revenues as a whole in the proposed budget are still very short of those required to meet the budget expenditures and about one-fifth (19.4%) of the total budgetary revenues are planned to be obtained through the flotation of public



bonds. Thus the budget bill is by no means an austerity budget in the common sense. It is a substantial deficit budget.

An increase in the defense budget beyond one percent of the GNP, while most of the other expenditures are kept at last year's level or curtailed, is considered to be evidence that the Prime Minister is violating the highly-respected spirit of the pacifism in the Constitution. The fact that the Liberal Democratic Party, Mr. Nakasone's party, gained a comfortably large margin in the last general election is believed to be the reason making Mr. Nakasone so willing to tackle the politically difficult issues.

He may now have to face the process of budgetary debates in the Diet with the strongest and most persistent opposition by all of his opponent parties, who are confident about gaining the strong support of the general public in opposing this 'defense build-up' budget.

The proposed simplification of the income tax is to decrease the number of income tax brackets and to reduce the maximum tax rate. These changes are also criticised on the grounds that they favour the rich and that they will cause revenue short-falls which will have to be covered by increased indirect taxes. The Prime Minister on many occasions told the public that he had no intention of introducing a general



and large scale indirect tax like a 'value added tax.' But actually a new sales tax has been proposed, which is to be levied on all sales in general, though there are various types of exemptions allowed.

The new tax system, once approved by the Diet, will be partially implemented in the Fiscal Year of 1987 and fully in the Fiscal Year 1988. As it is designed to be 'revenue neutral' (meaning there will be no change in the net tax burdens in the aggregate amount) between the introduction of a sales tax and curtailing of tax burdens on incomes, its effects upon the macro-economy will not be very significant. The only significant effect may be that the new sales tax is estimated to be going to push up the rate of price rises by 0.4% in FY 1987, according to a preliminary calculation by the Government (Economic Planning Agency), if the sales tax is implemented without amendments to its proposed form and rate.

It is still very much premature to foretell the fate of the budget bill and the tax reform bills, though there have been only a few precedents in the past decades when the Government failed to get parliamentary approval for the budget bill or for major tax bills. However, the Government may be forced to make some minor concessionary amendments to these bills, as there are cautious views even among the Diet



members of the Government Party toward these changes which are very radical according to the Japanese standard.

Now let me explain about the capital outflow from Japan, as this has been a cause of the volatility of the yen in the foreign exchange market and there have been significant changes in the past years.

Firstly, it is surprising to observe how fast the amount of capital outflow has grown in the past several years. Five years ago in 1981, when Japan's international capital transactions were still mostly under control by the Government, the total amount of net capital outflow from Japan, excluding short-term capital, was only \$ 6.4 billion. Since then, as the foreign exchange controls had been gradually relaxed and finally liberalised, capital outflow has been increasing year after year. It was \$ 15 billion in 1982, \$ 18 billion in 1983, \$ 50 billion in 1984 and reached \$ 65 billion in 1985, an increase of more than ten times within five years. In the first eleven months of 1986 until November, capital outflow was already over \$ 116 billion, which is about double that of the previous year's outflow.

In early years, the annual amount of net capital outflow roughly corresponded to the annual surplus in the current account each year. However, since 1984, the net amount of capital outflow has been surpassing the amount of the



current surplus of each year. For example in 1985, the current surplus was \$ 49 billion, whereas the net capital outflow was \$ 64 billion. In the first eleven months of January through November, 1986, the current surplus was about \$ 76 billion but the total capital outflow was \$ 116 billion, about 50% above the current surplus. This was because, as a result of the liberalisation of exchange controls, this capital outflow was partly financed by the banking sector, below the line seen in the statistics of the IMF form, with short-term borrowings outside of Japan.

A basic cause of this huge capital outflow is, of course, the excess savings in Japan; namely there is a sizable imbalance between aggregate savings and aggregate investments in Japan which has to be utilised outside of Japan. The size of this imbalance is gradually shrinking percentage-wise to the GNP but the actual amount itself is still rising. Especially in dollar terms, it rose sharply in 1986 when the yen rate appreciated and the dollar amount became inflated by more than 40%. Japan's savings rate in the future will remain relatively high, though it is on a declining trend. In this connection, a new factor, the sales tax which is going to be introduced in the new year may play some significant role in accelerating the decline of the household savings rate.



Talking about year-to-year changes in recent years, a major cause of this rapid increase in the capital outflow was rising interest among the Japanese investors, especially among institutional investors like the life insurance companies and the trust banks, in dollar-denominated securities. For instance, out of a total gross capital outflow from Japan in 1985 of \$ 81.8 billion, \$ 31.6 billion, or about 38%, were invested in the U.S. securities and \$ 18.5 billion, or about 22%, in the securities of European Community countries.

The other types of long-term capital movements, such as commercial loans, economic assistances and direct investments, were also continuously increased in past years but at a much slower speed than the securities investments.

During these years, foreign capital was continuously flowing into Japan but only within a range of \$ 7 to \$ 17 billion a year. It will be much smaller in 1986, as a sizable amount of foreign investment was drawn out of Japan after profit-taking.

The most remarkable development in 1986 was that the interest of Japanese investors suddenly diversified. Until 1985, their interests were rather concentrated on the blue chip, fixed interest bearing bonds, which were also purchased increasingly in 1986. However, the Japanese



investors started actively investing in equities and the real estate of foreign countries. For different reasons, direct investments abroad were also increased sharply last year.

Now let me explain about these new developments one after another, starting with equities investments.

The total amount of investments in foreign equities was less than \$ 1 billion in 1985, but has increased rapidly since then. In the first quarter of 1986, it went up to \$ 0.8 billion, followed by \$ 1.5 billion in the second quarter and more than \$ 2 billion in the third quarter. The total amount for 1986 may have been around \$ 6 billion which is more than six times that of the previous year. There are various reasons behind this sudden surge of investments in foreign equities and I would like to point out three of them.

The first is that the popularity of these foreign equities is now widely spread throughout Japanese investors. For instance, there are 52 foreign stocks listed on the Tokyo Stock Exchange as of the end of 1986, in contrast with the 11 of two years ago. They are now continuously increasing under the present trend of the globalisation of big business and the stock market. At the same time, there are now 150 foreign securities firms working in Japan, though about



four-fifths of them are still non-operating representative offices. Japanese investors are now enjoying easier access to more profitable investment opportunities through these networks of foreign securities firms.

The second is the world-wide bullish stock markets. Tokyo is not the only market where stock prices have been rising at an unprecedented rate. Markets in New York, London, Frankfurt, Zurich and so on are all demonstrating extremely good performances and on the average, the yields in foreign stocks are much higher than those of the Japanese stocks. Even taking a foreign exchange risk factor into calculation, there are plenty of chances in these foreign markets to obtain higher returns, especially higher dividends, than those of the Japanese stocks.

The third is the change in basic investment strategies or the portfolio management strategies of many investors in Japan, who are now seriously looking for more profitable investment opportunities regardless of country or currency. The diversification of these investments is now becoming an important strategy for them as the amount of assets under their control has been increasing very rapidly.

These factors have contributed to the activation of investments in foreign stocks by the Japanese investors in 1986 and there is no reason to suppose that these movements



will be weakened or slowed down in 1987, but will rather be intensified. The number of foreign stocks on the Tokyo Stock Exchange is increasing so rapidly that it will approach the level of 80 different stocks by the end of 1987. More and more foreign securities firms are interested in operating their businesses in Japan. An increasing number of Japanese investors, institutional or individual, are showing growing interest in foreign stocks. All these suggest that equity investments by the Japanese in foreign markets will continue to rise throughout 1987, probably surpassing the rate of increase in other types of foreign investments.

Secondly, about the investments in real estate.

Real estate investment in foreign countries was another field where Japanese investments rose very sharply in 1986. Especially when some of the well-known buildings in New York or in Los Angeles were bought by Japanese buyers, these purchases were reported by the newspapers as if the Japanese were selling goods to the U.S. and, in turn, buying the lands and buildings there. Certainly this activity is rising against the background of the sky-rocketing inflation of land prices in Japan and the stronger value of the yen against the dollar.

However, it is extremely difficult to estimate how much money has been invested in this category as there are few



reliable statistics available. For instance, U.S. Commerce Department statistics reported that the U.S. real estate acquired by the Japanese was valued at the \$ 600 to 700 million level in 1985, which must have been much lower than the level of actual transactions. It was reported by an American analyst that the total value of real estate bought by the Japanese was between \$ 2.0 to 2.5 billion in 1985 and would be between \$ 4 to 7 billion in 1986. Our estimates also indicate that the total amount of real estate investments in foreign countries in 1986 may have been about three times as large as that of 1985.

The first reason for this movement is the yield differentials between real estate investment in the foreign country and in Japan. As the land prices in Tokyo or in many other big cities in Japan have risen very sharply in recent months, the expected return on real estate investment, as measured by the rate of annual rental incomes against the acquisition price, is now reportedly as low as 2% in Japan. Whereas in many large foreign big cities, this rate of return is estimated to be between 5% and 8%, according to those who have invested abroad.

The number two reason is the same as in the case of equity investment: that is, the diversification of investments. The first reason cited above is mostly the rationale for the real estate or construction businessmen, but reason number



two applies to all who are investing in foreign real estate, including, for instance, the life insurance companies. These investors are not only acquiring office buildings but are also active in purchasing residential buildings, both in the big cities and in resort areas. Some other investors are even purchasing large farms or wide resort areas.

As the Japanese as a whole are now increasingly working in foreign countries or enjoying overseas tours, more and more people are interested in maintaining second houses or places to spend their retired lives in foreign countries. Thus, the demand by the Japanese for acquiring real estate abroad for their own use is certain to expand quickly in years to come. This increasing demand for overseas real estate would be the third reason this type of investment abroad has increased so rapidly and will continue to rise in future years.

Thirdly with respect to direct investment.

Direct investment is another area where the amount rose sharply in 1986. For the year of 1984, the annual total amount of direct investments was \$ 6.0 billion and this rose to \$ 6.5 billion in 1985. However, in the first eleven months of 1986, it was already close to \$ 11.0 billion, almost doubling the previous year's pace.



The driving forces of this increase in the direct investment may be summarised into three:

- (a) One is the change in the international industrial structure. As Japan's industry develops, relatively sophisticated and high-tech industries are kept in Japan and simple and labour-intensive industries tend to be or have been exported to the less developed countries in a form of direct investment, as this is the most desirable way to transfer the related technologies to those host countries.
  
- (b) The second is the need to cope with trade frictions, mostly with respect to the countries where Japan had been exporting heavily and enjoying trade surpluses. As Japan's trade surplus grows and its imbalances are widened with some specific countries, some forms of import restrictions have been implemented with regard to various products of Japanese industry. This started in the U.S. about two decades ago and as the trade surplus rose, more and more frictions have been occurring in an increasing number of countries. This is reflected in the increasing number of direct investments made in order to cope with this difficult situation by moving the production bases themselves to those countries.



(c) The third is due to the late appreciation of the yen, which made production in foreign countries, where Japan is exporting to or importing from, much less expensive and more competitive. As it is almost two years now since the yen started rising, more and more Japanese businesses have moved their production bases or are considering doing so in the very near future.

In the old days, the strongest motive of direct investments was to secure access to the important natural resources in foreign countries or just to utilise the cheap labour in developing countries. However, as the inducements for direct investments are becoming a little different, the destinations of these investments are becoming a little different from the old days. In addition, as in late years there has been the internationalisation of financial markets all over the world and escalating competition within these markets, many financial institutions are forced to strengthen their presence in the global financial centres.

Thus, the country where the Japanese direct investments have been hosted most in late years is the U.S.A. and then comes the European countries. During 1985, 44% of direct investments went to the U.S.A. and 16% to European countries, whereas up until the end of 1980, 60% went to the developing countries and only 40% to the U.S.A. and European countries combined.



There seems to be little indication that the trade friction or the tension surrounding the yen will be mitigated in the new year and thus the direct investments will increase continuously for some years to come.

(Concluding Remarks)

Having reviewed all the late developments of the Japanese economy and its related issues, I have to say that the new year is one when it is very difficult to foresee precisely how the economy will develop. The oil market is unstable, the exchange market remains volatile and the most important economy of the world, namely the U.S. economy, is in a delicate stage. It may not be exaggerating to say that ten economists may have ten totally different views on the economic development of this year.

This is a year when the Governments are strongly requested to adopt fine-tuning macro-economic policies so as not to cause any destructive developments in the world economy nor to invite turmoil in the exchange market. The key countries have to keep in close contact and maintain incessant consultation among them, without which the danger of economic instability and recession would become real.

It is earnestly hoped that a bright period will come, at the latest, by the middle of the year and that the global



economy will be placed again on a course of slow but steady development. Regardless of the various difficulties ahead, Japan is, I'm sure, ready to cooperate in restoring the stability of the world economy.



~~DRAFT~~

Foreign and Commonwealth Secretary

**THE FOREIGN PRESS IN LONDON**

Thank you for your minute of 31 December. I agree that we must do what we can to improve the reporting of Britain abroad, and I support your proposals.

The only thing I would add is that, when misleading articles appear, it may be appropriate for posts to send quick on-the-record responses to the newspapers concerned. I hope you will ask posts to consider this systematically, as well as recommending corrective briefings in London where that is appropriate.

I am sending copies of this minute to the Prime Minister, other members of the Cabinet, and Sir Robert Armstrong.

**[NIGEL LAWSON]**

N.L.  
30 January 1987





cc Sir Peter Middleton  
Sir Geoffrey Littler  
Sir Terence Burns  
Mr Culpin  
Mr Pickford

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

FOREIGN AND COMMONWEALTH SECRETARY

*[Handwritten initials]*

CH/EX  
To  
FCS  
30/1

**THE FOREIGN PRESS IN LONDON**

Thank you for your minute of 31 December. I agree that we must do what we can to improve the reporting of Britain abroad, and I support your proposals.

The only thing I would add is that, when misleading articles appear, it may be appropriate for posts to send quick on-the-record responses to the newspapers concerned. I hope you will ask posts to consider this systematically, as well as recommending corrective briefings in London where that is appropriate.

I am sending copies of this minute to the Prime Minister, other members of the Cabinet, and Sir Robert Armstrong.

*[Handwritten signature]*

**N.L.**

30 January 1987



THE FOREIGN PRESS IN LONDON

HOME SEC. TO PCS 4/2



CH/EXCH/REG	
QUEEN ANNE'S GATE LONDON SW1H 9AT	
REC.	03 FEB 1987
ACTION	Mr CULPIN 4 February 1987
COPIES TO	EST, FST, MST, CST Sir P. Middleton Sir G. Littler Sir T. Bluns

✓  
4/2

18

Dear Geoffrey,

Mr Laizelle, Mr Scholav, Mr H. Evans  
Mr Mountfield, Mr Edwards, Mr Cropper

I have seen a copy of your minute to Nigel Lawson and wholeheartedly support your moves to ensure adequate briefing of foreign journalists in London.

The Home Office has on a number of occasions reminded BIS and the FCO information department that we are anxious to hear of any ill-informed overseas comment that we might try to correct in London. Home Office Ministers are increasingly engaged in overseas visits and will certainly brief the relevant press where this seems likely to be productive.

As for the FPA in London, I hope that they will become more active in seeking collective briefing from Ministers and I and my colleagues will certainly respond to any requests from them.

Ch  
MST wants to  
raise this

4/2

*(Red circled signature)*

Looney  
Douglas

The Rt Hon Sir Geoffrey Howe, QC, MP



FROM: ROBERT CULPIN  
DATE: 29 JANUARY 1987

Ch  
Minute to issue?

CHANCELLOR

cc Sir Peter Middleton  
Sir Geoffrey Littler  
Sir Terence Burns  
Mr Pickford

AWK  
29/1

*[Handwritten signature]*

CULPIN  
to  
CH/EX  
29/1

THE FOREIGN PRESS IN LONDON

Sir Geoffrey Howe's minute of 31 December makes a few modest suggestions for improving relations with the foreign press. They mainly concern his own department, and do not call for any specific action by us. We should clearly support them: everyone is in favour of motherhood and apple pie.

2. In practice, our main interest is in the American press, and we already act in the spirit of Sir Geoffrey Howe's proposals. You give interviews where appropriate - most recently to the Wall Street Journal. We include American correspondents in your briefings in Washington, at summits, and so on. You have had your statutory day of Huckle in New York. And at official level, we receive a steady stream of people for briefings.

3. Sir Geoffrey Howe's minute does not really need a reply. But it seems to have started a round of correspondence among Cabinet colleagues. I therefore attach a short draft.

*[Handwritten signature]*

ROBERT CULPIN

Encs



UNCLASSIFIED



FROM: A W KUCZYS

DATE: 27 January 1987

*b/f with  
response (or  
29/1)*

*(A)*

MR CULPIN

**THE FOREIGN PRESS IN LONDON**

You have the action copy of the Foreign Secretary's minute to the Chancellor of 31 December. Your view was that it did not need a reply. However, the Chancellor would be grateful for a brief draft response, please.

*AWK  
to  
CULPIN  
27/1*

*AWK*

A W KUCZYS





Y SWYDDFA GYMREIG  
 GWYDYR HOUSE  
 WHITEHALL LONDON SW1A 2ER  
 Tel. 01-270 3000 (Switsfwrdd)  
 01-270 0538 (Llinell Union)  
 Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE  
 GWYDYR HOUSE  
 WHITEHALL LONDON SW1A 2ER  
 Tel. 01-270 3000 (Switchboard)  
 01-270 0538 (Direct Line)  
 From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

*Den Geilly*

27<sup>th</sup> January 1987

THE FOREIGN PRESS IN LONDON

I was interested to read your minute of 31 December to Nigel Lawson about the London-based foreign press corps. I attach considerable importance to taking all opportunities to improve the presentation of our policies overseas and support moves to influence the coverage by this group of journalists.

Over the past 7½ years I have given interviews to and briefed foreign journalists before making my annual inward investment visits to the Far East or North America. Wyn Roberts has undertaken similar tasks for West Germany over the last two years. Moreover, the Welsh Office frequently arranges on behalf of COI programmes in Wales for overseas journalists and for members of the Foreign Press Association to expose them to the best examples of policies being put into effect and these complement the briefings. We are anxious to build on these visits and my officials have told COI that we would welcome more tours of this kind.

I also see considerable merit in your proposal to hold regular briefing lunches with the Foreign Press Association. My Director of Information has had a preliminary word with your Head of News Department about this, and I have asked him to keep in touch. I would be happy to take part in such lunches provided they were properly targetted to specific subjects.

I am sending copies of this letter to the Prime Minister, other members of the Cabinet and Sir Robert Armstrong.

SS/WALES  
 To  
 PCS  
 27/1

✓ → en  
 Nic

The Rt Hon Sir Geoffrey Howe QC MP  
 Foreign Secretary

✓  
 27/1

CH/EXCHEQUER	
REC.	27 JAN 1987
ACTION	MR CULPIN
COPIES TO	CST, FST, MST, EST, Mr Lavelle Sir P. Middleton Mr Scholer, Mr Evans Sir G Litter Mr Mountfield Sir T-Burns Mr Edwards Mr Cropper





Ch

EST and/or MST  
may raise.

Robert's view is that  
no response is needed!

AWK  
20/11

A brief  
response, per. ✓





6/12/11 10

CH/EXCHEQUER	
REC.	20 JAN 1987 20/1
ACTION	Mr Culpin
COPIES TO	CST, FST, EST, MST Sir P Middleton, Sir G. Lither Sir T Burns

MO 22/1L

FOREIGN AND COMMONWEALTH SECRETARY

THE FOREIGN PRESS IN LONDON

Mr Lavelle, M Schobor  
Mr H P Evans,  
Mr Mountfield,  
Mr A Edwards,  
Mr Cropper

I read with great interest your minute of 31st December to the Chancellor of the Exchequer about ways in which we might improve the coverage of Britain by the foreign press corps based here in London. I too regard this as a subject of considerable importance, on which we can improve the service we provide and thereby extend and improve the presentation of British Government policy objectives.

2. In the Ministry of Defence we have been concentrating our attempts to improve knowledge and understanding of British defence policy on two foreign press organisations, the Overseas Media Defence Group (OMDG) of the Central Office of Information, and the Association of American Correspondents in London.

3. As regards the OMDG, we have a good liaison with the committee of this group and with the COI, through whom we provide facilities and briefings. The group comprises a very worthwhile cross-section of correspondents from our major NATO Allies and we have found them interested and receptive. During 1986 we made a conscious effort to improve the service we provide to them; we included them in all our open press

SS/MOD  
To  
FCS  
19/1





conferences and facilities and arranged several special briefings for them. I myself hosted a lunch for them in Admiralty House in September, at which I addressed them and took questions on a wide range of subjects. We have a number of further facilities planned for 1987.

4. So far as the Association of American Correspondents is concerned, we are in the process of developing closer ties. We are planning a series of regular briefings on subjects of topical interest during 1987; and I, and other Ministers in my Department, will take the opportunity to meet and speak with them as and when we can. (Last year I myself had a lunchtime briefing meeting with them.)

5. I also very much support the other measures you are taking. I am sure that there is scope for doing more with the Foreign Press Association and I welcome the proposal that there should be regular briefing lunches with them. The idea of targetted briefings is also a good one; and I have asked my Public Relations staff to follow this up with your people direct.

6. In short, I very much support your initiative. Defence is a subject on which we have an excellent story to tell and in which there is considerable overseas interest. I am keen for the Ministry of Defence to participate in ways of satisfying that interest as fully as possible.





7. I am sending copies of this minute to the Prime Minister,  
to all other members of the Cabinet and to Sir Robert Armstrong.

A.Y.

Ministry of Defence

19<sup>th</sup> January 1987





Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 01-215 7877

*copy with advice*

*(20/1)*

*RF*

16 January 1987

The Rt Hon Geoffrey Howe QC MP  
Secretary of State for Foreign &  
Commonwealth Affairs  
Downing Street  
London SW1A 2AL

*(Rt Hon  
claims no  
action req'd)*

*Jan Beattie*

CH/EXCHEQUER	
REC.	16 JAN 1987
ACTION	MR CULPIN <i>16/1</i>
COPIES TO	CST, FST, EST, MST
	SIR P. MIDDLETON
	SIR G. WITLER
	SIR T. BUENS

MR LAVELLE  
MR SCHOLAR  
MR H. EVANS  
MR MOUNTFIELD  
MR A. EDWARDS  
MR CROPPER

THE FOREIGN PRESS IN LONDON

Thank you for copying me your minute of 31 December to Nigel Lawson about briefing London-based foreign correspondents.

I thoroughly endorse your views and ideas for encouraging a more positive press about Britain overseas. A good image of Britain and British industry can only help our exports and encourage inward investment; the converse is equally true.

For this reason, DTI Ministers take every opportunity to brief foreign correspondents on most aspects of our policies. This is particularly true when we travel overseas: we normally brief appropriate correspondents before we depart and on our return, and, with the help of posts, we give as many interviews as possible to the local media while we are away.

The content of these briefings will naturally cover bilateral trade issues, but since we are equally concerned with our broad economic image we put a lot of emphasis on promoting British industrial and economic achievements.

One of our major concerns is to get over our policies and successes in the high technology sector, particularly to journalists representing the European media. As you will recall, both Geoffrey Pattie and I were very active with you on this front at

*SS/DTI  
To  
FCS  
16/1*

JG5AJZ





the time of the Eureka Ministerial Conference in London last June. Geoffrey Pattie is about to take part in a series of informal briefings with London-based West German correspondents.

We have also devoted some time during the past twelve months to explaining the Financial Services Act to foreign correspondents, both on a one-to-one basis and at a collective briefing for the Foreign Press Association.

I am well aware, however, that we can do more by briefing the foreign press, at both the ministerial and official level, on our manufacturing achievements and on our policy towards the City. We would be happy to take part in your plan for regular briefing lunches at the Foreign Press Association and we will readily arrange any special ministerial or official briefings as and when these are required.

I am sending copies of this letter to the Prime Minister, other members of the Cabinet and Sir Robert Armstrong.

*ms - Paul*

PAUL CHANNON





CH/EXCHEQUE	
REC.	12 JAN 1987 ✓ 12/1
ACTION	MR CULPIN
COPIES TO	CSTFSTEST MPT S.R.P.M. DUNTON SIR G. LITTLE SIR T. BURNS MR CUDDE MR SCHOLAR MR H EVANS

MR MOUNTFIELD  
MR A. EDWARDS  
MR CROPPER

Dear Geoffrey,

**FOREIGN PRESS IN LONDON**

I have seen a copy of your minute of 31 December to Nigel Lawson, proposing a more systematic approach by Ministers to briefing the foreign Press, to encourage them to project a more positive and accurate picture about Britain.

I should be happy to help in corrective briefing of the foreign press where appropriate, for example where instances of biased reporting occur which do not relate to matters within a colleague's Departmental responsibilities. I should also be prepared to take my share of the burden of Ministerial lunches for the Foreign Press Association, if as you suggest the practice of regular briefing lunches is revived.

I am copying this letter to the Prime Minister, to other Members of the Cabinet and to Sir Robert Armstrong.

*John Biffen*

**JOHN BIFFEN**

Rt Hon Sir Geoffrey Howe QC MP  
Foreign Secretary

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

12 January 1987

*b/f with  
advice (or  
20/1) PA*

*Tony's  
Res PA*



LPS  
To  
FCS  
12/1





*b/f with  
advice p*

FROM: A W KUCZYS  
DATE: 5 January 1987

MR CULPIN

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Sir G Littler  
Sir T Burns  
Mr Lavelle  
Mr Scholar  
Mr H P Evans  
Mr Mountfield  
Mr A Edwards  
Mr Cropper

**THE FOREIGN PRESS IN LONDON**

The Chancellor looks forward to your thoughts on the Foreign Secretary's minute of 31 December. He has commented that we clearly have an interest in the foreign press - especially the US press.

A W KUCZYS



*AWK  
to  
CULPIN  
5/1*





*1. About Mr Culpin's thoughts. We deal with an article in the foreign press - GSP Miss Gull.*

CH/EXCHEQUE	
REC.	31 DEC 1986 31/12
ACTION	MR CULPIN
COPIES TO	CST FST EST MST SIR P MIDDLETON SIR G LITTLER SIR T BURNS MR LAVELLE MR SCHOLAR MR HPEVANS

MR MOUNTFIELD  
MR A EDWARDS  
MR CRUPPER

FCS/86/316

CHANCELLOR OF THE EXCHEQUER

The Foreign Press in London

1. There are over 800 foreign journalists in London writing regularly for their newspapers about Britain and their perception of the Government's foreign and domestic policies. A proportion of this coverage, particularly on domestic policies, is ill-informed and biased and spreads abroad an inaccurate and unattractive image of this country. Many of the journalists disregard official briefing and seem content to rely on regurgitated sensationalist stories in the British media.

2. We have, therefore, been re-examining ways of encouraging more journalists to write more positively, particularly about British domestic issues, and so to project a more positive and accurate picture of Britain. There are limits to what we can do to influence representatives of press organisations controlled by governments basically hostile to us (eg TASS) but we can make more of an effort to work on those members of the press corps who are reasonably broadminded and susceptible to influence.

3. The Central Office of Information's London Correspondents Bureau already arranges briefing visits and tours for foreign correspondents. Mr Ingham gives weekly briefings at the Foreign Press Association (FPA) and for the Association of American Correspondents. The Prime Minister and, I am sure,

/many



FCS  
To  
CH/ex  
31/12





many colleagues give ad hoc briefings and interviews to selected representatives of the foreign press. I propose, in future, to treat briefing the foreign press in a more systematic and constructive manner; for example, our posts overseas will be reminded to report to us if a particular London-based correspondent consistently produces material which is inaccurate and biased. We will then suggest corrective briefing by Ministers (the most effective way) or by senior officials. I hope that my colleagues will expand the cooperation which we already receive from Departments to include such special briefings of the foreign press when this appears necessary.

4. In addition, we plan to improve and strengthen the organisation and membership of the Foreign Press Association. We have no role in its management. It is run by a committee of members - all journalists. The Foreign Office already provides a modest subsidy to the FPA: I do not intend this to increase. But we should like to revive the practice of regular briefing lunches at the FPA by Ministers. We also propose that Ministers should arrange targetted briefings, ideally at the FPA, prior to trips overseas (except for routine visits on EC matters) and where possible to give preview TV interviews. In this way, Ministers should attract favourable publicity in the countries they plan to visit before they arrive, rather than relying, as seems to be the practice at present, on press coverage during and shortly after their visit. I also suggest that during these visits Ministers pursue every opportunity to appear on the local TV network. Our posts will be glad to help achieve this. We are also looking into other ways of increasing the attractiveness of the FPA to journalists, by helping to provide such facilities as a linefeed from Parliament, which could

/also





also be used to carry (live) important speeches made by Ministers whilst overseas. We would encourage the FPA to meet the bulk of the cost of such improvements from its own resources.

5. This is an important problem on which I look forward to increased cooperation. Comments or suggestions will be most welcome.

6. I am sending copies of this minute to the Prime Minister, to all other members of the Cabinet and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

31 December 1986



CONFIDENTIAL

FROM: A G TYRIE  
DATE: 11 FEBRUARY 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Cropper  
Mr Ross Goobey

Mr D Heathcoat-Amory, MP

MEETING OF BACKBENCHERS WITH FINANCIAL SECRETARY - 10 FEBRUARY

Present: Dudley Smith, MP  
John Powley, MP  
Michael Marshall, MP  
Jim Spicer, MP

**Dudley Smith** strongly recommended reductions of the basic rate in preference to action on thresholds. He advocated a substantial (above revalorisation) increase of tax on cigarettes but nothing more than revalorisation on petrol. He counselled no change in mortgage interest relief.

**John Powley** wanted to see the basic rate reduced as much as possible but also action on allowances "with any spare cash". He suggested that petrol should not be increased higher than revalorisation and that the Budget badly needed "another goodie like charitable giving".

**Michael Marshall** suggested that glasshouses should be eligible for capital allowances. The Arts should be zero-rated for VAT. He said that we should take a more flexible attitude to forcing some actors and performers out of Schedule D into Schedule E. This was threatening the very existence of the Scottish National Opera. While taking a firm line on public expenditure in general he suggested that we should extend the principle of "matching funding," for example, the transport supplementary grant. He said we should take a clear line on personal allowances although he had no particular view of what that line should be.



CONFIDENTIAL

Jim Spicer suggested that we do something innovative and that we "must show willing" on the Green Paper on Personal Taxation. As a Lollipop he suggested an increase in spending for the Sports Council. He also suggested that we consider reductions in NICs if it could be shown that the change would exert a downward pressure on wage rises.

AGT.

A G TYRRE





CH/EXCHEQUER	
REC.	10 FEB 1987 ✓ 10/2
<del>ACTION</del>	CST
COPIES TO	FST MST
	EST

af

1 Debbie to note

FCS/87/028

SECRETARY OF STATE FOR THE ENVIRONMENT

The Durbar Court

1. The current renovation by PSA and contractors Lovell-Farrow of the Old India Office in King Charles Street, Whitehall, has opened up the Durbar Court and an adjacent reception room near Clive Steps. This roofed courtyard in the centre of an historic building could prove an attractive setting for government functions in the future. It is conveniently situated near the QEII Conference Centre, and has its own entrance and vehicle access from King Charles Street.

2. For many years this area of the Old Public Offices has been covered with temporary buildings and storage, but carefully planned rehousing within the building has released this reception area for its original purpose. I cannot pretend, since the OPO is now office accommodation in active use, that we could contemplate elaborate functions of the kind which took place in the Durbar Court last century (including a ball for the Sultan of Turkey in 1867!). But certainly the area could be utilised by colleagues for evening receptions for up to 150 people. Lack of catering facilities and furniture may make more extensive use difficult at the beginning, but I would commend to colleagues this in-house venue in the coming year as a possible alternative to Lancaster House or the Banqueting Hall.





3. As the OPO is a government building no hire charge will be levied on other departments for its use, but I would have to ask for a contribution to meet the extra costs of security and other services. Enquiries about the use of the Durbar Court after March 1987 should be addressed in the first instance to my Office Services and Transport Department.

4. I am copying this minute to Cabinet colleagues.

A handwritten signature in black ink, which appears to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign & Commonwealth Office

10 February 1987





Re the

Not now

going  
AA

Alex

The Chancellor is not  
a member of MISCI09.

If he wishes to  
attend, I shall have  
to arrange for him  
to be invited.

Shall I do so  
or will he leave  
it to the CST?

D  
6/2



20



**DEPARTMENT OF HEALTH AND SOCIAL SECURITY**  
Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522

*From the Secretary of State for Social Services*

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

CH/EXCHEQUER	
REC.	14 SEP 1987 ✓
ACTION	CST ✓
COPIES TO	

September 1987

*Dear Nigel,*

**OUTSTATIONING AND RELOCATION OF WORK**

In my letter of 28 August on civil service pay, I mentioned the two urgent studies I have set up to establish how, in the interests of effectiveness and efficiency, I can relocate some of my Headquarters and social security work away from London and the South East. It might be useful to you and other colleagues to know some of the background to my decisions.

My starting point is the Prime Minister's summing up of the E(A) discussion on 29 January of this year when she pointed to the substantial advantages to be gained from relocating offices away from London and the South East because office space was cheaper elsewhere and it was easier to recruit staff, especially higher quality staff. The initiative was to be pursued by Departmental Ministers on operational efficiency grounds as a matter of good management and best use of resources. It would not be right to undertake any more general reviews or to make moves on regional policy grounds alone. I have been pursuing the matter accordingly.

The costs of office space and our growing difficulties in recruiting and retaining clerical and executive staff create particular difficulties for the efficient running of my Headquarters scattered in 15 buildings in London and 8 buildings outside London. These difficulties are not as acute outside London but are much greater in the South East than in any other part of the country. For example, wastage from the DHSS of talented administrators, almost wholly from the fast stream at Grade 7 (Principal) level and above, has been significant: 21 have left since 1985. Over the same period, 32 professionals have also left. Replacement, with appropriate



E.R.

training, takes years. However successful our dispersal programme proves to be, we will continue to need civil servants of quality to provide essential support for Ministers at the centre. Furthermore, despite continuous recruitment, we have an overall deficit of about 10 per cent of the clerical workforce in Headquarters, one Division with a large clerical staff losing about a third of its staff over a recent twelve month period.

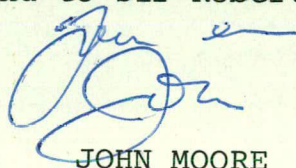
We have already identified centrally those staff who must be in day to day contact with Ministers and those who need not be. We have concluded that there is a prima facie case for allocating up to 1,000 headquarters posts outside the South East. I should concentrate on moving staff out of London and the South East, but shall not rule out some relocation within the South East if this proves the most cost-effective option. Potential savings amount to over £4 million per annum. The set up costs of dispersal should be well within the first year's savings, unless we decide to acquire new buildings. This is an ambitious target - between a fifth and a sixth of the total - and we need to test it in detail with the managers and staff concerned. But I also need to set a challenging target if we are to achieve significant relocation.

To this end I am setting up a Departmental study of the options for relocating up to 1,000 Headquarters' jobs away from London and the South East as soon as possible. I shall aim for the maximum relocation by 1990, though we may not achieve such an ambitious target. We shall complete the study within 6 months.

In parallel with the work on relocating Headquarters posts we have been examining the possibilities of further outstationing of work from the Regional Organisation. We had intended at an earlier stage to set up an Efficiency Scrutiny of the current roles and responsibilities of the three tiers of the Regional Organisation. While this appraisal needs to be done in due course, perhaps as a second stage of the Scrutiny, I think it ought to take second place to the more immediate issue of studying the current arrangements for, and location of, social security work undertaken by local offices; and the desirability of relocating some or all of these functions away from those offices, again mainly but not exclusively in London and the South East, which experience acute difficulties in recruiting and retaining especially clerical staff. For example, four of our London Regional offices have annual percentage turnover rates (ie total staff losses a year as a percentage of total staff) of 60 - 80 per cent and fourteen between 40 and 60 per cent. The Scrutiny will be conducted in the usual way, in consultation with Robin Ibbs and the Efficiency Unit, and will be completed to the same timescale as, and in parallel with, the Headquarters study.

We shall be taking care over the presentation of these proposals to our managers and staff in order to allay their fears of redundancies and compulsory transfers; and to the trades unions from whom we can expect trouble with which, of course, we shall deal in the normal way.

I am copying this letter to the Prime Minister and other members of the Cabinet, to Sir Robin Ibbs and to Sir Robert Armstrong.



JOHN MOORE





BF

Rose Gray  
meeting  
order

18/2

Ch

This

Ch

Lord W wants a  
word with you i the  
margins of the meeting,  
about Tony Reform  
Group patrons.

AA



18/2



FROM: MRS D C LESTER

DATE: 13 February 1987

MR WALLER

cc PS/Chief Secretary  
PS/Financial Secretary  
Sir P Middleton  
Mr F E R Butler  
Mr Monck  
Mr Burgner  
Mr Tidy

**ROVER GROUP**

The Chancellor has been invited to attend a further meeting with the Prime Minister and others at 11.30 am on Wednesday 18 February.

2. I should be grateful if you would provide briefing by close of play on Tuesday 17 February please.

*Debbie Lester*

MRS D C LESTER



11.30 a.m

No 10



Debbie

Tessa No. 10 rang to

arrange a meeting on

Rover Group at 11.30 a.m

on Wednesday 18 February.

with following cast:-

Lord President

SOS for Environment

SOS for DTI

Chairman

Chief Whip

SOS for F.C.O



*ms*

*Debbie*



FROM: ANTHONY DIGHT  
DATE: 16 February 1987

PS/FINANCIAL SECRETARY

CC:  
PS/Chancellor  
PS/Economic Secretary  
PS/Minister of State  
Mr Dyer  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey  
Mr P Lilley MP  
Mr M Lord MP

**PUBLIC EXPENDITURE WHITE PAPER DEBATE: WEDNESDAY 18 FEBRUARY**

I have set out below the Ministerial Duty Rota which has now been agreed:

- 3.30pm - 4.30pm approx. All Ministers
- 4.30pm - 5.55pm Minister of State
- 5.55pm - 8.00pm Economic Secretary
- 8.00pm - 10.00pm Financial Secretary

*Anthony Dight*

ANTHONY DIGHT  
Diary Secretary





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

16 February 1987

Philippa Jones  
Diary Secretary to the  
Secretary of State for Energy

*Dear Philippa,*

We spoke about the invitation which your Secretary of State has received from Nikko Securities to attend a reception on Monday 9 March.

I attach a background note which I hope you will find useful. If you require any more detailed information, could I suggest that you contact the Department of Trade and Industry, who may be able to help.

*Yours ever,*

*Debbie Lester*

MRS D C LESTER  
Diary Secretary



## NIKKO SECURITIES

Nikko securities are one of the "big four" Japanese Securities houses alongside Nomura, Daiwa and Yamaichi. All four have seats on the London Stock Exchange and Nikko and Yamaichi have hopes of gaining deposit-taking licences in London. This is dependant on their meeting the Bank of England's criteria for supervision and capital [NOT FOR USE: Another consideration is progress with liberalising Japanese markets, though the Banking Act means explicit acknowledgement cannot be made of this policy (because there are limits to the Bank of England's powers to delay granting licenses in these circumstances.)]

The following line to take reflects the outcome at the last UK-Japan bilaterals.

### **Nikko's deposit-taking licence**

Understand this is a matter for the Bank of England. Would not be proper to comment on an individual case.

### **Financial Services Act Reciprocity Powers**

Have not been activated yet. But Government will face increasing [political] pressure to use the powers [to exclude Japanese from banking, investment or insurance business] if greater progress is not made in liberalising Japanese Financial Markets.

### **Tokyo Stock Exchange (TSE)**

You will wish to emphasise that progress on allowing more UK seats on the TSE is a key area. You would be grateful if Nikko could exercise their influence with the membership committee to speed reform.



*Alex*  
Content for the  
attached note to go  
to Peter Walker?

FROM: R N G BLOWER  
DATE: 16 February 1987

MRS LESTER

cc: Sir G Littler  
Mr Evans  
Mrs Lomax  
Mr Ilett

*0*  
*17/2*

**NIKKO SECURITIES**

You asked for a short note on Nikko Securities for the Secretary of State for Energy to draw on when he attends a function to mark the appointment of the Chairman in London.

*Done*  
*Fine, but why us*  
*not DTI?*

*Alex*

*Bob Blower*

R N G BLOWER

CONQUEROR



~~Peter Hall 4482~~

Bob Blower 5550

Debbie - cd you deal Pse?



Peter Walker received invitation from

Nikko Sanitex

Mr Shoji Umenura  
(Chairman)

Mr Takuyaiwasaki  
(President)

Reception 9/3

P Walker invited.

Do we know anything about them?

- 1. Any reasons sdn't go
- 2 Any background.

Deposit - taking

Walker



UNCLASSIFIED

*ppp*



FROM: MRS D C LESTER  
DATE: 17 February 1987

PS/FINANCIAL SECRETARY

cc: Mr Bryce - IR

**THE CENTRAL COUNCIL OF PHYSICAL RECREATION: THE INSTITUTE OF SPORTS SPONSORSHIP**

... The Chancellor has seen the attached submission from Mr Bryce and has written to the General Secretary of Central Council of Physical Recreation as drafted.

2. He has commented that it is a great pity that we could not have got the draft regulations out before 19 December, given that the original announcement was last March. He thinks that there will be problems with this as a result, and he would be grateful if the Financial Secretary would keep an eye on this please.

*Debbie Lester*

MRS D C LESTER  
Diary Secretary





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

16 February 1987

Peter Lawson Esq  
General Secretary  
The Central Council of Physical Recreation  
Francis House  
Francis Street  
LONDON  
SW1P 1DE

*Peter Lawson*

Thank you for your letter of 5 February about the new rules for the collection of tax from visiting entertainers and sportsmen.

I announced these proposals in my Budget speech last year, and the general framework was introduced in the Finance Act. As you know, the draft Regulations containing the details of the new scheme are presently the subject of consultation and we will be giving very full and careful consideration to the representations which are received. The Regulations will then be laid before Parliament and come into effect on 6 April.

I appreciate that time is short for those who will be required to implement the scheme to make the necessary adaptations to their financial and accounting systems. The Inland Revenue are however writing to the payers who are likely to be affected drawing their attention to the specialised unit which has been set up in Birmingham to deal with any queries. And a layman's guide which sets out in simple terms how the new rules will apply will be available at the end of next month.

I know you will appreciate that at this time of year it would be particularly difficult for me to meet a delegation from the governing bodies of sport and the Institute of Sports Sponsorship. But I can assure you that I do appreciate the concern which you express. The arrangements which are currently being made however should enable any particular problems which your members have to be resolved and ensure as smooth an introduction as possible to the new scheme.

NIGEL LAWSON

*Nigel Lawson*

*Minute  
to B/PST*





C  
Letter to issue?

Letter on.  
It is a  
great pity  
that we  
got the  
regulations  
before  
19 Dec.

From: J P B BRYCE  
Date: 13 February 1987

MRS LESTER  
CHANCELLOR'S DIARY SECRETARY

THE CENTRAL COUNCIL OF PHYSICAL RECREATION: THE INSTITUTE OF  
SPORTS SPONSORSHIP

The Chancellor asked for advice on the attached letter from the General Secretary of the CCPR asking him to meet a delegation from the governing bodies of sport and the ISS to discuss the possibility of postponing the introduction of the new rules for non-resident entertainers and sportsmen.

Background

2. The 1986 Finance Act included provisions to withhold tax at source from the UK earnings of visiting entertainers and sportsmen. In proposing this change in his Budget Speech, the Chancellor indicated that this measure would bring the UK into line with most of the rest of the world. And it should yield £m75 in 1987-88.

3. The details of the scheme - which in the event turned out to be rather more than that - were left to be introduced by Regulations. The draft Regulations were issued on 19 December and comments were requested by 16 February. So far, about 20 representations have been received.

4. We shall of course be reporting to Ministers on these representations at the end of the consultative period. The intention would then be to table the Regulations as soon as possible thereafter and for them to come into effect on 6 April.

give that  
amendment  
March. We are  
going to have  
problems with  
this as an  
result of  
this  
handwritten  
I will be  
grateful if  
the FFT  
could let us  
know  
by 19 Feb.



## Implementation of the new rules

5. The timescale available for those implementing the new rules to adapt their financial systems is admittedly short. Next week we will be writing to about 4000 payers who will be affected by the new rules and informing them of the setting up of a specialised office in Birmingham to which any queries can be directed. Personal contact will be made with the major payers involved eg the BBC and the independent television companies. And a layman's guide setting out in simple terms how the new tax rules will apply will be issued at the end of March.

6. In this way, it is hoped to secure a reasonably smooth introduction of the new provisions.

## Requests for meetings

7. During the consultation period we have had meetings with the British Film and Television Producers Association, and representatives of the Association of Professional Recording Studios. Mr Denis Howell has asked to bring a delegation representing various sporting interests for a meeting with the Chairman to discuss the administration of the new rules - this has been arranged for 24 March. He is not concerned with the precise terms of the draft Regulations.

8. We assume that the Chancellor would find it difficult at the present time to fit in a meeting with the CCPR, and while we would be very glad to see them their concern is not so much on the details of the Regulations but on securing postponement of the introduction of the scheme. It would obviously be difficult for us to offer any comment on that.

9. We attach a suggested draft reply.



J P B BRYCE



Peter Lawson Esq  
General Secretary  
The Central Council of Physical Recreation  
Francis House  
Francis Street  
LONDON  
SW1P 1DE

Pl type  
for copy  
signature

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I announced these proposals in my Budget speech last year, and the general framework was introduced in the Finance Act. As you know, the draft Regulations containing the details of the new scheme are presently the subject of consultation and we will be giving very full and careful consideration to the representations which are received. The Regulations will then be laid before Parliament and come into effect on 6 April.

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I know you will appreciate that at this time of year it would be particularly difficult for me to meet a delegation from the governing bodies of sport and the Institute of Sports Sponsorship.



But I can assure you that I do appreciate the concern which you express. The arrangements which are currently being made however should enable any particular problems which your members have to be resolved and ensure as smooth an introduction as possible to the new scheme.

Nigel Lawson



UNCLASSIFIED

BF 2/3



FROM: MRS D C LESTER  
DATE: 9 February 1987

PS/IR

**THE CENTRAL COUNCIL OF PHYSICAL RECREATION THE INSTITUTE OF SPORTS SPONSERSHIP**

I attach a copy of a letter which the Chancellor has received from the Central Council of Physical Recreation about "the collection of income tax from sportsmen or women from overseas in respect of prizes, expenses and fees received in this country".

The Chancellor would be grateful for advice please.

*Debbie Lester*

MRS D C LESTER  
Diary Secretary



# The Central Council of Physical Recreation

Francis House, Francis Street, London SW1P 1DE Telephone: 01-828 3163/4 Telex: 8956058

**Patron:**

Her Majesty The Queen

**President:**

HRH The Prince Philip, Duke of Edinburgh KG KT OM



**Executive Committee Chairman:**

Keith K Mitchell OBE

**General Secretary:**

Peter Lawson

**Deputy Chairman:**

George A Cubitt MBE

**Honorary Treasurer:**

Miss Marea Hartman CBE

**Divisional Chairmen:**

Games and Sports: C S Palmer OBE

Major Spectator Sports: R G Robinson

Movement and Dance: Miss A Bamba

**Water Recreation:** A E Hodges

**Outdoor Pursuits:** G A Cubitt MBE

**Interested Organisations:**

Lt-Col R G Satterthwaite OBE

PL/kf/20146

5 February 1987

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Parliament Street  
London SW1P 3AG

Dear Chancellor

The governing bodies of sport and recreation in membership of the CCPR and the commercial companies in membership of the Institute of Sports Sponsorship are extremely concerned about the proposals of the Inland Revenue to lay a responsibility upon organisers and promoters of sports events in the collection of income tax from sportsmen or women from overseas in respect of prizes, expenses and fees received in this country.

I should make it clear at once that neither the CCPR nor the ISS is wishing to avoid its responsibilities under the law, but we feel that such are the implications and ramifications to the organisations concerned that more time is required in order that our systems of accountancy and financial management can be modified in line with the proposed new regulations.

On behalf of the CCPR and the ISS I write to ask you to agree to meet a delegation from the governing bodies of sport and the ISS to discuss these issues in the hope that you might feel able to delay the implementation of the proposals in order that the new regulations can be made to work properly, with efficiency and without needless worry being placed upon the voluntary representatives of sport who will become involved.

Yours sincerely

PETER LAWSON  
General Secretary



# The Central Council of Physical Recreation

Francis House, Francis Street, London SW1P 1DE Telephone: 01-828 3163/4 Telex: 8956058

**Patron:**

Her Majesty The Queen

**President:**

HRH The Prince Philip, Duke of Edinburgh KG KT OM



*C*  
*FST on*  
*regrets?*  
*1/2*  
*6/2*

**Executive Committee Chairman:**  
Keith K Mitchell OBE  
**General Secretary:**  
Peter Lawson

**Deputy Chairman:**  
George A Cubitt MBE  
**Honorary Treasurer:**  
Miss Marea Hartman CBE

**Divisional Chairmen:**  
**Games and Sports:** C S Palmer OBE  
**Major Spectator Sports:** R G Robinson  
**Movement and Dance:** Miss A Bamba

**Water Recreation:** A E Hodges  
**Outdoor Pursuits:** G A Cubitt MBE  
**Interested Organisations:**  
Lt-Col R G Satterthwaite OBE

PL/kf/20146

5 February 1987

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Chancellor of the Exchequer  
Parliament Street  
London SW1P 3AG

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Yours sincerely

PETER LAWSON  
General Secretary

*IR advise psc r.*





Chancellor of the Exchequer

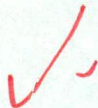
## Conservative Research Department

32 Smith Square Westminster SW1P 3HH Telephone 01-222 9511

---

*WITH COMPLIMENTS*

Robin Harris





# Conservative Research Department

32 Smith Square Westminster SW1P 3HH

Telephone 01-222 9511

---

Director: ROBIN HARRIS

RH/CR

17th February 1987

PERSONAL

*Dear Peter,*

CAMPAIGN GUIDE CHAPTER ON TAX

I write this letter in order to express my thanks and appreciation for the huge amount of work which you put into the Campaign Guide chapter on tax. This is, as you know, now with Alistair Cooke and will, I understand, go to the printers shortly.

I am copying this letter to the Chancellor of the Exchequer and to the Party Chairman.

*Yours ever,*

*Robin Harris*

ROBIN HARRIS

Peter Cropper Esq  
Special Adviser  
H M Treasury  
Parliament Street  
LONDON SW1



CONFIDENTIAL



FROM: B O DYER

DATE: 17 FEBRUARY 1987

MR D N WALTERS

cc Mr Scholar  
 Miss Sinclair  
 Mr Haigh  
 Mr Romanski  
 Mr Evans - IDT  
 Mrs Lester  
 Mr MacKenzie  
 Mr Bone - C&E  
 Mr Walker - IR  
 Mr Graham - PC

## 1987 FINANCE BILL: TIMETABLE

You sought comments from copy recipients on the draft submission circulated under cover of your note of today's date.

Your provisional timetable is consistent with the draft guidance note I circulated to Private Offices (and yourself) on 12 February; except that the concluding day of the Budget Debates should read "Monday 23 March" and not "Friday 20 March" as currently detailed in your Annex 1; and you have moved forward the Bill's publication date from 9th to 8th April. On the latter point, no doubt Peter Graham will respond, as appropriate.

Paragraph 3 of your draft submission could perhaps be made a little clearer if the final clause was revised to read: "and the constraint <sup>on</sup> ~~that~~ Counsel <sup>to</sup> ~~must~~ hand in the Bill to the House within 10 days of the Budget Statement".

For the record, I have already opened tentative negotiations with the Chief Whip's Office on the provisional timetable currently proposed for the Bill (on a confidential basis, of course). The initial reaction was that the dates we have in mind look reasonable. They will consult Murdo Maclean and come back to me if there is a problem.

A handwritten signature in dark ink, appearing to be 'B. O. Dyer'.

B O DYER



Spoke to  
Dang  
Watters



DL  
18/2

Cathy

## FINANCE BILL TIMETABLE

I am content with  
the attached submission  
subject to the inclusion  
of the last day of the  
Budget Debate (Monday  
23 March) in Annex 1.

Any comments?

Alex

Looks fine to me  
Content?

D  
17/2

CR 17/2



CONFIDENTIAL

FROM: D N WALTERS  
DATE: 17 FEBRUARY 1987

MR DYER - PARLIAMENTARY CLERK)  
 MR EVANS - INFORMATION DIVISION)  
 MR BONE - CUSTOMS & EXCISE)  
 MR WALKER - INLAND REVENUE)  
 MR GRAHAM - PARLIAMENTARY COUNSEL)

COPY TO EACH

cc Mr Scholar  
 Miss Sinclair  
 Mr Haigh  
 Mr Romanski  
 Mrs Lester  
 Mr MacKenzie

### 1987 FINANCE BILL: TIMETABLE

I attach a draft submission to the Chief Secretary seeking his agreement to a provisional timetable for this year's Finance Bill. I would be grateful for any comments from both you and copy addressees.

#### 2. In particular:

- (i) Mr Graham will note that despite his minute of 6 February, I <sup>have</sup> set publication of the Bill for 8 April rather than 9 April. Is this acceptable please? I note that in commenting last year, the Chief Secretary was keen to have a Wednesday publication in view of the presentational advantages.
- (ii) Do we need to check with *any* House Authorities (eg the Chief Whip's Office)? I would be grateful if Mr Dyer could advise please.
- (iii) I have attempted to include other key dates for Ministers. I would be grateful if Mrs Lester could confirm that I have transcribed the information correctly and that there are no other details which we could sensibly add.
- (iv) Are there any key conventions, constraints or stages which I have overlooked? No doubt all addressees may want to comment on this.

3. We are anxious to maintain the momentum with Ministers on Finance Bill issues. Therefore, we would like to get the provisional timetable settled at an early date. As a consequence, comments by *3pm Wednesday (18th)* would be greatly appreciated.

  
 D N WALTERS



**CONFIDENTIAL**

DRAFT

FROM: D N WALTERS  
 DATE: FEBRUARY 1987

1. **MISS SINCLAIR**
2. **CHIEF SECRETARY**

cc Chancellor of the Exchequer  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Sir Peter Middleton  
 Mr Cassell  
 Mr Scholar  
 Mr Culpin  
 Miss O'Mara  
 Mr Dyer  
 Mr Haigh  
 Mr Romanski  
 Mr Johns - IR  
 Mr Wilmott - C&E  
 Mr Graham - Parlia<sup>mentary</sup> Counsel

**1987 FINANCE BILL: TIMETABLE**

This submission sets out a provisional timetable for this year's Finance Bill. It has been prepared in consultation with the Parliamentary Clerk, Information Division, the Revenue Departments and Parliamentary Counsel. The proposed timetable (set out in Annex 1) allows for some flexibility for eg final decisions on the contents of the Bill and the need to settle for longer than anticipated Committee Stages.

**Publication and Second Reading**

3. Under the Provisional Collection of Taxes Act 1968, the Bill must be read a second time within 25 sitting days of Budget day if a Resolution is passed under Section 5 of the Act (which gives immediate effect to changes in eg excise duties). Account must also be taken of the convention (unbroken, excluding Election years, since 1978) of at least two weekends between publication and Second Reading and the constraint that the Bill must go to the House at least 10 days after Budget day.

4. Budget day is 17 March. We aim to publish the Bill on Wednesday 8 April (with delivery by Parliamentary Counsel to the House Authorities by Thursday 2 April). This meets ~~the Chief Secretary's~~<sup>your</sup> point <sup>from</sup> last year about the presentational advantages of a Wednesday publication. For Easter Recess, the House is expected to rise on 9 April and return on 21 April.



5. Under the 25 day rule, the latest date for Second Reading is ~~Wednesday 29~~ <sup>Thursday 30</sup> April. However, the earlier it takes place, the sooner Committee can start. Since it does not breach the two weekend convention, we propose Second Reading on Tuesday 28 April.

6. While technically Second Reading could be brought forward to the previous week (ie after the House returns on 21 April) this could lead to unnecessary complications. It would leave <sup>very</sup> little time to discuss the split of the Bill <sup>at</sup> ~~for~~ Committee Stage with the <sup>and to move the subsequent committal motion</sup> Opposition, and could lead to criticism from other Members about the rushed timetable. This could in turn again ~~affect~~ the negotiations with the Opposition.

### Committee Stage

7. The convention is to allow two weeks between Second Reading and Committee of the Whole House (CWH) in order to allow time for amendments to be tabled. But the convention is a relaxed one as was demonstrated in 1985 and 1986 (see Annex 2). Providing that at least two weeks is left between Second Reading and Standing Committee there should be little complaint.

8. Duration of Committee Stage and the split between CWH and Standing Committee will, as mentioned above, need to be <sup>negotiated with the Opposition</sup> ~~undertaken~~ during the week starting Tuesday 21 April. This will allow the committal motion specifying the split of the Bill to appear at least two sitting days before Second Reading.

9. In 1986 two days were required for CWH and 10 days for Standing Committee. The published Bill was 200 pages long, equivalent to 150 pages in the new A4 format. At present our best estimate for the length of this year's Bill is a little over 140 pages though this may, of course, grow. An early assessment would suggest that this year the Opposition might seek more time on the floor of the House but that a slightly shorter stint might be needed upstairs. Negotiations might start from <sup>a</sup> 2/9 allocation <sup>with</sup> 3 days in CWH and 10-12 days upstairs as a "worst case" result.

10. On this basis CWH might start on Tuesday 5 May with Standing Committee beginning on Tuesday 12 May. Subsequent sittings would then need to take account of the Whitsun recess - House expected to rise on <sup>May</sup> 22~~nd~~ and to return on 1 June.

### Subsequent Stages

11. There should be two weeks before the conclusion of Committee Stage and Third Reading to enable the Revenue Departments and Parliamentary Counsel to prepare



amendments which incorporate Ministers' final decisions into the Bill. Report and Third Reading have not needed more than two days since 1981 and there seems no reason to believe that this should not suffice again this year. However the timetable at Annex 1 allows for a third day if required.

12. The House of Lords' stages take 1 day and must be completed to allow Royal Assent by 5 August when authority to collect taxes under the Provisional Collection of Taxes Act expires. The usual practice is to take the Lords' stages on a day in the penultimate or final week of July.

### Conclusion

13. I should be grateful to know if you are content with the timetable as set out in Annex 1 and described above. In particular, are you content that, as in 1985 and 1986, the Committee of the Whole House should begin <sup>in time</sup> less than the convention of two weeks after Second Reading?

D N WALTERS



1987 FINANCE BILL: PROVISIONAL TIMETABLE

<u>Date</u>	<u>Finance Bill</u>	<u>Other Key Dates</u>	
		<u>Date</u>	
<u>MARCH</u>			
Tuesday 17	<u>Budget Day.</u>		
Wednesday 18	} Budget debates.		
Thursday 19			
Friday 20			
<u>APRIL</u>			
Thursday 2	Bill handed to House by Parliamentary Counsel	3 to 5	Informal ECOFIN.
Wednesday 8	<u>Bill published</u>	6 to 13	IMF/IBRD (provisional date)
Thursday 9	Easter recess: House expected to rise		
Tuesday 21	Easter recess: House expected to return		
Wednesday 22	Discuss Committee stage split with Opposition.		
Tuesday 28	<u>Second Reading</u> (Committee motion is moved at conclusion of 2nd Reading debate).		
<u>MAY</u>			
Monday 4	May day Holiday		
Tuesday 5	<u>Committee of Whole House (CWH)</u> : 1st day.		
Wednesday 6	CWH: 2nd day.	6	NEDC
Thursday 7	CWH: 3rd day (if required)	7	Local elections day.
Monday 11	[CWH: 4th day in Reserve]	11	ECOFIN
Tuesday 12	<u>Standing Committee (SC)</u> : 1st day	12	OECD
Thursday 14	SC: 2nd day	13 to 15	Scottish Party Conference.
Tuesday 19	SC: 3rd day		
Thursday 21	SC: 4th day.		
Friday 22	Whitsun recess: House expected to rise.		
<u>JUNE</u>			
Monday 1	Whitsun recess: House expected to return.		



Date

Finance Bill

Other Key Dates

JUNE (cont)

Tuesday 2	SC : 5 <sup>th</sup> day
Thursday 4	SC : 6 <sup>th</sup> day
Tuesday 9	SC : 7 <sup>th</sup> day
Thursday 11	SC : 8 <sup>th</sup> day
Tuesday 16	SC : 9 <sup>th</sup> day
Thursday 18	SC : 10 <sup>th</sup> day
Tuesday 23	SC : 11 <sup>th</sup> day (if required)
Thursday 25	SC : 12 <sup>th</sup> day (if required)

Date

3	NEDC
8 to 10	Economic Summit
15	ECOFIN

JULY

Tuesday 14	<u>Report Stage (RS)</u> : 1st day
Wednesday 15	RS : 2nd day
Thursday 16	RS : 3rd day (if required)

1	NEDC
13	ECOFIN

Week beginning  
Monday 20

Lords Stage

AUGUST

Not later than  
Wednesday 5

Royal Assent



YEAR	EASTER SUNDAY	BUDGET DAY	BILL PUBLISHED	2ND READING	COMMITTEE				REPORT		3RD READING	LORDS	PAGES		DAYS BUDGET TO 3RD READING	COMMENTS
					WHOLE HOUSE		STANDING		BEGAN	DAYS			BILL	ACT		
					BEGAN	DAYS	DAYS	ENDED								
1971	11 APR	30 MAR	20 APR	28 APR	11 MAY	4	7	21 JUN	5 JUL	3	7 JUL	21 JUL	119	130	99	
1972	1 APR	21 MAR	11 APR	20 APR	9 MAY	6	15	28 JUN	10 JUL	3	19 JUL	26 JUL	204	223	120	
1973	22 APR	6 MAR	23 MAR	2 APR	10 APR	2	7	23 MAY	10 JUL	1	11 JUL	24 JUL	92	116	127	
1974	14 APR	26 MAR	26 APR	9 MAY	16 MAY	5	8	2 JUL	16 JUL	3	22 JUL	30 JUL	93	122	118	POST-ELECTION
1974	-	12 NOV	10 DEC	17 DEC	15 JAN (1975)	3	12	18 FEB (1975)	4 MAR (1975)	4	10 MAR (1975)	13 MAR (1975)	130	157	108	WINTER BUDGET
1975	30 MAR	15 APR	29 APR	8 MAY	15 MAY	3	8	3 JUL	16 JUL	2	17 JUL	31 JUL	110	122	93	
1976	18 APR	6 APR	15 APR	3 MAY	11 MAY	3	13	1 JUL	13 JUL	3	19 JUL	27 JUL	144	179	105	
1977	10 APR	29 MAR	19 APR	28 APR	9 MAY	3	8	23 JUN	14 JUL	3	25 JUL	28 JUL	78	88	128	
1978	26 MAR	11 APR	20 APR	27 APR	8 MAY	3	10	27 JUN	5 JUL	4	13 JUL	31 JUL	91	108	93	
1979	-	12 JUN	21 JUN	27 JUN	3 JUL	5	-	-	18 JUL	1	18 JUL	24 JUL	22	22	36	POST-ELECTION
1980	6 APR	26 MAR	17 APR	8 MAY	2 JUN	3	10	3 JUL	16 JUL	2	17 JUL	31 JUL	142	176	113	
1981	19 APR	10 MAR	3 APR	13 APR	30 APR	5	11	30 JUN	14 JUL	3	20 JUL	24 JUL	195	218	132	
1982	11 APR	9 MAR	26/30 MAR	6 APR	22 APR	4	11	24 JUN	12 JUL	2	13 JUL	20 JUL	189	256	126	
1983	4 APR	15 MAR	31 MAR	14 APR	25 APR	4	-	-	-	-	11 MAY	12 MAY	164	79	56	PRE-ELECTION
1984	22 APR	13 MAR	29 MAR	10 APR	30 APR	3	13	26 JUN	10 JUL	2	11 JUL	25 JUL	223	262	120	
1985	7 APR	19 MAR	16 APR	29 APR	7 MAY	2	9	18 JUN	9 JUL	2	10 JUL	23 JUL	199	242	113	
1986	30 MAR	18 MAR	16 APR	29 APR	6 MAY	2	10	19 JUN	8 JUL	2	17 JUL	25 JUL	200	265	121	





FROM: S P Judge

DATE: 19 February 1987

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie

**DOCK LABOUR BOARD**

The Minister of State has seen Mr Cropper's note of 18 February to the Chancellor. He asked me to pass on the attached extract from a document by the Inland Waterways Association (of which I am a member, just as Mr Cropper is a member of the Reform Club) which describes how the Hull dockers wrecked a promising inland shipping initiative. I will gladly provide chapter and verse for anyone who is interested.

S.P.J.

**S P JUDGE**  
Private Secretary



**4.7 BACAT (Barge Aboard Catamaran)**

The BACAT ship, which is small compared with LASH and SEABEE, was developed by the Danish shipowner, Gustav Drohse, specifically for use between the Humber and Rotterdam with inland penetration of the BACAT barges to places such as Leeds, Selby, Rotherham and Gainsborough. The barge design was based on BWB's push-tow barges, which had come into service in 1970. (see picture)

The BACAT ship has a closed bow but catamaran hulls between which 3 standard LASH barges can be floated and rigidly locked. The hulls support a weather deck on which 10 BACAT barges can be carried, lifted and placed in position by a 400-tonne elevator (comparable with that of SEABEE) and a system of rollers and winches. The vessel can, therefore, operate as a feeder for LASH barges and also as the carrier for the barges of the integrated BACAT system.

Being designed to operate on a through service between the Continent and inland ports in Britain, the barge size had to be related to the dimensions of the waterways available in the Humber/Trent/Aire/Calder hinterland. The LASH module being too large, the 140-tonnes capacity was adopted as a compromise to allow maximum penetration. Like its bigger LASH brother, the BACAT barge has a single clear hold area and large hatch which allows for ease of cargo handling. In 15 months of operations commencing in 1974 the system proved technically effective but had to be abandoned because of opposition by small sectional interests, in particular the dockers at Hull. In as far as this system was tailor-made to allow maximum use of Britain's limited waterways it is deplorable that it was not allowed to function as intended. With the belated but welcome decision by Government in favour of the Sheffield & South Yorkshire Navigation improvement, the demise of BACAT becomes even more regrettable.

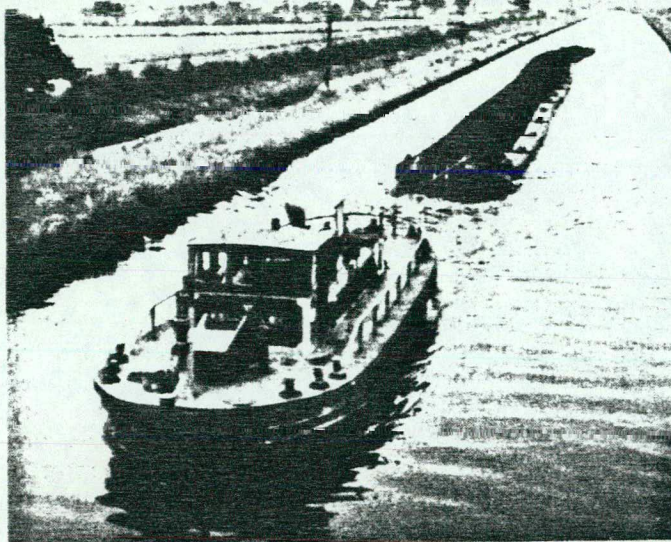


Figure 10: Dumb craft of many sizes operate widely in Britain. Some, like these compartment boats, are pulled . . .

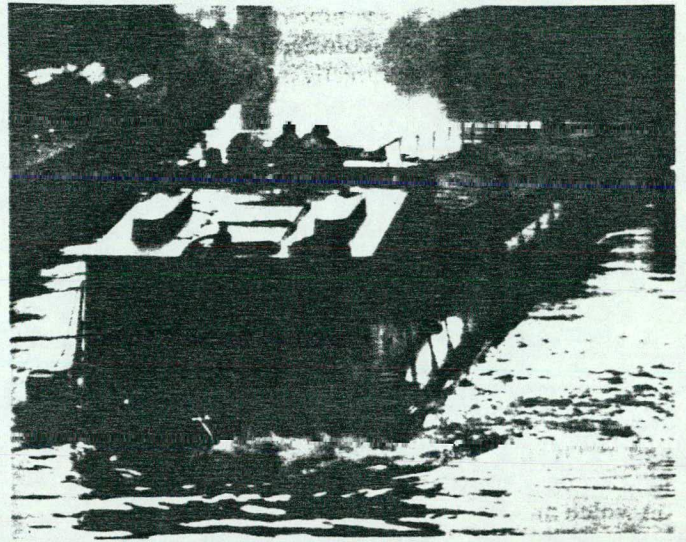


Figure 11: . . . others, like these 140-tonners, are pushed



Figure 15: The lorry is subsidised; the barge has to pay tolls for every kilometre. Is this fair competition?

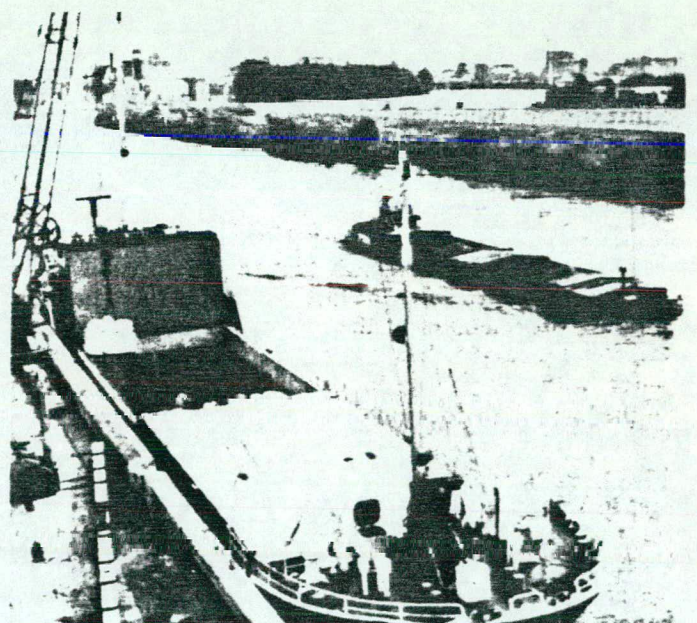


Figure 16: With administrative and legal equality, more rivers could provide routes for barges and coasters, producing cheap, energy-efficient transport



UNCLASSIFIED



FROM: MRS D C LESTER  
DATE: 19 February 1987

MR CROPPER

cc: PS/CST  
PS/FST  
PS/EST  
PS/MST  
Mr Tyrie  
Mr Ross Goobey

**DOCK LABOUR BOARD**

The Chancellor has noted your minute of 18 February.

MRS D C LESTER  
Diary Secretary



3217/34

Debbie  
Personal  
Folder

FROM: P J CROPPER  
DATE: 18 FEBRUARY 1987

CHANCELLOR

*Now:*

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Ross Goobey  
Mr Tyrie

DOCK LABOUR BOARD

I attach a well argued case for a policy commitment in John Moore's province - and am sending a copy to John.

2. I draw your attention to it because the author, Peter Morris, is a Reform Club chum of mine who used to work in the Labour Party Research Department.



P J CROPPER





# The National Cold Storage Federation

Registered Office: Tavistock House North, Tavistock Square, London WC1H 9HZ  
Telephone 01-388 7766 01-387 3526

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Ref: APC/3/87

16th January, 1987.

## PERSONAL

Mr. P.J. Cropper  
H.M. Treasury  
Parliament Street  
LONDON SW1P 3AG

Dear Peter,

## FURTHER DEREGULATION

We spoke in passing earlier this week and I undertook to let you have a piece of paper. It actually goes to two pieces but it is as compressed as I can make it.

With best wishes,

Yours sincerely,

A handwritten signature in cursive script that reads 'Peter'.

J.P. MORRIS.

Encl.



PRIVATISATION AND DEREGULATION  
DOCK LABOUR

1. Some ports have been privatised but others cannot be until they are deregulated - perhaps in a simultaneous exercise. Any deregulation must tackle the Dock Labour Scheme.
2. The Scheme is commonly called the "job for life". In certain ports, (notably London and Liverpool not Felixstowe) dock workers must be registered on a register maintained by the National Dock Labour Board (NDLB) though they are employed by separate employers.
3. Intended to deal with the evils of casual labour, the Scheme and its variations have, since 1946, guaranteed restrictive practices and extremely expensive methods of working; bankrupted many an employer and caused shippers to move to other ports. The Scheme has contributed greatly to the success of Rotterdam and the decline of UK ports.
4. The 1976 Act was patched on to an existing scheme but some parts were not activated. These parts:
  - (a) extend the Scheme to many enterprises;
  - (b) increase the number of ports covered;
  - (c) expand the definition of "dock area";and would drag many enterprises (sometimes miles from any dock or harbour) into the regulation net.
5. Activation would be by an affirmative resolution of both Houses. The Callaghan Government tried and was defeated. Any future government could act and that threat inhibits all thinking and future development in and around the ports.
6. No sane and informed investor would consider the Scheme ports or projects near them while the Scheme continues.
7. The problem will not go away as ports decline and as dockers disappear as there is an irreducible minimum figure - unless Scheme ports disappear altogether.
8. A commitment to repeal or revise would have political advantages in:
  - (a) reaffirming a policy of radical deregulation;
  - (b) make possible the privatisation of the remaining "public" ports;
  - (c) removing privilege from a small, highly favoured group resented by other workers (it can be regarded as an end to inherited privilege!);
  - (d) removing a long standing threat to Britain's economy;



- (e) wrong footing the Opposition into defending an indefensible situation;
- (f) reinvigorating those foot soldiers of the governing party who require to be enthused.

9. It was often argued in the past that such a commitment or action would lead to a dock strike which would be fatal to a Government. This seems improbable:

- (a) it is not absolutely certain that there would be a strike;
- (b) it is improbable that a strike could be made to stick in other ports or with other workers given a bit of planning and publicity; (cf. during the miners dispute);
- (c) it is very improbable that it would be "successful" - that is, bring the economy to a standstill;
- (d) it is inconceivable that it could be "successful" in the sense of bringing down a newly elected Government.

ACTION PROPOSED

10. That the end of the Scheme be adopted as a realisable objective and a commitment be deployed at an advantageous time (probably close to an election) to terminate the Dock Labour Scheme and give dock workers the same employment protection as all other workers. Some of the protection of the Scheme might require to be bought out but that would be cheap compared with the continuation of the Scheme - and the advantages are worth it and there would be income from privatisation.

15:1:1987



FROM: S J PICKFORD  
DATE: 19 FEBRUARY 1987

FINANCIAL SECRETARY

cc Chancellor  
Sir P Middleton  
Mr F E R Butler  
Mr Monck  
Mr Moore  
Mrs M Brown  
Mr Culpin  
Mr McIntyre  
Mr Gunton

VISIT BY NEW ZEALAND OPPOSITION LEADER

We have just been asked by COI to organise an appointment for Mr Jim Bolger, the leader of the Opposition in New Zealand, to call on you to discuss privatisation policy.

2. Mr Bolger became leader of the National Party less than a year ago. I enclose a brief Background Note on him. During his visit to London he will be received by a number of Ministers, including the Prime Minister and the Foreign Secretary.

3. We recommend that you see Mr Bolger. If you agree, your diary would allow a meeting on the morning of Tuesday 3 March. Are you willing to see him?

*S J Pickford*

S J PICKFORD





# Background Note

OV1/695

The Hon James Brendan BOLGER MP  
Leader of the Opposition

Wellington

NEW ZEALAND

26 February - 7 March 1987

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Mr Bolger has been invited to Britain as a guest of the Foreign and Commonwealth Office and the Central Office of Information has been asked to arrange a programme.

Mr Bolger became Leader of the National Party in April 1986, having been Deputy Leader since 1984. He was Minister of Labour in the National Party Government from 1978-1984. He also served as Parliamentary Under-Secretary to the Minister of Fisheries, and visited Britain in that capacity in 1977.

Mr Bolger, 52, held various offices in farming organisations before being elected a Member of Parliament, and still breeds sheep and beef cattle and runs a Hereford stud.

During his stay in Britain, Mr Bolger would like to have discussions with Ministers, officials and Members of Parliament on matters of mutual interest. He would also like to visit financial institutions with interests in New Zealand. A visit to Scotland to study development policy is also being arranged.

Mr Bolger will be accompanied by a representative of the Central Office of Information or the Scottish Information Office.

---

Programme Organiser:

Mrs Caroline Matthews  
Overseas Visitors and Information Studies  
Central Office of Information  
Hercules Road, London SE1 7DU

Direct Line: 01-261 8311  
Switchboard: 01-928 2345 Ext 8311

10 February 1987



MANAGEMENT IN CONFIDENCE

FROM: E P KEMP  
25 June 1987

PAYMASTER GENERAL

cc PS/Chancellor  
Sir Peter Middleton  
Mr Truman  
Mr Pettifer  
Miss Garland

CIVIL SERVICE ARBITRATION TRIBUNAL (CSAT)

The Civil Service Arbitration Tribunal exists to hear cases put to them under the terms of the Civil Service Arbitration Agreement. The last hearing was heard in April 1982, so there is not a great demand for their services; however, we need to keep the mechanism in being. The appointments of two members of the Official Side panel expires in September while the appointment of another member expires in November.

2. The Secretary of State for Employment is formally responsible for appointing or reappointing members of the CSAT, but in practice he always acts on the advice of the Treasury so far as the Official Side panel members go, and on the advice of the Council of Civil Service Unions so far as appointments to the Trade Union side panel go. For the chairman, we and the Civil Service unions agree on a name which the Secretary of State then appoints or reappoints.

3. Our procedure is to seek informally the views of Mr David Calcutt, the chairman of the CSAT; following which we seek the views of Treasury Ministers. Assuming they are content we then ascertain formally whether the people it is proposed to appoint or reappoint are content, and when all this has been completed satisfactorily the Secretary of State for Employment formally appoints or reappoints.

4. The three members whose appointments have expired or are due to expire are :



Mr Raymond Whittier Baldwin

Appointment expires on 9 September 1987. Aged 74. First appointed to CSAT on 1 April 1965. By far the most experienced member of the panel, having sat for the Official Side on 20 occasions. The last time he served the CSAT was in August 1980 when the Tribunal considered the Science Group 1980 pay review.

Mr Lionel David Cowan

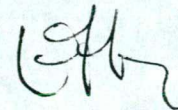
Appointment expires on 25 September 1987. Aged 56. First appointed to CSAT on 26 September 1979. Has not sat at a hearing of the Tribunal since being appointed.

Mr Gerald Edwin Yates

Appointment expires on 27 November 1987. Aged 49. First appointed to CSAT on 28 November 1979. The only other member of the panel who has represented the Official Side at a hearing of the Tribunal. Has sat on 2 occasions, the P&T group 1979 pay review and in April 1982 when non-industrial Civil Service pay was referred to arbitration.

5. Mr Baldwin, although now 74 is highly regarded and the most experienced member of the panel. Mr Cowan is as yet untested since he has never been called to sit, but we have no reason to believe that he should be replaced. Mr Yates has sat on two occasions, including the most recent hearing in April 1982.

6. Mr Calcutt is content to see all these appointments renewed Mr Baldwin's age notwithstanding and I recommend that they should be invited to serve for a further period of 2 years.



E P KEMP





PWP Papers P2

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

2 July 1987



Dear Tony,

MISC 66

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 1 July about attendance at MISC 66.

The Prime Minister believes that the particular concerns mentioned by the Foreign Secretary relating to terms and conditions of the Diplomatic Service are matters which should be discussed bilaterally with the Treasury. They would not be appropriate for discussion in MISC 66. The Prime Minister is, however, content that the Foreign Secretary should attend MISC 66 when wider questions about pay and conditions are likely to be discussed. I should be grateful if the Cabinet Office could arrange for the Foreign Secretary to be invited to attend for such discussions and for him to receive copies of the MISC 66 papers.

I am copying this letter to Alex Allan (H.M. Treasury), Michael Stark (Office of Arts and Libraries) and to Trevor Woolley (Cabinet Office).

Yours,  
David

David Norgrove

A. C. Galsworthy, Esq., C.M.G.,  
Foreign and Commonwealth Office.

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CH/EXCHEQUER	
REC.	03 JUL 1987 3/7
ACTION	MR GILHOBY
COPIES TO	CST PMG SIR P. MIDDLETON MR KEMP MR CHIVERS





*With the compliments of*

THE PRIVATE SECRETARY

*As requested.*

FOREIGN AND COMMONWEALTH OFFICE  
SW1A 2AH





CONFIDENTIAL

PM  
~~87~~/87/036

PRIME MINISTER

CH/EXCHEQUER v3/f.	
REC.	03 JUL 1987
ACTION	MR GILHOOLY
COPIES TO	CST DMG SIR P MIDDLETON MR KEMP MR CHIVERS.

Misc 66

1. In his letter of 19 June to Tony Kuczys in Nigel Lawson's office, David Norgrove said that the future handling of the Civil Service pay dispute was to be discussed in Misc 66 together with the Chancellor's paper on geographical pay and related issues.
2. Although I am not a member of Misc 66, I am responsible for one group of Crown Servants with a different status from the Home Civil Service; they also have different terms and conditions of service. The conditions under which Diplomatic Service members work and live are becoming more dangerous and disagreeable, as the Chaplin case and the problems faced by our staff in Tehran have shown recently (and in many other places such as Beirut, Kampala, Kabul and Luanda, for very much longer).
3. There is a close link between the terms and conditions of the Diplomatic Service and Civil Service

CONFIDENTIAL



\*

Pst congratulate Mr Hall on a weather task well done.



I wish, however, had an legal inty to go out some Turkey ports.

psj

Ch.

The time has come when I (8th)

I think you must read this straight through. It is <sup>managed</sup> <sup>concluded</sup>

not as long as it looks - it, however is rather pretty readable. I found it

helpful to look at the EST JRM's comments on the earlier draft before starting.

Master's one note picks out some areas that are not agreed or approved by Ministers. But you'll need to see how the



Agreed to have come  
out too.

This has to go to the  
printers at the end of the  
week.

It would be nice to  
do without a meeting - &  
I think that should be  
possible. I think Martin  
has done a pretty good job.

Re.

22/11

You'll see the forecast  
early next week.





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pay. Members of the Service receive the same pay rates. Many of their allowances for service overseas are directly linked to pay at home. At the same time, their commitment to accept postings to anywhere overseas at any time restricts their ability to order their lives and their finances as Home Civil Servants can. This has one particularly damaging consequence: wives who work must accept that they cannot develop a career, and must sometimes endure periods of unemployment.

4. Frustration is growing in the Diplomatic Service about this and related problems. We risk losing more of our most able people, particularly those with expensively acquired language skills, when we will need them most. Pay is the essential ingredient.

5. I hope, therefore, that you might include me in meetings of Misc 66 when wider questions of pay and conditions are likely to be discussed.

6. I am sending a copy of this minute to Nigel Lawson, Richard Luce and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G. Howe'.

(Geoffrey Howe)

Foreign and Commonwealth Office

1 July 1987

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