

New Cover

Part 1

Jm /MT

Confidential Filing

Prime Ministers meetings with
Exc-members of Cabinet and
members of the House of Lords

PRIME MINISTER



June 1988

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
15.1.93							
23.4.93							
23.5.93							
9.6.93							
15.6.93							
29.7.93							
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CLOSED.							
PREM 19 / 4386							

Sf
1/11.

BF 13/10.

John B should provide
further advice by
my return on 11/10.

M Bn then.

WEL
... 3/18

William

Have you heard
from Joan? Would
you like us to chase
her?

frey

hike

13:10

No

Yes please

Wk

Wk

William

mtg this pm

to discuss matter

Joan will then speak to
you. 30:10/10

lvb

William

Your letter to Joan Bailey of the 27 July concerning Lord Colnbrook's request for the PM to meet officers and Committee two or three times a year. (Top enclosure)

I have spoken to Joan Bailey who felt it better that she speak direct to you on this matter, she feels that it is more of a matter for the PM's Diary Secretary.

Could you please contact when you have time on your return.

Nick

Nick

CF

M Bu 20/9

WEL

20/8.

CF

Spoke to Joan Bailey

will consider further and ring back.

M Bu 27/9

WEL

21/9.

Handwritten scribble

Handwritten notes in a box: Leds letter, WEL, - Mmm.

CF



FILE

P/Bailey. KK

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 July 1993

As you know, in his letter of 27 April, Lord Colnbrook raised a number of issues. Most of these were dealt with at the Prime Minister's meeting with him earlier in April and he has now also spoken to the ACP. There is, perhaps, one matter still outstanding: Lord Colnbrook's request that the Prime Minister meets the Officers and Committee two or three times a year. Could you let me know what, if anything, is being done on this.

WILLIAM CHAPMAN

Mrs. Joan Bailey,
Lord Privy Seal's Office.

KW

PRIME MINISTER

LORD PRIOR

You are seeing Lord Prior for tea here tomorrow. This is part of your charm offensive in the Lords. Also Dominic had picked up that Lord Prior was feeling a bit "neglected". An hour is set aside but you could very reasonably cut it to 45 minutes if you wished.

You might want to ask Lord Prior:

- how he sees the political and Party situation generally;
- how he sees the Maastricht Bill proceeding in the Lords (he is, of course, a supporter but made no speech during Second Reading) - does he intend to speak at a later stage?
- what does Lord Prior see as other contentious issues in the Lords (the Railways Bill?) - any views on handling them?
- the performance of the Government front bench in the House; morale in the House;
- impression Lady Thatcher is making in the Lords;
- how is GEC doing; what do the latest prospects look like for business in overseas countries where GEC has an interest; grateful for Lord Prior's views on Malaysia and Japan given imminent visits - saw reports of Lord Prior's visit to Malaysia in May - how

did he think it went?

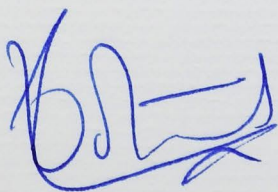
On Malaysia and Japan we have asked DTI for advice on the composition of a team of businessmen to travel with you. They could not confirm today whether Lord Prior was on that list; I have asked them to crystallise their ideas by tomorrow morning and reminded them of your preference for Lord Prior to be included.

In your latest round of correspondence (at A) with Lord Prior you promised to look into his suggestion of a new MOU for defence business with Malaysia. I understand that the Malaysians do not want a new MOU as such but some sort of package seems likely.

I also attach a note or two at B on Malaysia and Japan which you might wish to draw on for conversation, including a brief assessment of the latest prospects for the airport.

However, the main purpose of the chat is political. You will not want Malaysia/Japan to take up too much time. But do you want more briefing on the airport project?

Would you like me to sit in on the meeting and take any notes that are necessary?



pp WILLIAM CHAPMAN

15 June 1993

k:\parly\prior.kk



10 DOWNING STREET
LONDON SW1A 2AA

file AS (A)
cc to
DIN
W
MAD

THE PRIME MINISTER

11 March 1993

Dear Jim,

It was very kind of you to send such full advice, in your letter of 5 March, about our approach to new business in Japan and Malaysia. I am grateful too for your kind remarks about the results of the trip to India and the Middle East. I am sure that you are right in underlining the importance of the political factor in support of the efforts of private companies.

I was particularly interested in your remarks about the Japanese aid agency, and I shall certainly make use of this channel in the run up to my visit to Tokyo. I also take your point about the potential benefits of a short stop in Kuala Lumpur. I have this in mind, but have not yet taken a firm decision. I shall take advice on your idea that we should consider a new MOU for defence business.

I hope that all this will lead to some further good news on the industrial front.

Yours Ever,
John

The Right Honourable The Lord Prior

2

2573 cc B'up
trans cl

THE GENERAL ELECTRIC COMPANY, p.l.c.

1 STANHOPE GATE · LONDON W1A 1EH

071-493 8484

FROM THE CHAIRMAN
THE RT. HON. LORD PRIOR, PC

The Rt. Hon. John Major, MP,
Prime Minister,
10 Downing Street,
LONDON S.W.1.

5th March, 1993

Dear John

Arnold has already written to you expressing our appreciation of the support you have been giving us in recent months and, in particular, in relation to the Malaysian airport project. I have personally been closely associated with that project and I am convinced of its importance, not only for the contractors who hope to participate, but also in relation to the overall political and commercial climate between our two countries. I cannot say how grateful I am to you that you felt able to support our endeavours. I shall be returning to Malaysia this Spring to carry forward the project and we will be doing everything we can to make sure that as much business as possible accrues to Britain.

We will also, of course, do whatever we can to assist officials in phasing the ATP budget and we have already discussed these matters with the ODA and DTI.

You also wrote to me on 2 February about how British Industry can take full advantage of overseas visits by you and other Ministers, especially in relation to a visit you will make to Japan in the autumn. We in GEC know very well how decisive Prime Ministerial, and other Ministerial, visits can be in bringing home substantial business. In general the countries where intervention of this kind is necessary are the non-OECD countries where Government often has a decisive role, even in a market

.../...

economy. Your visit to India and Saudi, however, underlined the need for careful and sometimes lengthy preparation if the visit is to be effective. Companies bidding for the work must have a good and long-term relationship with the customers in question and the ground has to be prepared well in advance by earlier visits from other Ministers. You will then be in a position to apply the necessary finishing touches. Of course, all this implies support from HMG in the form of credit and/or aid, or even in other spheres which may not seem directly related to the business in question. It is obviously necessary to bring all these threads together in a co-ordinated fashion.

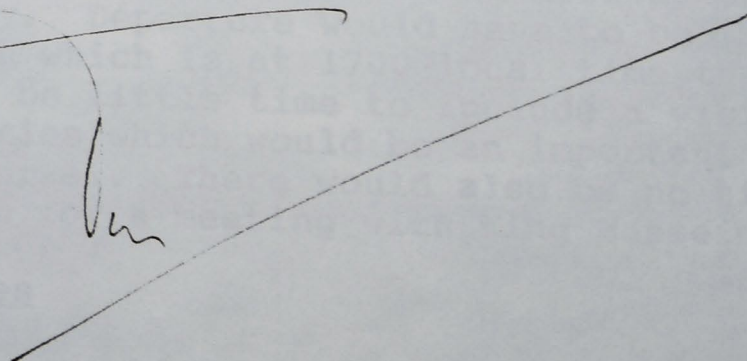
As to Japan, while you may be able to win important trading concessions or capture an inward investment project of some significance, it is more difficult to see that country as a source of business for large infrastructure projects. However, projects in third countries financed by the Japanese aid agency, OECF, which has enormous funds at its disposal, is an area well worth your attention. Most of the projects OECF supports are open to international bidding. Many British companies, however, are chary of incurring the cost of making such a bid because they feel that Japanese companies will, in some mysterious Japanese way, inevitably be the favoured contractors. We believe that much of this fear is misplaced and that the OECF could be a valuable source of funding for many projects where we should be competitive - without cost to the UK taxpayer! A few examples of such projects announced during your visit could be very encouraging. Currently we have good hopes of winning an air traffic control contract in China, but this may well go through the OECF procedures before your visit. The DTI, however, should know of other such bids which, if successful, could be given some publicity at the time of your visit.

.../...

If you do go to Japan in the Autumn, there could well be merit in stopping in Kuala Lumpur for a day or so. Some of the negotiations on the new airport will be underway at the time and this project is, of course, a good example of Anglo-Japanese co-operation where GEC, at least, hopes to win a share of the Terminal building which we expect will be financed by OECF. In addition, provided the ground is very carefully prepared, and we need to discuss this in some detail, it may be possible for you to sign a new MOU for defence business during the visit. The last MOU has resulted in substantial business for GEC and BAe, with many other companies benefiting and the contracts are being paid in cash. We would like to explore this possibility with MOD officials if you feel it worth while.

I hope you will find these observations useful. How the Government deals with each particular case and country depends on the particular circumstances, but in general I cannot stress too much the importance of the political factor of your visits in the non-OECD world in relation to both the capital goods and defence industries. Announcements such as you were able to make as a result of the trip to India and the Middle East also have considerable political import here in difficult times, and give your supporters an opportunity to say so.

Yours ever

A handwritten signature, possibly "L. Jones", is written above a long, thin diagonal line that extends from the center towards the bottom right of the page.



meeting with ExCo, lunch with the Governor, and a press conference before continuing on to Kuala Lumpur, where the Prime Minister would then arrive in time for a working dinner that evening.

We continue to support a visit by the Prime Minister to Malaysia; the Prime Minister expressed interest in such a visit when the Malaysian Finance Minister called on him earlier this year. We are making steady progress with negotiation on a deal involving defence sales and air services; and an Anglo-Japanese consortium is bidding for the Kuala Lumpur Airport contract, potentially worth about £150-200 million to the British companies involved. The programme here might take up the full working day of Thursday 23 September (if the Prime Minister goes to Hong Kong). An earlier departure would be possible if the Prime Minister decides against a Hong Kong stopover.

Monaco

The Prime Minister may wish to attend the International Olympic Committee meeting in Monaco on 23 September. If he does, we would recommend dropping the Hong Kong stopover, making a short visit to Kuala Lumpur on Wednesday 22 September, and flying on to Monaco overnight that evening.

If the Prime Minister decides not to visit Monaco then the refuelling stop between Kuala Lumpur and London would allow for a further brief visit. We recommend either Israel or the United Arab Emirates.

(a) Israel

The Prime Minister has said he would like to visit Israel this year. A departure from Kuala Lumpur late on 23 September would allow for an early morning arrival and a programme inside a day. Departure would have to be before the Sabbath began which is at 1700 local time that afternoon. There would be little time to include a visit to the Occupied Territories which would be an important adjunct to a visit to Israel. There would also be no time to add a visit to Jordan for a meeting with King Hussein.

(b) United Arab Emirates

A visit to Abu Dhabi could be fitted in by leaving Kuala Lumpur on the morning of Friday 24 September, arriving in Abu Dhabi around midday local time. It is not ideal to visit a muslim country on a Friday but we believe that Sheikh Zayed would be delighted to receive the Prime Minister whenever that would be possible. The Prime Minister could spend about three hours on the

*No good.
Friday 24 Sept
Yom Kippur.*

Businessmen

FCO and DTI like your idea of taking a business party, and have agreed it with the Japanese. They propose a party of up to 12. Their first choice as leader is **Michael Perry** (Chairman of Unilever and of the Priority Japan Campaign).

DTI wish to start recruiting. **Do you agree?** ✓

Programme in Japan

Aside from your official talks and the promotion of relevant commercial prospects (which include Rolls Royce Engines, small aircraft sales, scientific instruments, inward investment, and UK/Japanese collaboration in the third markets), DTI and FCO have proposed the following ideas:

✓ - **scholarship scheme:** the idea is to establish post-graduate exchange scholarships, similar to the Rhodes Scholarships. We are looking for business sponsorships. The scheme would be announced during your visit;

✓ - Lord Young is prepared to help. A letter from you to him is attached for signature;

✓ - **Young Persons Forum:** to develop links, early in their careers, between potential leaders in UK and Japan. Already discussed by the Foreign Secretary with the Japanese. Also to be announced during your visit;

✓ - **Conference on UK/Japan Relations:** to be held late 1993 or early 1994 in London (Chatham House, the 2000 Group). To be announced during your visit You might then play a part in the Conference when it happened;

- **collaboration in science and technology:** William Waldegrave is due to visit Japan soon after you, to attend a seminar. We would try to highlight S&T collaboration during your visit; ✓
- **third country business:** we might launch a co-operation initiative during your visit. Malaysia is one of the areas where we are collaborating (including the Kuala Lumpur Airport contract). This points to inclusion of **Lord Prior** or another senior GEC representative in the business party; ✓
Good idea ←
- **speech:** the idea is that you would give a substantial set-piece speech on Britain and Asia (covering politics, security, trade and investment) to a suitably large audience during the Tokyo programme.

May I signal your approval to these ideas?

Yes

DEPARTMENT FOR EDUCATION IDEA

DFE are developing school exchanges with the Japanese. They would like to give this a boost during your visit. They are hoping to organise a two-week visit by 6 secondary school pupils (from schools studying Japanese in the 6th form) to Japan in September; and have been promised funding by ^a Japanese foundation.

Possibilities are: references in your speeches or press conferences; a visit by you or Mrs. Major to one of the Japanese host schools; inclusion of the 6th formers in a reception.

Yes If the dates fitted, could I offer the school party seats on the aircraft on the way out? We shall have plenty of space. We could probably save them some money. It would be a good news story. (Return journey not so good because

cc/RS
PU



Fik

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 071-21 82111/2/3

SECRETARY OF STATE

MO 6/19/7M

12th May 1993

Dear Phil,

UK/MALAYSIA RELATIONS: CALL BY LORD PRIOR

Lord Prior spoke to the Defence Secretary on Monday 10 May about his recent visit to Malaysia and his impressions of Malaysian strength of feeling about air landing rights for Mexico City and New York. He had been given a difficult time over these issues on his recent visit.

Lord Prior explained it had been made clear to him at all levels, including by Dr Mahathir, that the Malaysians believed the UK to have done very well out of UK-Malaysian trade over the past year. The Malaysians would expect the UK to be helpful over the issue of airline rights and they found it difficult to understand the relationship between HMG and British Airways, which was different from theirs with Malaysian airlines.

Lord Prior felt that it would be very difficult to use the airport project to provide compensation to British airlines but that another Defence MOU would provide a framework that would allow us both to meet Malaysian demands for air services and to compensate British airlines for the loss of air routes. He was clear that the Malaysians would be extremely unhappy if the Defence Secretary were

P Carey Esq
Department of Transport



unable to be positive during his visit about prospects for a satisfactory resolution of the issue.

Lord Prior explained that although there had not been much encouragement from Dr Mahathir for increased defence expenditure, the Malaysians had found some more oil and that might encourage them. Lord Prior explained that he would also be contacting the Foreign Office about Malaysian concerns.

The Defence Secretary assured Lord Prior that other Departments were fully aware of the importance of this issue for UK-Malaysian relations and trade and that he understood that prospects for progress were encouraging. He did however take Lord Prior's points about the need to be positive on his visit to Malaysia next week and he is keen to ensure that he is be able to make a positive and substantive reply.

I am copying this letter to Roderic Lyne (No 10), Stephen Smith (Foreign and Commonwealth Office), David Melville (Department of Trade and Industry) and to Melanie Leech (Cabinet Office).

Yours ever,
Alison

(A M BLAKE)
Private Secretary

Prime Minister



Briefing for Lord Whitelaw, to whom you are giving supper on Monday. This is part of your Lords charm offensive while the Maastricht Bill goes through.

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

4 June 1993

Lord W. has cancelled an engagement to be with you - you might want to say how kind of him.

Sean Williams. Rodric has suggested you offer Lord W. briefing on Maastricht and a contact in the Feb whom he could speak to as and when he needs.

Thank you for your letter of 26 May, in which you confirm the arrangements for the Prime Minister's forthcoming meetings with peers.

WBL
4/6.

You also asked for suitable briefing for these meetings. A note on the Drinks Party with Conservative peers will be produced nearer the time, and after the Second Reading debate on Maastricht.

So far as Lord Whitelaw is concerned, the Lord Privy Seal suggests that the Prime Minister may wish to invite Lord Whitelaw to set out how he sees the Maastricht Bill proceeding through the House of Lords. The Lord Privy Seal has discussed this with Lord Whitelaw, and Lord Whitelaw, who is fully supportive of the Bill, will participate both in the Second Reading debate and probably during the Committee Stage. Lord Whitelaw has also been active in encouraging former Cabinet Ministers to speak in the Second Reading debate.

There are two other specific items about which Lord Whitelaw is known to have reservations. The first is the Railways Bill. This Bill is likely to be difficult enough in the House of Lords, running as it will have to in juxtaposition with the Maastricht Bill. But if Lord Whitelaw were to speak against it it would become very difficult indeed. Lord Whitelaw has spoken in broad terms about his concern on the whole issue of railways' privatisation, and the Prime Minister may wish to discuss with him how far his concerns may have been alleviated by concessions made in the House of Commons; and sound him out in broad terms as to what further concessions if any he would like to see made. The Prime Minister will be aware of Lord Whitelaw's family connections with LNER.

(Lord's 2nd Reading 15 June)

(Mr McGreggan reluctant to make further concessions however)

Second, Lord Whitelaw is known to have severe reservations about the ending of the moratorium on the takeover of British television companies by foreign interests. He expressed these concerns in a speech on an Unstarred Question tabled by Lord Buxton of Alsa on 31 March. Lord Whitelaw then made the suggestion that the Government - and failing them, a backbench Peer - should introduce a short bill to extend the moratorium until 1996. It is understood that that option is being actively considered for introduction, probably by Lord Buxton, at the moment. Lord Whitelaw would of course support such a Bill.

A checklist of concessions given is at A, + a general note.

Line to take at B. This is not very good and I'll get something better on Monday.

R. refer

So far as Lord Prior is concerned, the Lord Privy Seal is not aware of any specific issues which are of concern to him at present, though he may wish to raise with the Prime Minister issues arising from his Chairmanship of GEC.

Lord Prior has not put down his name to speak on the Second Reading debate on the Maastricht Bill.

Jbws

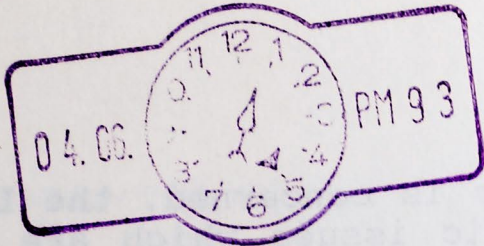
Jean.

MRS J M BAILEY
Principal Private Secretary

William Chapman Esq

PM: Mtgs with Ex-members of the Cabinet

June '88.



Lord Prior has not put down his name to speak on the second reading debate on the Restrictive Bill.

Mrs J N BAILEY
Principal Private Secretary

Willis Chapman Esq



→ Ann
✓
Could you let
Graham know
re Prime Minister's
decision

10 DOWNING STREET

plm
with
7/6.

Prime Minister ①

Lord Whitehall has
accepted your invitation
to supper on Monday.

Graham was rather
hoping to be present -
but would you rather
it was tête à tête?

tête à tête.

A.

Wtd

3/6

RAIL PRIVATISATION: KEY CONCESSIONS MADE

Control of Fares

We intend to bring forward amendments to the Railways Bill in respect of fares control based on four principles. First, that a clear duty should be placed on the Franchising Director in respect of fares control. Second, that the exercise of that duty in relation to fares should be through the franchise agreement. Third, that this duty should not be limited only to services where there is a monopoly. And fourth, that in exercising his judgement on what constitutes a reasonable level of fares, the Franchising Director should be under an obligation to have regard to the interests of passengers.

The Government has also accepted that the Railway Users Consultative Committees should be able to comment on all aspects of fares. This represents a significant extension of the scope of the Consumer Committees' activities.

Other Discounted Fares/Railcards

On the issue of discounted fares, the Government will bring forward an amendment to the Bill to impose a duty on the Franchising Director to require, through franchise agreements, participation in discount fares schemes for senior citizens, disabled people and young people. Under the Bill the Franchising Director will have the power to require franchisees to participate in London Travelcard. The Secretary of State will give guidance to the Franchising Director on the exercise of that power. Franchisees will then be required to participate in accordance with the terms of their franchise agreements.

Network Benefits - Other Topics

The Government has sought to ensure that the railway industry should be in a position to offer passengers the network benefits they value in the present system, whilst leaving flexibility for new operators to introduce initiatives of their own. ✓

In brief, we have given a commitment to the continuation of through-ticketing, across a range of ticket and fare types, as now. We have agreed that there should be a requirement on Railtrack to arrange publication of a national timetable if publication is not undertaken by another party. The Regulator and the Franchising Director will be able to impose appropriate requirements as to network benefits in the light of their respective functions and duties. ✓

p\rail.as

OWNERSHIP OF ITV COMPANIES

Line to Take

- Ownership rules were thoroughly debated in Parliament and the new system has only been operating since January. Extending the moratorium on takeovers would require primary legislation.
- Normal competition rules would apply to any prospective takeover.
- In addition, a new owner would have to display the fitness to hold a licence (assessed by the ITC) and would have to meet the licence conditions agreed when the franchises were awarded.
- Worries about foreign takeovers are probably exaggerated - foreign media grants seem to be seeking part ownership of companies in other countries, rather than complete ownership.
- Peter Brooke will be meeting ITV Chairmen on 14 June to discuss their views. I am particularly keen that the position is considered carefully.

||

||

Background Note

1. The ownership rules in the Broadcasting Act 1990 prevent any company from holding a controlling interest in two of the nine largest Channel 3 licences. A person owning two regional Channel 3 licences - one of which must be small - would be permitted to have a maximum of a 20% stake in one further licence, and a maximum 5% stake in any further licences. The restrictions could be relaxed by amending Order, requiring a debate in both Houses.
2. Until the end of 1993, all takeovers of Channel 3 (ITV) licensees are prohibited unless they have the approval of the ITC. ITC is likely to be

unsympathetic to a hostile takeover. The ITC has approved in principle the proposed merger between Yorkshire TV and Tyne Tees who hold the ITC licences for NE England. New licensees will be fully bound to honour all commitments given by the original licensees, including the requirements to provide regional programmes.

3. The Channel 3 companies, especially Central TV, have been lobbying for a relaxation of the rules to allow more cross-ownership between licensees, to give them a strong domestic base from which to fend off foreign takeovers and to compete in Europe. This might also help to maintain the network, which is likely to be under tension because of the large differences in the size of the winning bids for franchises. But any move would also open up a minefield of other contentious issues, such as cross-ownership of press and broadcasting interests, eg by News International.



HOUSE OF LORDS
LONDON SW1A 0PW

22/6

1st June, 1993

PERSONAL AND CONFIDENTIAL

Dear John

Many thanks for your letter of the 27th May, and your kind invitation to supper on Monday, 7th June. I would be delighted to come but, alas, I have to cancel another engagement, which I certainly intend to do.

I am also engaged with the Maastricht Bill in the House of Lords, over which I have activated myself considerably. I am intending personally to speak on the Tuesday, 8th June - I trust positively and helpfully! But I feel I could accept for you on the Monday evening.

You are having one of the typically difficult moments, but you can be assured that you have my absolute wholehearted support and encouragement.

Yours truly

White

The Rt. Hon. John Major, MP,
Prime Minister,
10 Downing Street,
London, SW1A 2AA.



10 DOWNING STREET

Prime Minister

I have spoken
to Nigel and he
would prefer this
à la carte, which is
fine by me.

Alex

From The Rt Hon The Lord Lawson PC



Published in Times 2/6.

Prime Minister
Nigel Lawson is
sending this to the
Times. Alan

31 May 1993

To the Editor of The Times
for favour of publication:

Sir; I cannot imagine why William Rees-Mogg (May 31) feels it necessary to keep trying to draw me in to his increasingly personal vendetta against John Major. Not content with misrepresenting what I wrote in my memoirs, he now wilfully misinterprets as an attack on Mr Major my article in this week's issue of the London Business School's *International Economic Outlook*, in which I refer to the Thatcher Government's decision to join the ERM in October 1990.

To have discussed this in personal terms without any mention of the perverse role of Margaret Thatcher herself would in any case have been absurd. But in fact my article is not about political personalities at all: it is an attempt to analyse past economic events with a view to drawing some lessons for the future - as, indeed, might be inferred from the nature of the journal in which it appears.

Yours etc,

[Please acknowledge receipt: I am obtainable on fax number 0327 349825.]

From The Rt Hon The Lord Lawson PC



Published in Times 2/6.

Prime Minister
Nigel Lawson is
sending this to the
Times. Alas

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Yours etc,

[Please acknowledge receipt: I am obtainable on fax number 0327 349825.]



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

27 May 1993

Dear Willie,

It seems too long since we met and had the opportunity for a chat. I wonder, therefore, whether you would be free to have a private supper with me in the flat here on Monday 7 June at, say, 8.00 pm?

It would be delightful if you could manage it. Perhaps your secretary could let Sandra Phillips here know. If that date is impossible for you I should be more than happy to find an alternative time, although it may have to be some little way off as pressures on my diary do not seem to get any less!

Yours Ever,
John

WILLIAM CHAPMAN

The Right Honourable The Viscount Whitelaw, K.T., C.H., M.C.

IN CONFIDENCE

ner

IN CONFIDENCE

FILE

P/Bailey-KK



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 May 1993

We spoke about forthcoming Prime Ministerial engagements with peers and this is to confirm the arrangements.

The Prime Minister has decided to invite Lord Whitelaw to supper on Monday 7 June; to invite Lord Prior in for a drink on Friday 4 June; and to accept Lord Wakeham's offer, for which he was grateful, to host a drinks party with selected Conservative peers on Monday 14 June from 6.30 to 7.30 pm. These are all now in our diary, subject to Lords Whitelaw and Prior accepting.

I should be grateful for suitable briefing in time for all these events. This should cover the best approach for the Prime Minister to take with Lords Whitelaw and Prior on Maastricht, and brief notes on any other items that may be of concern to them. It would be helpful to see the list of peers who are to be invited to the party somewhat in advance of the main brief.

I am copying this to Ed Ollard (Lords Chief Whip's Office).

WILLIAM CHAPMAN

Mrs. Joan Bailey,
Lord Privy Seal's Office.

IN CONFIDENCE

A handwritten signature in the bottom right corner of the page.

PRIME MINISTER

Thank you - f

I promised you a note on possible meetings with Peers in the run-up to, and during, the Maastricht Bill in the Lords. I have now spoken to Jonathan Hill and Lord Wakeham's office about this.

Would you be content with the following proposals?:

Yes
- Monday 7 June: supper in flat with Lord Whitelaw. I appreciate this will take more time than may be desirable, but there is no obvious shorter slot available for a social or semi-social call between now and the Lords' Second Reading on 7 and 8 June. But Lord Whitelaw is worth a decent investment of time;

Yes
- a drink with Lord Prior at 1845 on Friday 4 June before your dinner for Bill Deedes at 1945. Lord Prior is likely to make a speech on the Second Reading so should be seen before then if possible;

Yes
- a drinks party with selected Conservative Peers to be organised by Lord Wakeham, on Monday 14 June from 1830 to 1930. This would be part of the softening-up process in advance of the Committee Stage which starts on 22 June.

Content with the above?

Yes

for **WILLIAM E. CHAPMAN**

25 May 1993

p\promised.as

file

Speakers at Easton Neston on 25 July.

This amounts to a fairly decent charge offensive in the Lords, unless you have any other suggestions.

MR. HILL

Understandably, we were not able to discuss Lords engagements today or yesterday. Perhaps we could have a word on Monday.

I think two of the engagements in prospect involve you.

The first is the usual pep talk to the Association of Conservative peers before the summer recess which is, of course, entirely for you.

The second one is some sort of function pre-Maastricht. Dominic has suggested that the Prime Minister attend a function with a Maastricht flavour (gin and bitters?) with Conservative peers between Second Reading and Committee Stage of the Maastricht Bill. And Lord Wakeham has suggested that he host a small drinks party with selected backbenchers; unless Dominic, to whom I am copying this minute, thinks otherwise, this probably subsumes his idea. (As to the timing, since Dominic made his suggestion, Lord Colnbrook has mentioned that he plans to invite the Foreign Secretary to talk to the ACP before Second Reading and would like an interval (unspecified) between that engagement and the Prime Minister's.)

In addition, the Prime Minister has agreed to invite Lords Whitelaw and Prior in separately for tea or a drink before Lords Second Reading.

The Prime Minister still has an outstanding commitment to take tea with Lord Strathmore in the Lords which I will arrange in due course - probably a little before Second Reading would be best. And he is due to lunch with the

Heskeths at Easton Neston on 25 July.

This amounts to a fairly decent charm offensive in the Lords, unless you have any other suggestions.

WCL

WILLIAM CHAPMAN

14 May 1993

K:\p\hill.pmg

William

SANDRA

Could we check please on the number of outstanding engagements with a Lords flavour? As I understand it, the following have been agreed in principle:

- visit to Easton Neston (Lord Hesketh) - 25 July
- tea with Lord Strathmore in the House of Lords - ? a new one on me but presumably MPs slots
- usual pep talk to the Association of Conservative Peers before the summer recess. - MPs slots?

In addition, Dominic has suggested that the Prime Minister attend some sort of function with a Maastricht flavour with Conservative peers. ? New one

And Lord Wakeham has suggested that he has a small drinks party with selected back-benchers which the Prime Minister would attend. I am not sure whether this would replace or complement Dominic's idea. ? New one

Perhaps we could have a word about where we are on all these.

With

WILLIAM

28 April 1993

parly\sandra.sr

~~WEC~~ → what do you think?
You are the expert on
their Lordships' House -
sounds sensible on the
face of it.

Sandra
Can ya find
a slot.
D.

MR HILL

5 April 1993

cc Miss Phillips

Joette
B14

ASSOCIATION OF CONSERVATIVE PEERS

I understand that there was a plan to get the Prime Minister over to the House of Lords between now and the summer recess on a tonic for the troops/warm-feelings visit. One idea, mooted by Lord Wakeham, was that he should also sit in on one of the less mind numbing of the Lords' debates (much as he did on his successful first visit to the Lords in early 1991).

I was talking to Hesketh's office about other things and they mentioned this possible visit. If it was still in prospect would it not be better to have him look in on a reception for the ACP at a suitable stage during the Lords passage of the Maastricht Bill?

That makes sense to me. A short pep talk from the Prime Minister would help them to resist the blandishments of Lord Tebbit etc. If so, the ideal time would be between second reading and committee stage (ie the week beginning 7 June. Their Lordships are all away at Ascot the following week).

If you agree this timing and approach looks sensible, may I leave it to you to pursue direct with Sandra?

DM

Janahan (HM)

seems fine to me
— as it does 15 Ed

DOMINIC MORRIS

Ok. It needn't
preclude him attending
006.DM

a debate as well, if a
suitable one occurs - tho'
we shouldn't push it not least
because of time. within 14/6.

*Debbie (d/s)
Can I target
H's own?
S 17/4*

MR HILL

cc Miss Phillips

*Debbie (d/s)
What happened
to this?
S 15/4*

5 April 1993

*Sandra
Jonathan was
seeking WCC's
advice.*

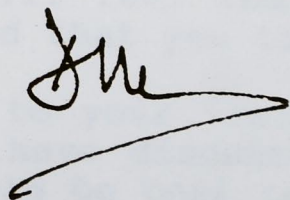
ASSOCIATION OF CONSERVATIVE PEERS

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That makes sense to me. A short pep talk from the Prime Minister would help them to resist the blandishments of Lord Tebbit etc. If so, the ideal time would be between second reading and committee stage (ie the week beginning 7 June. Their Lordships are all away at Ascot the following week).

If you agree this timing and approach looks sensible, may I leave it to you to pursue direct with Sandra?



DOMINIC MORRIS

006.DM



29/4

27 April 1993

Dear John,

(D)

Thank you so much for sparing time to see me yesterday so that I could report to you the feelings of many (but not all) members of the Association of Conservative Peers.

As I said to you, I am sure their morale can speedily be restored. The surest way of doing that is by some step to make them feel that their views, often if not always based on the experience of years, are of real account to you and your Government and that it really is worth their while to turn up and express those views. In that connection I am most grateful to you for saying that you will discuss with Michael Howard the detail of the Housing and Urban Development Bill that I raised with you to see if anything can be done. I accept, of course, that it may not be possible to do everything that the majority of our people want, but even some smaller concession will be very well received.

Thank you also for your two other offers - to come and address the Association this Summer whenever we think it most appropriate and to meet the Officers and Committee on a regular basis, twice or maybe three times a year, for an exchange of views. This latter will be a considerable encouragement to our people as they will feel that their views really are getting through to you and that you take serious account of them.

With regard to your visits to the Association during the coming months, I have discussed this with John Wakeham and we agree that it would be best to leave this over for the moment. I plan to invite Douglas Hurd to come to talk to us as soon as the Maastricht Bill reaches us here and before we embark on its

The Rt Hon John Major MP
10 Downing Street
London SW1

/ Second Reading



10 DOWNING STREET
LONDON SW1A 0AA

page two

27 April 1983

Second Reading. This is not a very long gap and to invite you too at around that time would, I think, be over-egging it. So, if I may, I will get in touch with you in a few weeks' time to see if we can arrange a date a little later in the Summer when it will be convenient for you to come and talk to us.

lx

Once again, my warmest thanks and all my very best wishes.

Yours ever

Humphrey

I am copying this letter to Joan Bailey (Lord Privy Seal's Office) and Ed Ollard (Government Whips, House of Lords).

ms.

win

WILLIAM CHAPMAN

The Rt Hon John Major MP
10 Downing Street
London SW1

CONFIDENTIAL

CONFIDENTIAL



Lie

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 April 1993

Dear Helen

I enclose a note of the Prime Minister's meeting with Lord Colnbrook yesterday. Of eight or nine items concerning the Conservative Peers, the greatest source of dissatisfaction appears to lie in the Government proposals for leasehold reform.

The Prime Minister was grateful for your Secretary of State's letter and note of 23 April reporting on his meeting with the ACP. He noted the Secretary of State's view, that the Government should not change course unless defeated or unless facing the prospect of defeat at Report. He would be grateful nonetheless for the Secretary of State's views on the intrinsic merits of the Peers' concern over residence and Lord Renton's 51 per cent proposal.

I am copying this letter to Joan Bailey (Lord Privy Seal's Office) and Ed Ollard (Government Whips', House of Lords).

*Yours,
William*

WILLIAM CHAPMAN

Ms. Helen Morris,
Department of the Environment

CONFIDENTIAL

**SUBJECT
MASTER**

CONFIDENTIAL



File

Filed on:

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 April 1993

Dear John

MEETING WITH LORD COLNBROOK

Thank you for the briefing note which you supplied for the Prime Minister's meeting with Lord Colnbrook, which took place yesterday.

Lord Colnbrook reported that there was a mood of dissatisfaction among some Conservative Peers, who were asking why they should vote for the Government when the Government did not listen to them. The concerns in his letter of 22 April to the Prime Minister were not shared by all his colleagues, but all were a cause of concern to some. Lord Colnbrook then elaborated on some of the items.

The Prime Minister said that he quite understood that the Government had been and would be imposing heavy burdens on the Peers; that the Government had recently come through a bumpy patch; and that it was natural that loyal supporters should feel some discontent.

Turning to the list of issues in Lord Colnbrook's letter, the Prime Minister explained that he was as concerned as colleagues about some of them. However, bringing in private sector skills to British Rail should improve the services it offered; the Post Office would retain the nationwide letter service, Post Office network and the uniform tariff structure and (on Privy Counsellor terms), Post Office privatisation would not be in the Parliamentary programme next session; he agreed with some of the criticisms of the Criminal Justice Act, (again, on Privy Counsellor terms, there would almost certainly be a new Criminal Justice Act in the next session); and the Government was working to achieve a level playing field in broadcasting. He was as concerned as anyone to reduce regulation. On Privy Counsellor terms, a Deregulation Bill would probably be in next Session's programme. In tackling individual items of regulation, the main problem was that deregulation would involve primary

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- 2 -

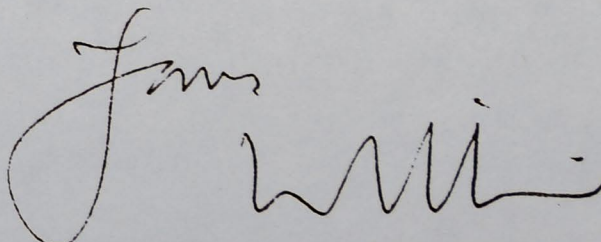
legislation unless a Henry VIII type power could be included in a Deregulation Bill. Given their concerns on regulation, would the House of Lords wear this? [Lord Colnbrook did not give a definite reply to this!]

The Prime Minister went on to ask what would most satisfy the Peers? Lord Colnbrook said that the most effective thing would be to concede a point on leasehold reform in the Housing and Urban Development Bill, especially on the question of residence. Most Peers did not object to the idea of enfranchising people who lived in flats, but did object to non-resident leaseholders having a vote in the matter. The Manifesto had offered reform to "residential leaseholds living in blocks of flats". The current proposals went beyond that. It would also help if the Government took up Lord Renton's suggestion that a block's enfranchisement should not proceed unless 51 per cent of residents voted in favour.

The Prime Minister explained that a good deal of pressure for reform had come from Conservative backbench MPs. He had some sympathy for some of the Lords' concerns. He would talk to the Secretary of State for the Environment about them.

Lord Colnbrook asked if the Prime Minister would see the Executive of the Association of Conservative Peers twice a year. The Prime Minister agreed to do this, in addition to his usual pre-summer recess talk to the whole Association: one meeting might take place in the autumn, just after The Queen's speech, another in the run up to Easter, and the meeting with the whole Association at the usual time. As to this summer's meeting, he would arrange a date to suit the wishes of Lord Wakeham and Lord Colnbrook. Lord Wakeham and Lord Colnbrook agreed to discuss this further.

I am copying this letter to Paul Coby (Department of Transport), Nick Welch (Department of Trade and Industry), Julian Walker (Home Office), Nicholas Holgate (Department of National Heritage), Helen Morris (Department of the Environment) and Ed Ollard (Chief Whip's Office, House of Lords).



WILLIAM CHAPMAN

Mrs. Joan Bailey,
Lord Privy Seal's Office

CONFIDENTIAL



2 MARSHAM STREET
LONDON SW1P 3EB
071-276 3000

My ref :

Your ref :

The Rt Hon John Major MP
The Prime Minister
10 Downing Street
LONDON SW1A 2AA

23 April 1993

Dear Prime Minister,

ACP MEETING ON LEASEHOLD REFORM

I attended a meeting of the Association of Conservative Peers on Thursday 22 April to discuss leasehold reform. It was a very well attended meeting and as you would expect strong views were expressed on the subject. The main complaint was that, although the manifesto referred to enfranchising resident leaseholders, non resident leaseholders of flats would also come within the scope of the Bill as presently drafted. Briefing on this point and other points of concern is attached, together with a short note on the meeting.

I explained at the outset of the meeting that I have tried to steer an even course on the Bill not veering either to the landlord or leaseholder interests. I added that I was not persuaded of the need to make any significant changes to the Bill although I was, of course, there to listen and to reflect on what was said.

I have discussed our future conduct of the Bill with John Wakeham and Alexander Hesketh. We are all of the view that we should not change course unless we are defeated, or look like being defeated at Report stage. Any change would create its own handling difficulties, both in the Lords and on return to the Commons.

I am copying this letter to John and Alexander.

Yours,
HSM

PP MICHAEL HOWARD
(approved by the Secretary of State
and signed in his absence)



MAIN POINTS RAISED AT MEETING OF ASSOCIATION OF CONSERVATIVE PEERS

1. NEED FOR RESIDENCY TEST

Lords Clark and Boardman argued that non resident leaseholders in any block of flats should be excluded from the calculation of a two thirds qualifying majority for eligibility for leasehold enfranchisement in the Bill since the manifesto only referred to resident leaseholders. As the Bill stands only those on leases shorter than 21 years or who pay more than a low rent (defined in various ways) are counted as non qualifying tenants in assessing whether a block of flats qualifies for enfranchisement.

2. UNFAIRNESS OF VOTING PROCEDURE

Lord Renton complained that in an extreme case only two thirds of a block might be qualifying leaseholders and of those only two thirds vote in favour. The landlord would then lose the freehold when only 44% of the block had voted in favour (two thirds of two thirds). [This is a proposal that we should look at very carefully].

↳ So I for the Environment would prefer you to say nothing about this possibility yet.

3. CROWN PROPERTIES

Lord Dilhorne argued that if a Crown properties eg parts of Regent's Park were exempt why should not other estates (ie Duke of Westminster's) not be exempt as well. [The Crown has voluntarily included for enfranchisement most of its estates even though it is exempt under the terms of the Bill.]

4. GARAGES UNDER COMMERCIAL FLATS

Lady Gardiner wanted to know whether garages under blocks of flats would count as part of the rule that if more than 10% of a block's value was made up of commercial leases enfranchisement was not available (although leasehold extension would be).

[In fact an amendment will be put down at Report Stage to the effect that residents' garages will not count towards the 10%. Commercial garages, however, will count].

2. The Bill does not include a residence qualification for the enfranchisement of houses because it is a collective rather than an individual action. There are already two hurdles which the tenants must clear before they are entitled to enfranchise. First, at least two-thirds of the flats in a block must be held on long leases at a low rent. Second, of those qualifying tenants, at least two-thirds must wish to participate. If tenants were disqualified unless resident it would be difficult to satisfy the

3. The 1967 Act also excludes companies owning residential estates on houses.

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Flats - enfranchisement A. 1967 Act

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Flats - new leases

7. The case against a residence qualification for lease extension is weaker. It is an individual right, and the arguments about assembling a quorum to exercise the collective right do not apply. The Secretary of State undertook to apply to flats a similar test to that which already applies to houses. This was done in Lords Committee.

RESIDENCE TEST

Issue

1 Whether a residence qualification should apply to tenants for the purpose of collective enfranchisement of flats. Some peers argue that a test is necessary.

Current provisions in the BillHouses

2 The Leasehold Reform Act 1967 includes a residence test for both lease extension and enfranchisement of houses in single occupation. It requires the leaseholder to occupy the house as principal private residence and to have done so for at least 3 years out of the last 10.

3 The 1967 Act also excludes companies owning residential leases on houses.

Flats - enfranchisement

4 The Bill does not include a residence qualification for the enfranchisement of flats because it is a collective rather than an individual action. There are already two hurdles which the tenants must clear before they are entitled to enfranchise. First, at least two-thirds of the flats in a block must be held on long leases at a low rent. Second, of those qualifying tenants, at least two-thirds must wish to participate. If tenants were disqualified unless resident it would be difficult to satisfy the

first test. If a majority or other proportion of the participating tenants must be resident it would be more difficult to pass the second. For similar reasons, corporate leaseholders are not excluded.

5 Landlords feel strongly that people who will benefit from the new rights should reside in their property. This is logical, but impracticable. A test would in effect disenfranchise many "genuine" resident long leaseholders. Landlords say that the Government's stated aim was that leaseholders should have the right to control and manage their own homes. But a residential lease does not imply occupation - it distinguishes the lease from a commercial one. They also claim it is wrong that non-resident foreign nationals could join in the acquisition of landlords' property.

Flats - new leases

6 The case against a residence qualification for lease extension is weaker. It is an individual right, and the arguments about assembling a quorum to exercise the collective right do not apply. The Secretary of State undertook to apply to flats a similar test to that which already applies to houses. This was done in Lords Committee.

CHARITIES

Issue

1 Whether landlords with charitable status should be exempted from enfranchisement. Some peers wish to see such an exemption.

Current provisions in the Bill

2 The Bill provides that tenants of flats whose landlord is a charitable housing trust and whose lease is granted in pursuit of the trust's charitable purposes will not qualify for the new rights. **A Government amendment is proposed for Lords Report which will import a similar provision into the 1967 Act applying to existing leases of newly-enfranchisable houses and also new leases of any house entered into after enactment.**

3 A charitable housing trust is a body which is both a housing trust, as defined in section 6 of the Housing act 1985, and a charity within the meaning of the Charities Act 1960. Therefore it restricts the exemption to charities using the whole or substantially the whole of their funds for the purpose of providing housing accommodation.

Other issues

4 **Other landlords which may be charities are not exempted. Although they may apply their**

income for charitable purposes, as landlords they will normally behave in a commercial manner. Indeed charities generally are obliged to manage their assets so as to protect their capital and to maximise their revenue. As landlords, there is little distinction between charities and commercial landlords.

5 All landlords, including charities, will be paid a fair price on enfranchisement - the full market value including at least 50% of any marriage value.

Summary

6 **No plans to change principle of no general exemption for charities but we propose an exemption for charitable housing trusts under the 1967 Act.**

6 The Earl of Lytton moved an amendment to apply a 50% marriage value floor to the valuation of houses. He withdrew it, persuaded by Lord Strathclyde's argument that the change was unnecessary. In practice landlords do receive a 50% share of the marriage value under the special valuation basis, and Lands Tribunal decisions support that division.

7 An amendment made in Lords Committee added a provision for compensation for severance.

VALUATION

Issue

1 Whether the valuation provisions should be changed to be more favourable to landlords. Our proposals give market value but some peers argue that they are unfair to landlords.

Flats

2 Tenants purchasing the freehold will pay the sum of:

(i) the open market value of the landlord's interest (what they could get in voluntary sales to a third party);

(ii) a share (at least 50%) of the marriage value (the extra value created by bringing the freehold and leasehold interests together under single control), and

(iii) compensation for any loss of value (severance) to the landlord's other retained property (eg reduced redevelopment potential),

plus the landlord's reasonable costs for the transaction.

3 The price for a new lease will be worked out on similar principles. The landlord's compensation will be the difference in value between his interests before and after the new lease is granted.

4 Most attention from Conservative peers concerned the 50% marriage value minimum.

They argued that it should be higher. This would be unfair because the market normally divides the extra value equally, though landlords occasionally get more when they have an unusually strong bargaining position. Our proposals do allow landlords a bigger share if they show that they could get it in a voluntary transaction.

Houses

5 The 1967 Leasehold Reform Act contains two valuation bases. The first applies to low value houses and gives the landlord only the value of the land, ignoring the tenant's special interest. The second applies to medium value houses and will apply to the houses newly-enfranchised by the Bill. It does reflect the tenant's special interest. The marriage value share is left to the market and not prescribed.

6 The Earl of Lytton moved an amendment to apply a 50% marriage value floor to the valuation of houses. He withdrew it, persuaded by Lord Strathclyde's argument that the change was unnecessary. In practice landlords do receive a 50% share of the marriage value under the special valuation basis, and Lands Tribunal decisions support that division.

7 An amendment made in Lords Committee added a provision for compensation for severance.

CROWN EXEMPTION

ANNEX D

HERITAGEIssue

1 Whether there should be special treatment for buildings and estates of "heritage" significance. Some peers fear that enfranchisement will harm the heritage.

Background

2 The heritage lobby says that part disposal of properties because of enfranchisement might lead to the loss of designation from inheritance tax. This could then cause the break up of an estate and loss of undertakings for repair, maintenance and public access. They also argue that heritage properties, including those owned by building preservation trusts should in any case be exempt from enfranchisement as they are better safeguarded where the freehold remains in the control of existing owners.

Inheritance tax

3 We decided that properties designated for conditional exemption from inheritance tax purposes should not be exempted from enfranchisement, but have asked Treasury if they are prepared to amend the Inheritance Tax Act 1984 so that enfranchisement does not lead to a review of the designation.

Heritage properties and building preservation trusts

4 We believe strongly that the extension of enfranchisement will not threaten heritage properties, and there should be no general exemption. Where coherent management is necessary to preserve an historic estate, an estate management scheme can provide fully adequate powers for the former freeholder to ensure that the property is maintained. Such schemes were introduced by the 1967 Leasehold Reform Act and have proved generally effective. Other provisions, such as listing and conservation areas, will also protect such properties.

5 We propose to strengthen the provisions for the establishment of estate management schemes, and have already accepted an amendment to require that approval of a scheme by the Tribunal shall (not may) have regard to architectural or historical considerations.

The 1992 undertaking has more limited exemptions than the 1967 undertaking. The Crown has agreed to adhere far more closely to this legislation.

Individual tenants should discuss their position with the Crown Estate.

CROWN EXEMPTION

SUMMARY

The Crown is exempt from the provisions. As in 1967 the Crown bodies have given a voluntary undertaking to agree, in most cases, to voluntary enfranchisement or a new lease under the same qualifications and terms as will apply to leaseholders whose landlord is not the Crown. In those exceptional cases where the Crown refuses enfranchisement it will be prepared to negotiate new leases.

THE UNDERTAKING

- Enfranchisement of property which would otherwise qualify will be refused where the land is held inalienably by the Crown or in certain circumstances specific to the Crown.
- Property will not be able to be enfranchised where it has a long, historic or particular association with the Crown.

- Property will not be able to be enfranchised where the property is within or intimately connected with the Historic Royal Palaces and Parks.
- Property will not be able to be enfranchised where there are special security considerations.
- Regents Park Estate will not be able to be enfranchised. It is part of the hereditary lands of the Crown. The Nash Terraces form an essential part of the estate as designed by Nash for the Prince Regent. They are exceptional in their association with the Crown and as an essential part of Regents Park.

BACKGROUND

- The 1992 undertaking has more limited exemptions than the 1967 undertaking. The Crown has agreed to adhere far more closely to this legislation.
- Individual tenants should discuss their position with the Crown Estate.

ENFRANCHISEMENT BY A MINORITY

Issue

1. Whether a minority of tenants in a block of flats should trigger enfranchisement. Some peers suggest this is unfair to landlords.

Current provisions in the Bill

2. To qualify for collective enfranchisement, at least two thirds of the flats in a block must be let on long leases, and at least two thirds of those long leaseholders must agree to purchase the freehold. It is therefore possible - though unlikely in practice - that 4/9 of the tenants could trigger the process.

Consideration

3. Our policy is that enfranchisement should only be possible in blocks where most of the value was transferred to tenants when the leases were granted.

4. Tenants' groups argue that the right to enfranchise should be exercisable by a simple majority, and point to the 50% threshold in the right of first refusal provisions of the Landlord and Tenant Act 1987.

5. But if only one of the two-thirds thresholds was reduced to 50%, it would be possible for one-third of the tenants to enfranchise and effectively become the

landlord of the remaining two-thirds. This would be unacceptable.

6. Landlords argue that the right to enfranchise should not be exercisable by a minority of tenants.


7. It is reasonable that a minority of tenants might enfranchise, provided that it would represent a majority of the long leaseholders, who have a long term and substantial interest in the block, and the long leaseholders themselves represent at least two thirds of the flats. A substantial majority of those eligible to participate have to affirm positively that they wish to do so.

8 There is a precedent for a minority (45%) threshold in the compulsory purchase provisions in Part III of the Landlord and Tenant Act 1987.

Summary

~~8. There are no pressing reasons to change the current proposals. Ministers have not hinted that any change is contemplated.~~

See the 'Main Points' summary immediately beneath Mr Howard's letter.



Evening Standard

LONDON, TUESDAY, 7 APRIL, 1992

30p

Risk and Britain's highest paid man



Booby prizes and the Game Show Girls



A. N. Wilson on John Major

SEE PAGE 21

PAGE 11

MAJOR: I'LL RUSH IN NEW LAW ON LEASES

THE TORY pledge to free up to one million homeowners in London and the South-East from the misery of bad landlords and punishingly high service charges will be personally honoured by John Major.

The long-delayed promise to give leaseholders the right to buy their

by Charles Reiss
Political Editor

freeholds will be met, in full, in the first Queen's Speech two weeks after election day, the Prime Minister said. And it will be law, at the very latest, by October next year.

In an exclusive interview with the Evening Standard, Mr Major also promised that the buck for the capital's problems would stop with

him — including transport which, he acknowledged, has Londoners "grinding their teeth in fury".

And he said the proposed National Lottery would provide billions for the region by the end of the decade, money which could transform London into "one of the wonders of the world".

The Prime Minister, at Downing Street for a pause in his campaign around Britain, defended the Conservatives' manifesto for London, which has been criticised as being outgunned by Labour's promise of an elected authority for the capital.

He said people did not want the "daft debates" which flourished under the old Greater London Council, scrapped by Mrs Thatcher. "I have no wish to see the far Left — with or without nukes — back in County Hall, running London."

Mr Major said a Minister in the Transport Department would have specific responsibility for the co-ordination of London's transport. There would be a committee of Ministers, headed by the

Continued on Page 2 Col 6

Homes

Continued from Page 1
Continued from Page 1

Environment Secretary, to which London's Transport Minister would report. "That Cabinet Minister will report to me. So right from the top London will have a voice and London will have decisions taken."

The manifesto pledge to give hundreds of thousands of flat dwellers the right to buy their freeholds, and extend leases to thousands more, will be law in 18 months at the latest, Mr Major promised.

"We will have it in the first Queen's Speech, providing we can get the legislation produced," he said.

"It would be law by October next year at the outside and possibly some way before."

London's share of the money from the promised National Lottery would be channelled, on a scale never seen before, to clean up London landmarks and build new ones as monuments to the millennium. It would also be a goldmine for London's theatre, music and sport.

"You could have, between the date the lottery is started and the turn of the century, up to three quarters of a billion pounds a year to be spent on those matters over the country as a whole, and a large blab of that will necessarily come to London. It makes your mouth water."



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

23 April 1993

Dear William

**PRIME MINISTER'S MEETING WITH LORD COLNBROOK
MONDAY 6 APRIL: 4.00 PM**

As we agreed, I attach a briefing note for the Prime Minister's meeting with Lord Colnbrook on Monday, suggesting how the various topics in Lord Colnbrook's letters of 2 April and 22 April might be handled.

If it would be helpful, Lord Wakeham and Lord Hesketh would be happy to discuss this with the Prime Minister in the margins of the business managers' meeting on Monday morning.

Please let me know if there is anything further that the Prime Minister needs.

Yours

Joan

MRS J M BAILEY
Principal Private Secretary

William Chapman Esq

PRIME MINISTER

MEETING WITH LORD COLNBROOK, 26 APRIL, 1600

Lord Colnbrook asked to see you because of alleged low morale in the Association of Conservative Peers (letter at A) and leasehold reform (Whips Office think morale is now on the up, after a low last September). A further letter, arrived this morning (at B), listing seven other items he also wants to raise! I am afraid this means the attached briefing is inevitably rather lengthy but you know the main issues on most of the subjects and could deal with them in your sleep.

A handling note from Lord Wakeham is at C with some background on Lord Colnbrook's request. Essentially, Lord Wakeham recommends that you are all sweet reasonableness, ask Lord Colnbrook for the detail of the peers' concerns (which he thinks Lord Colnbrook will be hard put to substantiate) and assure him of your deep appreciation of what the peers do.

Briefing is attached as follows:

Flag D - a note from Michael Howard on leasehold reform and his recent meeting with the ACP on this subject (watch out for Lord Renton's complaint about unfairness of the voting procedures - this is something the Government may want to consider);

Flag E - BR privatisation (emphasise Government's commitment to continue subsidy for socially necessary but loss-making (i.e. rural) passenger services and its concern for safety);

Flag F - Post Office privatisation (emphasise that nationwide letter service, Post Office network and uniform tariff structure are

the Government's three non-negotiables);

Flag G - privatisation of the Prison Service (aims to improve value for money; keeping close scrutiny on two prisons already contracted out; Prison Service tendering for the next one, Manchester Prison);

Flag H - defence cuts;

Flag I - defects of Criminal Justice Act (emphasise Home Secretary's review of provisions which appear not to be working properly, e.g. unit fines and taking account of previous convictions);

Flag J - ability of foreign companies to take over British broadcasting companies.

You probably only need to look at the briefing on leasehold reform and broadcasting.

Lord Colnbrook also wishes to raise over-regulation. You could suggest he feeds in specific examples to Michael Heseltine's review as soon as possible.

In case Lord Colnbrook raises it, a note on his Government car is at Flag K.

Would you want Lord Wakeham to be there? He is very keen to attend and Alex has already indicated that he would be welcome. It would be useful to have him there. The downside is that Lord Colnbrook may feel a bit constrained.

Best not to mention Lord Wakeham's reception for the ACP, which you have promised to attend. It's not yet fixed up.

Any other briefing you would like?

Freya Hefield

for William Chapman
23 April 1993

parly\colnbrook.mfj

BRIEFING FOR THE PRIME MINISTER'S MEETING WITH LORD COLNBROOK,
MONDAY 26 APRIL AT 4.00 PM

1. Background

Lord Colnbrook is in a difficult position. There is certainly a great deal of concern within the ACP about the leasehold provisions of the Housing Bill. However, there is also a less vocal body of opinion within the ACP which is supportive of the Bill. Mr Howard's note of his meeting with the ACP records, for instance, Lady Gardner of Parkes' point, in support of the leaseholders. She has been a powerful advocate for the Bill.

Lord Colnbrook's approach to this meeting should, perhaps, be seen in that context. The Lord Privy Seal and Chief Whip feel that Lord Colnbrook needs to show the ACP that he has represented their views to the Prime Minister. But it is doubted that the ACP have given Lord Colnbrook a clear mandate for his discussion. This is perhaps exemplified by the fact that in his letter Lord Colnbrook has not suggested any specific means by which the Government might meet the concerns of the freeholders on the Housing Bill. Moreover, the fissure within the ACP over the Housing Bill has led him to innumerate more or less every disagreement which various Members of the ACP might have with aspects of Government policy; none of these issues have previously been raised by Lord Colnbrook with the Lord Privy Seal.

2. Housing Bill

The Prime Minister might wish to begin by inviting Lord Colnbrook to outline any specific concerns which the ACP have over the Bill, and any suggestions as to how those concerns might be met. On the residency point, the Prime Minister might wish to emphasise that the residency question has been debated at length in Committee in the House of Lords, and that the House rejected the freeholders' amendments. That must be the starting point.

On the voting procedure point put forward by Lord Renton, the Prime Minister might wish to be a little more non-committal. [The Chief Whip endorses the suggestion made by the Secretary of State for the Environment that Lord Renton's proposal - that a clear majority of the tenants in a block should be required to enable enfranchisement to take place - is one which might provide the basis for a compromise solution.]

3. Other Government policies

The Prime Minister might wish to invite Lord Colnbrook to explain the "discontents" which Members of the ACP have with the policies Lord Colnbrook lists in his fifth paragraph (railways, post office, prisons, defence etc.) [The Lord Privy Seal and Chief Whip feel that Lord Colnbrook might be hard-put to substantiate evidence of widespread discontent on these issues. The three specific issues which have been raised in the House and on which Conservative backbenchers have commented adversely are "Options for Change", the ending of the moratorium on foreign companies taking over British broadcasting companies, and the application by the Ministry of Agriculture of EC requirements relating to food hygiene and the new anti-fraud agricultural regulations.]

4. Maastricht Bill

The Prime Minister might wish to invite Lord Colnbrook to outline any areas of debate on the Maastricht Bill which he envisages might prove difficult amongst Conservative backbenchers. But he might equally like to express the special nature of the ratification of a treaty. He might wish to point out that the Bill was in the Manifesto, and has had an extremely thorough examination in the Commons. The Prime Minister might hope that Lord Colnbrook would do all he could to ensure that the House of Lords refrained from indulging in a re-run of issues which have been decided both by the electorate and by the Commons.

[Both the Lord Privy Seal and the Chief Whip are unconvinced that too much weight should be attached to Lord Colnbrook's remarks on the Maastricht Bill.]

5. General

The Prime Minister might wish to emphasise that the Government does pay considerable attention to the views expressed by the Members of the House of Lords. He might equally like to stress the valuable role played by Conservative Peers in the House of Lords. He might wish to conclude by mentioning his enthusiasm to take up the usual invitation to Address the ACP, by convention just before the Summer Recess.

*E. cc AP***BR PRIVATISATION PROPOSALS**

- Objective to improve quality of service for rail users by making better use of the railways.
- Believe best way to achieve this is to end BR's statutory monopoly and give the private sector the opportunity to provide existing, and new and better, rail services.
- Announced first services to be offered for franchise at Second Reading of Railways Bill on 2 February. These are: East Coast Main Line, Great Western Main Line, Gatwick Express, the London, Tilbury Southend Line, the Isle of Wight Line, the South Western Division of Network SouthEast and ScotRail.
- Believe franchising best way of bringing efficiency and management skills of private sector to bear on delivery of all passenger rail services, not only profitable services.
- Separation of track from train operations is key to Government's proposals. A commercially driven company, independent from BR, is most likely to achieve objectives. Therefore Railtrack will be separated from BR, as a Government-owned company, in April 1994.
- Freight and 'open access' passenger operators to negotiate access rights with Railtrack on a commercial basis. Existing contracts with BR to be honoured.
- Franchising Director to arrange access for franchised passenger operations, agreeing price with Railtrack, and will let franchise contracts.
- Independent Regulator to ensure fair access to track.
- Enhancement of Freight Facilities capital grants scheme, plus new 'track charges' grants to encourage greater use of rail freight facilities. Plus lorry weight incentive for combined road/rail transport.
- Passenger operators to provide common ticketing arrangements based on BR's existing systems; through ticketing to continue; freedom to introduce discounted fares and ticket flexibility with other operators; all franchised operators to provide discount facilities for people with disabilities. Powers for Regulator and Franchising Director to require operators to provide appropriate network benefits.
- Guarantee of publication of national timetable.

- Disagree that privatisation should result in closures or service reductions. Government has given clear commitment to continue to provide support for socially necessary, but loss making passenger services. Level of subsidy will be determined by competition for franchises.
- Safety is, and will continue to be, of paramount importance. Government published independent report by Health and Safety Commission on 12 January and has accepted it in full. Detailed recommendations ensure no diminution of safety standards under privatisation.

E. C. R. P.

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recognise that Counters is the most sensitive of the three businesses. We are committed to a nationwide network, and are considering when it might be possible to privatise it. But 95% of Counters outlets are sub-post offices in private hands - essentially small businesses with a franchise. Only 1000 Crown offices directly owned. Thus much of Counters' business already done in private sector, and the issue of privatisation is less important.

PM'S MEETING WITH LORD COLNBROOK - POST OFFICE

Remind you of the background. Michael Heseltine made two announcements on the Post Office in July last year.

First, we intended to sell Parcelforce, the Post Office's parcels operation, already operating in a competitive market.

Second, we would review the whole organisation and structure of the Post Office. Michael made clear that this would include questions of ownership. He also stated that there were three "non-negotiables":

- nationwide letter service with delivery to every address in the UK;
- uniform affordable tariff structure;
- nationwide network of post offices.

No decisions yet taken. We are sounding out our supporters in the Commons, in particular on the package of privatisation of Royal Mail, either with Parcelforce or separately, with a strong regulator to ensure continued universal service. Counters would be kept separate.

Several arguments for looking at Royal Mail (RM) privatisation. RM competes with other communication means in the private sector (fax, courier, electronic mail etc). To survive, Royal Mail's response to them must be essentially a commercial one. But Government ownership inevitably and rightly places restrictions on a business in terms of access to capital.

Recognise that Counters is the most sensitive of the three businesses. We are committed to a nationwide network, and are considering when it might be possible to privatise it. But 95% of Counters outlets are sub-post offices in private hands - essentially small businesses with a franchise. Only 1000 Crown offices directly owned. Thus much of Counters' business already done in private sector, and the issue of privatisation is less important.

Background

The President of the Board of Trade minuted the Prime Minister on 19 April with the current state of play on the Post Office review, as follows:

- the President said he was anxious to get a better feel for backbenchers' views on the option of Royal Mail privatisation. Since then he has spoken to the Chief Whip, and we understand that a further survey of the views of the Government's backbench supporters is to be undertaken.
- a report by officials has been prepared on the options for paying benefits by Automated Credit Transfer and their effect on the Post Office network. We understand the Chancellor is to write very shortly to the Prime Minister about this.
- a decision on the future of Parcelforce should await decisions on Royal Mail.
- the question of continued VAT exemption in the event of privatisation remained uncertain in the light of a surprising and (we believe) wholly mistaken view from the services of the EC Commission. This was being pursued urgently.
- Her Majesty had indicated that, subject to the details, privatisation need not in principle create any obstacle to the continuation of the various Royal links.

The President also sought a further meeting of Ministers in the early part of May, at which point he undertook to report further.

We understand that Lord Colnbrook may be particularly concerned about rural users of the Post Office. The three "non-negotiables" are of course designed to protect them; in particular the regulatory system's insistence on a uniform tariff will ensure that urban users continue to subsidise rural ones as now.

TP6/DTI

23 April 1993

PRIVATE SECTOR INVOLVEMENT IN PRISON SERVICE

Bull points

PRISONS

- * Aim is to raise standards and improve value for money through impact of competition.
- * Two new prisons have been contracted out to private sector Wolds (operated by Group 4) and Blakenhurst (operated by UKDS). Wolds operating since April 1992, Blakenhurst opens 26 May. Close scrutiny by Crown servant of service delivered and contracts contain penalties for failure
- * Tenders from 6 private sector companies and the Prison Service for the operation of Manchester Prison (an existing establishment) being evaluated. Tenders for new prison, Doncaster expected to be issued later this year.
- * Prison Service will be advising the Home Secretary on the future programme for the involvement of private sector in the management of prisons - its form, extent and timetable - later this year.

COURT ESCORTING

- * Reasons for contracting out? - Eliminates duplication between police and prison service - frees officers in both services for other duties. Eliminating duplication leads to savings. New service integrated, dedicated to work, trained for the service.
- * Bad start? Disappointing start. However, this is a large and complex operation, covering seven counties, 20 prisons, 72 magistrates courts, 10 Crown court centres and 71 police stations. Previously the responsibility was spread between the police and prisons - therefore this is a wholly new and complex operation, much larger than any one force or prison was undertaking.
- * The Director General of the Prison Service met Group 4 management last week to hammer out a plan for overcoming the difficulties.
- * Future contracting out - Tenders for London expected to be later this year. Tenders are expected to be issued for three more areas in 1994, to commence operation in 1995.

H

ARMED FORCES RESTRUCTURING - BULL POINTS

- Plans for restructuring based on complete disappearance of traditional threat. Soviet Union split up. Warsaw Pact no longer exists. Some 500,000 former Soviet troops are withdrawing from countries of Central and Eastern Europe. A surprise conventional attack is now unthinkable.
- This provides the opportunity to restructure our forces to meet very different challenges of new world. Not Treasury-led.
- Recognise that future course of events in Europe far from certain, and that dangerous instabilities will continue to exist elsewhere. Options for Change proposals were therefore aimed at providing force structures appropriate to meet a broad spectrum of risk and uncertainty.
- Planned manpower reductions are of same order of magnitude as NATO allies and former Warsaw Pact adversaries. Some have gone much further than we plan to (Belgium and the Netherlands, for example, plan manpower reductions of around 50%).
- Will keep force restructuring under review. Malcolm Rifkind's 3 February announcement increasing planned size of army is evidence of this commitment.
- Forces will be more mobile, flexible, properly-manned and equipped. Major equipment modernisation programmes under way in all three Services.
- Independent strategic deterrent remains ultimate guarantee of Britain's security.
- If pressed: We are not conducting a defence review. Armed Forces have the size and capability to meet all our commitments. Defence Secretary has however commissioned a detailed analysis of how and what resources are taken up in meeting our various commitments around the world. Expect results to be published in this year's Defence White Paper.

2. Armed Forces Restructuring: Background Note

- 1992 Statement on the Defence Estimates set out new framework for defence strategy, comprising three overlapping roles:
 - To ensure the protection and security of the United Kingdom and our dependent territories, even when there is no major external threat.
 - To insure against any major external threat to the United Kingdom and our allies.
 - To contribute to promoting the United Kingdom's wider security interests through the maintenance of international peace and stability.
- By NATO standards, will continue to spend a relatively high proportion of national income on defence. But financial savings will arise from restructuring. Underlying defence budget expected to fall by 12% between 1990/91 and 1995/96 (to around 3.2% of GDP by 1995-96 compared to the current 4%).
- Planned reductions in UK armed forces manpower:

	<u>April 1990</u>	<u>Planned Levels</u>
<i>Royal Navy</i>	63,000	50,000 (by late '90s. To be confirmed)
<i>Army</i>	160,000	119,000 (by 1995)
<i>Royal Air Force</i>	89,000	75,000 (by 1995)

continues

In defence of an army that meets the needs of today

My responsibility as defence secretary is to help determine defence policy, ensure that the armed forces have what they need to carry out their duties, and advise the cabinet on the resources required. But defence spending is not determined in a vacuum. It has to be decided on the basis of the real or potential threats that the United Kingdom faces to its interests. It must also take into account what the nation is prepared to spend on defence.

Some of the criticisms of the government's defence policy in this newspaper and elsewhere imply that the 20% reduction in Britain's armed forces decided in Options for Change in 1990 was unwise and is going too far; that we are unable to cope with current obligations; that our armed forces will deteriorate to some impotent gendarmerie.

That would be a disturbing criticism if we were acting alone and if our friends and potential foes were keeping their defence spending at its cold war level and their military power untouched. But the Soviet Union has collapsed, the Warsaw Pact has disintegrated, the Russian army is being reduced by 1m men (the British army is to be reduced by 41,000). Poland, Hungary, the Czech Republic and Slovakia are now more interested in joining Nato. The United States administration has announced plans to reduce its armed forces by a further 200,000 to 1.4m. Germany is reducing its armed forces from some 480,000 to 370,000. Belgium and the Netherlands plan to reduce levels by around 50% by ending conscription.

Our critics, when pressed, acknowledge these facts but suggest that new obligations have appeared



Malcolm Rifkind, defence secretary, replies to criticisms of cuts in the armed forces in last week's Sunday Times

over the past three years in Bosnia, in Northern Ireland and elsewhere which negate the benefits of the end of the cold war.

There is a greater need for a peacekeeping infantry role than had been anticipated. That is why I announced the reversal of the proposed amalgamation of four battalions and our plans for an extra 5,000 men available for front line duty.

But these new duties do not match the reduction of our previous obligations. The Sunday Times was unwise to say last week: "Britain is expected to do largely the same job with a fraction of the forces that existed five years ago." The same job? The cold war is over, communism has collapsed and Moscow's troops have returned to their homeland. As a result, our army in Germany is reducing by around 30,000. In contrast, in Bosnia we have 2,500 men; the two extra battalions in Northern Ireland require 1,500. We have Tornados and Harriers enforcing the no fly zones in Iraq and we have offered a Tornado squadron for Bosnia. But these are a modest commitment compared to the large number of

fighter aircraft required to defend our skies from possible Soviet aggression.

Our more rational critics acknowledge that significant reductions are justified and sensible but suggest that the Options for Change proposals should have been the final word and that further pressures on defence spending since then are contrary to assurances of "leaner but better" and are putting intolerable strains on the armed forces.

There are problems and pressures but it is incorrect to suggest that the Treasury imposes a cash limit on defence expenditure regardless of policy implications. Treasury ministers, quite properly, identify where expenditure can be reduced in the interests of the taxpayer. But in the end the cabinet decides where the balance of the public interest lies.

Some further savings since Options was finalised are justified. Since 1991 the Soviet Union itself has disintegrated. Russian forces are returning home not just from eastern Europe but also from Ukraine, Belorussia and the Baltic republics. The prospect of a conventional attack by

Moscow in Europe has decreased even further and this, quite rightly, has implications for the number of aircraft, ships or army units required to meet that particular threat.

But the further changes currently being considered do not affect the heart of defence expenditure. This year we will still be spending £24.5 billion compared with £23.5 billion two years ago. Some capabilities are being reduced, others enhanced. The Royal Navy is to get a new helicopter carrier which it has not had for years; the Eurofighter project goes ahead for the RAF despite attempts last year to kill it off; the army will have new Challenger 2 tanks and attack helicopters.

Reductions in capability are approved only if ministers are satisfied that such decisions can be justified on operational grounds. If they cannot, such proposals are rejected — several have been. If our assessment of defence needs exceeded current or proposed resources it would be my duty to go to my cabinet colleagues and tell them so. Defence needs are never treated lightly in British governments.

I am aware that the Opposition and some others call out for a defence review. Do they mean a review against the assumption of a sharply reduced budget? That would be unacceptable to a Conservative government. Or do they mean a policy-led review? With Options for Change, we have done exactly that. The reality is that the Labour party is deeply divided on defence, with its party conference regularly demanding cuts equivalent to the cost of running the Royal Navy.

A new defence review would not provide us with any information not currently available. It would result

continues



British soldier: wanted Picture: David Stewart-Smith

in a paralysis of policy for months, and its conclusions would be no less controversial than current policy if it did not fully satisfy every interest group, an impossible task. It is instructive that John Nott's defence review in 1981 was condemned for proposing the elimination of naval carriers and our amphibious capability and had to be reversed after the Falklands conflict.

I accept that it is difficult to maintain high morale at a time of redundancies and uncertainty about the future and when some of our troops work excessive hours in poor conditions. Part of this problem is unavoidable when the armed forces are being reduced, when public expen-

diture is finite and when the military are having to adapt to post-cold war roles.

I am also entitled to point to the positive side of the picture. The British armed forces will remain the most professional in the world, and one of the most highly respected and most successful. After the United States, they are also, probably, the most powerful, leaving aside Russia's nuclear forces. If this seems a strong claim one has only to ask where one would find another country with such military weight in the international community? Not in Africa, the Americas or Asia. And, with the possible exception of France, not elsewhere in Europe.

ends.



CROSS BENCHER

I FEEL I should enter a note of caution today to those Ministers who are breathing sighs of relief over reports that John Major does not plan a re-shuffle this year.

Although the likes of William Waldegrave and Tony Newton will live to fight another day, the same cannot be said of that little trio of junior Right-wing Ministers whose loyalty to the PM has lacked the necessary enthusiasm.

I am talking about Trade Ministers Edward Leigh and Neil Hamilton and their soul-mate in Employment, Michael Forsyth. The three have been accused of running down Mr Major — not least during the progress of the Maastricht Bill about which all three are deeply sceptical.

The other problem this band

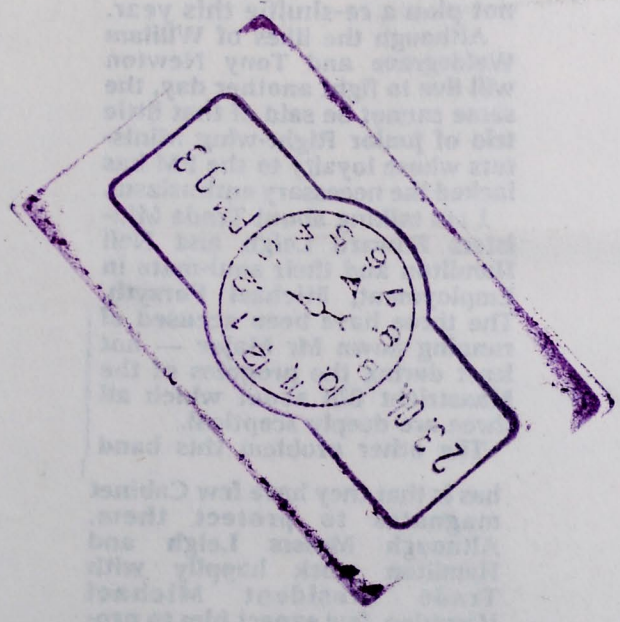
has is that they have few Cabinet magnates to protect them. Although Messrs Leigh and Hamilton work happily with Trade President Michael Heseltine, few expect him to protect them from the axe.

And Mr Forsyth's charms are recognised by very few, especially those, like Defence Secretary Malcom Rifkind, who crossed swords often with the abrasive MP for Stirling when the two were at the Scottish Office. I must say I fear for the trio's future.

GROSS BENCHER



FEEL I should enter a note of caution today to those ministers who are celebrating the signs of relief over reports that John Major does not seem to mind this year. Although the Prime Minister's speech on Tuesday was a welcome sign that the government has the support of the House of Commons, it is not clear from the speech that the government's chances are as good as they seem. The speech was a very low-key affair, and the Prime Minister's tone was clearly one of caution. He did not mention the fact that the government has a large and growing deficit, and he did not mention the fact that the government's policies are likely to lead to a further increase in the deficit. He also did not mention the fact that the government's policies are likely to lead to a further increase in the deficit.



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BRIEFING FOR THE PRIME MINISTER: CRIMINAL JUSTICE ACT 1991

Lines to take

- * Accept there is widespread concern about the sentencing provisions of the Act.
- * Introduction of Act was preceded by full consultation with judiciary and by normal process of Parliamentary scrutiny.
- * Home Secretary has made clear he is looking again at those provisions which do not appear to be working in the way in which they were intended to work.
- * Willing to listen carefully to problems and suggestions put to us about the Act.

Unit fines

- * Widespread acceptance of the principle of unit fines that fines should inflict broadly the same degree of pain on the well-off and less well-off by depriving an offender of his/her disposable income for equal periods of time.
- * Well-off should not be able to regard breaking the law as something they can afford. Equally the less well-off should not face prison because fines are set which realistically they have no hope of paying.
- * As before, no fine can exceed the maximum Parliament has decided is appropriate for a particular offence. Those who choose to break the law must be prepared for the courts to exercise the powers at their disposal.
- * Currently considering the extent to which changes to the unit fine system are required to overcome the problems encountered and also whether the courts would benefit from additional guidance on their powers in this area.

Section 29 (Previous convictions)

- * Sentencing framework in Act underlines principle that the sentence passed should reflect primarily the seriousness of the offence committed.
- * Courts can take account of circumstances of previous offences if they disclose an aggravating factor of the current offence - for example sequence of burglaries against elderly widows may support the court's view that current burglary against elderly widow is more serious because selection of a vulnerable victim was involved.
- * Home Secretary currently looking again at this part of the Act in light of concerns expressed to see whether courts should be given clearer basis on which to consider previous convictions.

Lines to take

Why will European broadcasters be able to take over British companies from 1994?

- We believe that discriminatory restrictions on firms or individuals in one EC country owning companies in another are contrary to the Treaty of Rome, and the ownership provisions in the Broadcasting Act 1990 therefore necessarily apply equally to members of all EC states.

What is the UK doing about the restrictions which prevent British broadcasters investing in European ones?

- As long as a country applies the same ownership restrictions equally to both their own nationals and those of other member states, we believe it is a matter for them to decide how their broadcasting industry should be structured - in the same way as we have limited the number of Channel 3 licences one company may own, for example. Nevertheless, we would wish to see a level playing field where possible and we are considering what action we might take to improve the position in those countries which apply different treatment to their own nationals as against other Member States.

Why not tighten up our legislation?

- Legislation was passed after much thought during the passing of the Broadcasting Bill. It is too early to consider changes to that legislation which was fully debated at the time.

Background

1. Independent broadcasters, in particular Central, have complained that they are at a disadvantage compared to their European counterparts as they will be open to hostile

takeovers from 1994 while not themselves able to enter freely into the European market.

2. The reason for their concern stems from the ownership provisions in the Broadcasting Act 1990 which will not prevent (after the one year moratorium during 1993) ownership of a broadcaster by a national of another Member State. It appears that other countries in Europe do make such distinction on ownership and a number of countries also restrict the amount of equity which may be held in one broadcaster (France, for example, limits ownership of equity in a broadcaster to 25%). UK broadcasters see this as making them ripe for takeover by broadcasters who cannot expand further in their own country.

3. It would be difficult to justify a complaint to the EC Commission on the basis of preventing concentration of ownership since UK law itself limits ownership in certain respects (eg to two Channel 3 licences). We are considering, however, with DTI the possibility of an approach to the Commission about those states which treat their own nationals more favourably than those of other Member States. The countries which fall into this category are Belgium, Denmark, Germany, Greece, Luxembourg and Portugal.

4. Briefly, the foreign ownership rules in other EC states are as follows:

- Belgium. In Wallonia significant equity participation by the Francophone print media is guaranteed in the commercial channels. In Flanders at least 51% of the capital of the commercial TV licensee must be owned by the publishers of Flemish language print media.
- Denmark. A majority of the board members of private television companies must be domiciled in the area of the licence.
- France. Has seven channels, five partly or wholly open to private shareholders. An EC shareholder may hold up to 25% of a channel.
- Germany. Broadcasting is the responsibility of the Laender, but they collaborate to allow national channels. For cable preference is given to companies with 50% or more German ownership, and companies not controlled by Germans are not considered as candidates for terrestrial frequencies.
- Greece. Foreign participation in Greek television companies is limited to 25%; there does not appear to be any similar restriction on Greek companies.

- Ireland. The position in Ireland is still hypothetical as there are no private TV stations yet established. The roles are likely however to be similar to those for independent radio, which limits non-EC investors to 25% of the shares.
- Italy. Ownership of a national commercial TV station can be assumed by EC companies with a minimum capital of \$260m. This requirement is the same for all EC nationals.
- Luxembourg. CLT have lost their monopoly on broadcasting, and although investors in companies bidding for a licence are limited to a maximum stake of 25%, this applies equally to all EC nationals. All CLT directors however must be Luxembourg nationals.
- Netherlands. Has a public monopoly.
- Portugal. Candidates for the two private channels are required to have a minimum capital of £10m. Foreign holdings are limited to 15% of the total capital, whereas Portuguese companies may hold up to 25%. It is not clear whether the foreign limit applies to EC nationals.

K

CONFIDENTIAL

Lord Colnbrook - Provision of Police Protection and Government Car

For Use If Needed

Lord Colnbrook has been assessed as at significant (level 3) threat of terrorist attack since March 1989. A Principal at this threat level is entitled to the provision of physical security measures at public expense, but does not qualify for personal protection from the police or a Government car. Following discussions which involved the Prime Minister Lord Colnbrook offered in October 1991 to relinquish his MPSB protection officers provided that he could retain his Government car and that armed officers from the Thames Valley Police would remain at his Berkshire home, where he believed the threat against him was highest. MPSB protection was withdrawn on 30 November 1991, and Lord Colnbrook has recently agreed with Thames Valley Police that armed protection can be removed from his home in August 1993. No decision has been taken over the continuing provision of a Government car, and the Prime Minister may wish not to commit himself on this issue.



Dear John,

22 April 1993

Thank you for agreeing to see me for half an hour at 10 Downing Street, on Monday, 26 April, at 4pm. I shall be there.

It occurs to me that it might be helpful if I were to give you some idea of the points I want to raise with you in advance of our meeting. So this letter seeks to do that.

First, let me repeat that I come to you as Chairman of the Association of Conservative Peers and on their behalf. I have discussed the whole situation with the Officers and Committee of the Association and they are in agreement with what I say. (I expect you know who they are - for easy reference I enclose a list). We have all heard grumbles about what your Government is doing over quite a wide field. There is nothing new in that - every Government is grumbled about by its supporters from time to time, but there is a difference now in that a particular event has, so to speak, taken the lid off with the result that the grumbling and dissatisfaction are far more open and widespread.

The event, of course, is the attitude of Ministers to the view of Conservative members on a detail of the Housing and Urban Development Bill. You will know that many Conservative members took the view that a particular clause in the Bill went beyond our commitment in the Manifesto at the last Election and should be amended. When such an amendment was discussed and voted on last month, no less than 111 Conservative back-benchers voted against the Government and only 74 in favour of it (my figures come from the Chief Whip). The Government carried the day solely by virtue of the votes of the Labour Party. Our understanding, so far, is that Ministers intend to pay no attention to this expression of opinion but will press on regardless.

You will readily understand how this upsets people and why their discontent with some of the Government's activities comes to the surface. Among these discontents are:

The proposed privatisation of the railways

The proposed privatisation of the Post Office

The continued privatisation of the prisons

The drastic reduction (demonstrably at the insistence of the Treasury) of our defence capability

page two

The defects of the Criminal Justice Act 1991

The ability of foreign companies to acquire (after 1 Jan) control of British broadcasting companies, whereas British companies are unable to do the same abroad

The firm belief that certain Government Departments interpret Community Directives far more stringently either than they need or than our competitors do to the detriment of British enterprises

Let me say that all of us are fully aware that what the Lords say and do can always be over-ruled. You have a majority in the House of Commons and so what you and they want happens - quite properly. Where I think there may be some cause for concern is over the Maastricht Bill. There are, I believe, those who maintain that this will pass through the Lords with little difficulty. I have to say that I am not wholly convinced of this. There are opponents in our own ranks here as in the Commons. The Labour Party here will seek any opportunity to embarrass the Government, just as they have in the Commons, regardless of their professed support for the Treaty. It is virtually certain that we shall have to sit very late into the night on many occasions, just as you did in the Commons. If too many of our members say: "This Government doesn't make any attempt to help the majority of us when we ask them to, so why should I stay up all night to help them when they ask me?", then we may have difficulties.

As I said before, I know that this doesn't matter in the long run. If disagreeable amendments to the Bill are passed by default, then you can have them reversed in the Commons (at least, I suppose you can). But you don't want that extra trouble, do you?

Reading this through, I fear I am sounding a bit like a Chief Whip, which I have no business to do. However, one cannot entirely escape one's past and I am a strong supporter of the Maastricht Treaty and, of course, of yourself. I hope that, when we meet, we can agree on some way of improving the morale of the back-benchers on whose behalf I speak.

Yours ever

Humphrey

The Rt Hon John Major MP
10 Downing Street
London SW1

ASSOCIATION OF CONSERVATIVE PEERS

Officers and Committee

PRESIDENT: Lord Boyd-Carpenter

CHAIRMAN: Lord Colnbrook

VICE-CHAIRMEN: Baroness Carnegy of Lour
Viscount of Oxfuird

TREASURER: Lord Sandys

COMMITTEE: Lord Boardman
Lord Campbell of Alloway
Baroness Elles
Lord Kimball
Lord Mancroft
Baroness Platt of Writtle
Baroness Strange
Lord Trefgarne
Lord Wade of Chorlton

February 1993



10 DOWNING STREET

Prime Minister

I have had a word
with Lord Gabor, who
feels it would be a good
idea to see Lord Coleridge.
He will provide a brief.

Lord W may mention
at Business Manager's meeting

William

I dealt with this
in your absence.
Can I hand over to you?

W
W



10 DOWNING STREET

Prime Minister.

See attached ~~to~~ letter.

It sounds to me as if
you probably should see
him. Shall I copy
to John Wakeham
and ask for a brief?
Would you want JW
to attend meeting?

Atg



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

8 April 1993

ASSOCIATION OF CONSERVATIVE PEERS

I attach a copy of a letter the Prime Minister has received from Lord Colnbrook, requesting a meeting with the Prime Minister. Unless the Lord Privy Seal advises otherwise, the Prime Minister feels that he should see Lord Colnbrook, and we will fix up a date.

For that meeting, the Prime Minister would be grateful for a brief covering the issues that Lord Colnbrook will raise. Would the Lord Privy Seal wish to be present at the meeting?

ALEX ALLAN

Mrs Joan Bailey
Lord Privy Seal's Office

AB



10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

7 April 1993

I am writing to acknowledge receipt of your letter of 2 April to the Prime Minister. I will make sure he sees it on his return.

ALEX ALLAN

The Rt Hon The Lord Colnbrook KCMG

The Rt. Hon. John Major, MP
10 Downing Street
London SW1A 2AA

A



2nd April 1993

Dear John,

I am writing to ask if you will be good enough to spare me half an hour of your time in the near future.

As you know, I am the Chairman of the Association of Conservative Peers and it is on their behalf and about them that I wish to see you. As you will have been told by John Wakeham and Alexander Hesketh, there have been two occasions in the last few weeks when a substantial majority of our members who were in the House have felt so opposed to what your Government were putting forward that they have felt obliged to vote against the advice of their own leaders. They intensely dislike doing this, but on these occasions felt strongly enough to do so. Unhappily, their action seems to have had no effect on Ministers, who are apparently determined to continue on the same course, something they are only able to do by courtesy of the Labour Party, who support them.

This has led to a noticeable loss of morale in the Association - the last thing anyone wants in view of the importance of the legislation that we shall be considering during the summer. It is about this and any possible ways of improving morale that I would like to talk to you.

I am taking my wife away during the recess (I hope you are getting a break too), but as soon as we re-assemble I will of course make myself available to meet you whenever and wherever you wish. Perhaps the simplest thing would be for your office to tell my secretary (Miss Pippa Way on 219 3475) what you would like.

With best wishes

Yours ever

A handwritten signature in blue ink, appearing to read 'Humphrey', with a stylized flourish at the end.

The Rt. Hon. John Major, MP
10 Downing Street
London SW1A 2AA.

PRIME MINISTER



MEETING WITH JOHN MOORE

This was fixed up at John Moore's request: he does not want long, but wants to raise some tax issues with you - I think this is mainly about capital gains tax and probably de-linking from income tax.

Ala

ALEX ALLAN

15 January 1993

pps\moore.sm

Sandra P.a.
S
M



Alex
Fixed
for Mon
18 Jan
at 1145-1215.

10 DOWNING STREET

S²¹/12

~~Sandra~~

Please could you
book a 1/2 hour slot
for John Moore
(now Lord Moore) to
come in and see PM
in Jan/Feb.

235. 26109

PM knows.

See
Linda
Upper
247. 4598

M

Jonathan (Hill)
To move 9/11
S 9/11

P.A. S. 9/11

Not yet!

Prime Minister

Will explain why.

You indicated (with a
manuscript addition) on a
recent letter to Lord Walker
that you would like to see him
soon.

We could see whether next
Tuesday (10 Nov) at 1915
suits him if you wished
(diary extract attached). Once
you start on your round of
Pit-Council Euro visits, it might
not be easy to identify a slot.

Agree we try Tuesday? S 6/11

JH has noted

D

Monday 9 November

0900
0945 Keep free
1015 Party Chairman
1115 Week Ahead Meeting
1130 Prepare for
1230 for 1300 Bilateral talks with President Yeltsin
1430 Host Working Lunch for President Yeltsin
1530 Plenary Session of talks
1600 UK/Russia Treaty signing ceremony
1715 Press briefing
1815 Chancellor of the Exchequer +MF
1850 Prepare for
1915 DEPART NO 10 + MRS MAJOR FOR
1930 for 2000 ARRIVE FOR
DINNER FOR THE YELTSIN'S (ROYAL NAVAL COLLEGE,
GREENWICH) LOUNGE SUIT

Tuesday 10 November

0900 Questions Briefing
0930-1030 Dutch Prime Minister Lubbers +JSW
c1045 DEPART FOR (+GB)
1050 ARRIVE HOUSE OF COMMONS (NORMAN PORCH)
1055 GREET PRESIDENT YELTSIN BEFORE TAKING SEAT FOR
1100 PRESIDENT YELTSIN'S ADDRESS TO BOTH HOUSES OF
PARLIAMENT, ROYAL GALLERY (LOUNGE SUIT)
c1135 DEPART FOR NO.10 (VIA HOUSE OF COMMONS)
1245 Lunch and Questions Briefing
1515 QUESTIONS
1540-1700 KEEP FREE FOR MPS +GB
1700 DEPART FOR NO.10
1715 Keep free for SH
1815 Foreign and Commonwealth Secretary +JSW
?1915 Lord Walker +JH
2200 VOTE (WAGES COUNCILS ABOLITION)

Wednesday 11 November

0845 DEPART FOR
1000 ARRIVE DITCHLEY PARK
1030 CHANCELLOR KOHL ARRIVES DITCHLEY PARK
1045 BILATERAL MEETING
1215 PLENARY MEETING
1300 LUNCH
DEPART FOR:
1500 PRESS CONFERENCE (? HEYTHROP PARK)
c1530 DEPART FOR LONDON
c1700 Keep free for Lord Mayor's Banquet
speech/preparation +AA
?1900 ? Look in on Winter Ball supporters party + GB
(No. 11)

Thursday 12 November

0900 Questions briefing
0930 Keep free
1030 Cabinet
1245 Lunch and Questions briefing
1515 QUESTIONS
c1530 CHANCELLOR'S AUTUMN STATEMENT
1700 DEPART FOR NO. 10
1715-1745 Dot and Mac's farewell calls (+ messengers'
photo) + AA
1815 Keep free for AA
92 GROUP DINNER + GB
? ?TO HUNTINGDON

Friday 13 November

0920 DEPART THE FININGS + MRS. MAJOR
0945 INITIATE VEHICLE WATCH SCHEME IN HUNTINGDON,
HINCHINGBROOKE PARK
1025 DEPART
1045 OPEN NEW SCIENCE BLOCK AT SAWTRY VILLAGE

Prime Minister²
A

From: The Rt. Hon. Peter Walker, M.B.E., M.P.



HOUSE OF COMMONS

R29/14 ✓

PERSONAL

28th November 1991

Mr John

You really should not have bothered to give me breakfast this morning. Having arrived back from Bonn at midnight and with the sort of day ahead that I know you have, it was extremely kind of you to give so much time to someone from the past. For me it was, of course, totally enjoyable and much appreciated.

My thoughts will be with you over the weekend and, as you know, if there is anything I can do either in European contacts or others you only have to ask.

I am very determined to see that you are there for the next five years. //

With my many thanks and every good wish,

The Rt Hon John Major MP,
The Prime Minister,
10 Downing Street,
London, SW1A 2AA.

27 NOV 1991
C:\apps\walker (18)

1. Lee Holburn Deill.

PRIME MINISTER

BREAKFAST WITH PETER WALKER

You will no doubt want to devote most of the time to politics but Mr. Walker has a number of business interests and, as such, is well placed to provide some insights.

- (i) he was approached by Robert Maxwell to take over the chairmanship of the Maxwell Communications Corporation. Having looked it over, he declined to take this on. He may be able to give you his assessment of just how much trouble the Maxwell empire is in;
- * (ii) today's papers reported that he has been appointed to head the London office of the Treuhand, the agency in charge of privatising East Germany State affairs. He will be able to give you an assessment of what is happening to the East German economy;
- (iii) he is on the Boards of Smith NewCourt and British Gas and, as such, will be in touch with a large number of businessmen. His views on the recovery would be interesting.

AT

ANDREW TURNBULL
27 November 1991
c:\pps\walker (slh)

Prime Minister

* On (ii) he is trying to drum up British interest in East German companies. Bob Horton of BP is leading a Consortium to bid for the Leuna Werke refineries and the Minol petrol stations. Main rivals are ELF (for whom Mitterand is lobbying).

Dm



10 DOWNING STREET
LONDON SW1A 2AA

20
1991
MTT
EST
10

THE PRIME MINISTER

20 August, 1991.

Dear Jim,

Thank you for your letter of 22 July.

I was glad to have your further comments about Government policy on the support of project exports. As I said in my earlier letter, there is a difficult balance to be struck, for the Government has to take account of the sometimes conflicting interests of both exporters and taxpayers. But I can assure you that this is one issue which will not suffer from lack of attention by me, and we will be monitoring the new arrangements continuously and closely.

*Yours Ever,
John*

The Right Honourable The Lord Prior

JD/ea

PRIME MINISTER ^①



You agreed to meet John Moore tomorrow afternoon. This follows a conversation he has had with Mr Wakeham about election strategy. Mr Wakeham encouraged him to put his ideas to you.

WEC

WILLIAM E CHAPMAN

15 August 1991



R1618
CF?

The Hon. Tim Sainsbury MP
Minister for Trade

J S Wall Esq
Private Secretary
10 Downing Street
London
SW1A 2AA

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Direct Line
071-215 5356

DTI Enquiries
071-215 5000

15 August 1991

Dear Stephen

LORD PRIOR

Thank you for your letter of 23 July. The Minister for Trade considers that it would be inappropriate for the Prime Minister to reply in detail to Lord Prior's further letter of 22 July. The Prime Minister has already dealt with all the points of substance in his previous letter; to continue the debate is simply not worthwhile.

Mr Sainsbury recommends, therefore, that a short reply be sent along the lines of the attached draft which does no more than take note of Lord Prior's further comments.

I am copying this letter to Simon Gass (Foreign and Commonwealth Office), Suma Chakrabati (Overseas Development Administration), Jeremy Heywood (HM Treasury), Nicholas Holgate (Chief Secretary's office) and Sonia Phippard (Cabinet Office).

Yours

David Styles.

DAVID STYLES
Assistant Private Secretary

DRAFT LETTER TO LORD PRIOR FOR SIGNATURE OF THE PRIME MINISTER

Thank you for your letter of 22 July.

was glad to have
I ~~note~~ your further comments about Government policy with
a
~~regard to~~ the support of project exports. As I said, in my
earlier letter
~~previous reply~~, there is a difficult balance to be struck ~~in~~
~~setting the framework of ECGD and ATP support~~ *for* since the
Government has to take account of the sometimes conflicting
interests of both exporters and taxpayers.

I do agree however that the issues here are important. We
will be monitoring the new arrangements closely in the future
to ensure our objectives for support of UK project exports are
achieved.

*But I can assure you that this
is no time which will not suffer for lack of
attention here, and we will be monitoring the
new arrangements continuously and closely*

me [signature]

RIF

as above

15/8

Pl. acts re. urgent and
for Statist
on Wed. eve.



10 DOWNING STREET

Prime Minister

John Moore rang. He
had had a conversation with John
Wickham about electric strategies
and JW encouraged him to put
his ideas to you, meaning I think
a letter.

John Moore has asked if he
can come and see you. (Said
this would be difficult next
week but might be possible
at the end of the month.)

What do you think about
a chat in London before you
go to be Oval on 16 August?

HT
25/8



C: / PRIOR (MT)

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 July 1991

Dear Martin

LORD PRIOR

As you know, the Prime Minister wrote to Lord Prior on 19 June and Lord Prior has now replied.

I enclose a copy of the substantive part of his letter.

I am not sure that a further reply is called for but perhaps you would let me have a draft if you think there are points the Prime Minister should pick up.

I am copying this letter to Simon Gass (Foreign and Commonwealth Office), Suma Chakrabarti (Overseas Development Administration), Jeremy Heywood (HM Treasury), Nicholas Holgate (Chief Secretary's Office) and Sonia Phippard (Cabinet Office).

Jans,
Stephe
J.S. Wall

Martin Stanley Esq
Department of Trade and Industry

MRT

THE GENERAL ELECTRIC COMPANY, p.l.c.
1 STANHOPE GATE · LONDON W1A 1EH

071-493 8484

FROM THE CHAIRMAN
THE RT. HON. LORD PRIOR, PC

The Rt. Hon. John Major, MP,
Prime Minister,
10 Downing Street,
LONDON S.W.1.

Dear John,

Thank you for your letter of 19th June. I was glad to have your assurance about the importance HMG attaches to the capital goods sector and the need to provide a framework of support for project exports. Unfortunately, this assurance seems to be in contradiction with most of the earlier part of your letter.

Indeed, unless there is some amelioration of present policies with regard to ECGD and ATP we can only expect a further decline in manufacturing industry with the companies concerned with capital goods running down their activities in the UK. The work will seep across the Channel or the Atlantic where different attitudes in Government obtain and where there is a greater understanding of what is actually happening in the market place. We have first hand evidence of this with our joint Anglo/French company, GEC/Alstom. Moreover, this loss of activity will not be confined to products formally classified as capital goods, since many companies in other sectors depend for considerable slices of business on our activities. The repercussions are going to be widespread. I know this is not your objective, but it is inevitably what is going to happen if the Government continues to act along the lines broadly set out in your letter.

.../...

Prime Minister

(2)

Jim Brown's reply to

your earlier letter. I have
attached the OLI for comment
(omitting the last para).

22nd July 1991

Styde
WJZ

attached

This is not because the capital goods sector in the United Kingdom is uncompetitive. The basic reason is the much greater support given to foreign companies by their governments through lower credit insurance premiums, greater availability of medium term credit and ease of access to soft money in one form or another. You say, for example, on premiums, that the Government will be persuading other countries to adopt the same policies as ECGD and thus the disparity in this area will be reduced. A laudable aim, but that is not what is actually happening and, frankly, no one in industry believes that it will in fact happen for many years if ever. How, in the meantime, are we to remain in existence? Moreover, the record of countries other than the UK in keeping to such agreements, eg, in relation to the OECD agreements on aid and trade, is poor - someone some time should tell you the history of the Shanghai Metro Project. Much the same is true of the so-called single European market in capital goods. In any case, whilst this difficult negotiation takes place more and more business will be lost and industry will continue to weaken. I really cannot believe that you are in a strong position to enter into such an international negotiation when UK has the most expensive export credit agency in the world. You acknowledged the force of this point in relation to disarmament - it equally applies to trade negotiations.

We encounter the additional difficulty in arguing our case that industry is constantly being accused of wanting things which are impossible to give and for which we have not asked. This is an old Treasury trick. For example, you say that we cannot "automatically match every State aid offered abroad". No one is asking Government to do that. We seek a more realistic understanding of what is necessary to obtain business when our foreign competitors are treated so much more favourably. I mentioned South Africa in my earlier letter, and despite what you say, nobody in banking or industry

.../...

believes that the excessive premiums currently set for that country can be justified on the basis of the risks involved. The recent correspondence between Kleinwort Benson and Peter Lilley will confirm that point. The Treasury seems to have taken the view in the past that ECGD premiums are only a "marginal" factor in the cost of a tender. This is quite wrong. Tenders can quite often be decided by the difference between ECGD's premiums and those of other credit agencies. This whole area needs to be looked at again very carefully to ensure that the premiums charged reflect current and future risk in a realistic way and do not constitute an attempt to claw back earlier ECGD losses, which seems to be the only possible reason why ECGD premiums are so out of line.

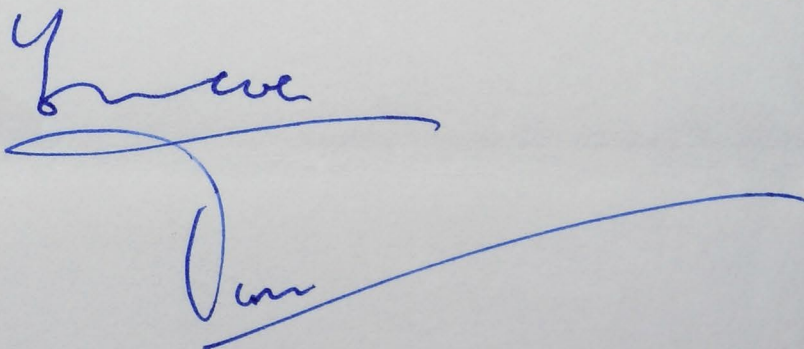
I entirely take your point about the need for procedures to protect taxpayers' money, but all the same, the inordinate delay in processing APT cases is an important impediment to exporters in getting orders. It really is for HMG to devise means of improving these long-winded and bureaucratic procedures. The Kenyan telecoms project provides a good example of the time it takes to get something through the "system" and this is by no means the worst such case. We would be quite prepared to help, if called upon, in any review of these procedures and our people here would be ready to provide officials with examples of cases which have taken an inordinate time to process. The Government must understand that it often takes several years to negotiate capital goods contracts and unless we can have some confidence that support will be forthcoming, it is futile to spend money and scarce engineering resources in chasing a will o' the wisp.

We also note that previous ATP budgets have been underspent. The current ATP budget ought to take account of this fact, and should be augmented by the £30m - £40m I suggested earlier over the next two years. But even a smaller amount would be very welcome. There is ample

.../...

evidence in Departments' files as to the positive value of the Provision in terms of employment, trade and influence overseas to justify an increase in the budget. Whilst still nowhere near matching what other countries do, such an increase would go a little way towards making the odds less heavily loaded against us and would give some credibility to the Government's expressions of support for the capital goods industry.

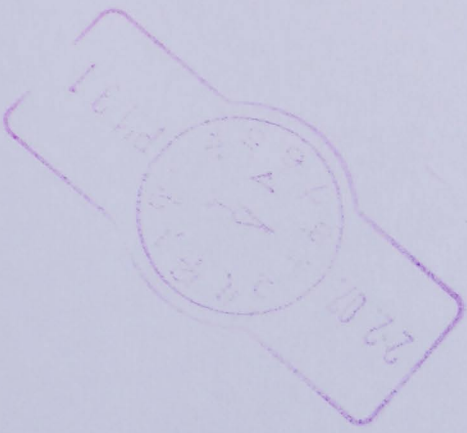
Finally, I want to emphasise that industry is looking to Government for a clear commitment to export support, although I hasten to add, just in case it needs to be said, not at any price. At the moment, with the outstanding exception of the FCO, this seems to be lacking at all levels in Government. I do not need to draw your attention to the likely constraints on growth due to the adverse trade balance even when we are deep in recession. A clear commitment to export support from HMG seems to be an essential element in any national attempt to cope with this difficult situation.



PS:

As to Hunan and System X in China, I will write to you separately before you make your visit. We also await the views of the Kenyans on their priorities and the Coastal Loop project.

PM: Mtos Wm
ex Casuar, June 88.



...in departments' lines as to the positive value of
the position in terms of employment, trade and balance
of payments as well as its impact on the budget. While
it is true that the balance of payments is a key indicator
of a country's economic health, it is not the only one. A
country's economic health is also determined by its
ability to attract foreign investment, its level of
technological development, and its ability to compete
in the global market. The balance of payments is
only one of the many indicators that are used to
assess a country's economic health.

Finally, I want to emphasize that industry is
looking to Government for a clear commitment to export
support, although I believe that in some cases it needs to
be said, not at any price. At the moment, with the
outstanding situation of the PCO, this seems to be lacking
at all levels in Government. I do not need to draw your
attention to the likely constraints on growth due to the
adverse trade balance even when we are back in recession.
A clear commitment to export support from the Government to be
an essential element in any national attempt to cope with
this difficult situation.

[Handwritten signature]

As to Human and System X in China, I will write to you
separately before you make your visit. We also await the
views of the Japanese on their priorities and the Coastal
loop project.

PRIME MINISTER

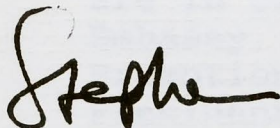
LETTER FROM LORD PRIOR

*contact with amendment.
why did 177 not brief us? it
could have been done. 7.7*

You asked about the background to the attached letter from Lord Prior. He wrote to you before the European Council asking you to raise with Felipe Gonzalez a possible commercial opportunity in Spain for GPT who are bidding to supply System X public exchanges to the Spanish telephone network.

We asked the DTI for advice in good time for the European Council but they did not reply in time. They then recommended that Mr Sainsbury should have a go at the issue first.

I think you should agree to that but say to Lord Prior that you will raise the matter with Felipe Gonzalez if Mr Sainsbury gets nowhere in the meantime. I have amended the draft reply to Lord Prior accordingly.



J. S. WALL

4 July 1991

C:\FOREIGN\PRIOR (DAS)



The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

J S Wall Esq
Private Secretary to the
Prime Minister
10 Downing Street
London
SW1A 2AA

9

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Direct Line
071-215 4440

DTI Enquiries
071-215 5000

28 June 1991

Dear Felipe,

flot

Thank you for your letter of 13 June enclosing one from Lord Prior, which requested that the Prime Minister speak to Felipe Gonzalez about a switching opportunity being pursued by GPT.

We are aware that this is the first request from Lord Prior since the Prime Ministerial correspondence (Lord Prior's letter dated 24 May 1991), but since the agenda for the meeting is very full, we consider that it is very unlikely that a suitable opportunity would arise to mention the project. In addition, Mr Sainsbury wonders whether it really is a good idea to play the Prime Ministerial card straight away. Post also agree with this view, and in any case we understand that GPT representatives in Madrid are in close contact with the Commercial Section in the British Embassy, and they have jointly agreed that the Director of Trade Promotion at the Embassy will raise this subject with the President of Telephonica at an early stage.

My Secretary of State does not wish to suggest turning down Lord Prior's request. We would propose that we first deploy a lesser weapon, for example Mr Sainsbury might himself write to his opposite number in Spain about the opportunity if GPT think this would be helpful. This approach has been cleared with officials in the Foreign and Commonwealth Office.

I attach a draft reply for the signature of the Prime Minister. I am copying this letter with attachments to Christopher Prentice (Foreign and Commonwealth Office).

Yours
Stephen

STEPHEN SPEED
Private Secretary

JW6327

dti

the department for Enterprise



Recycled Paper

SCANNED

DRAFT LETTER TO LORD PRIOR FOR THE SIGNATURE OF THE PRIME
MINISTER

Thank you for your letter of 13 June requesting that I speak to Felipe Gonzalez at the ~~next~~ EC Heads of Government meeting about the switching project which GPT are pursuing in Spain.

I am sorry to have to say that
the opportunity ~~The programme for the meeting is very full, and I have no~~ *was so* ~~plans~~ *that there was not*
~~plans for a discussion alone with Mr Gonzalez. I therefore~~
~~think it very unlikely that an opportunity would arise at the~~
~~meeting to mention this project; although I will of course be~~
~~aware of your interest should an appropriate opportunity~~
~~present itself.~~ I understand that GPT representatives in
Madrid are in close contact with the Commercial Section in the
British Embassy, and that the Director of Trade Promotion at
the Embassy will raise this subject with the President of
Telefonica at an early opportunity. Tim Sainsbury would be
happy to make contact with his opposite number in Spain
following that meeting if GPT in the UK and Spain think this
would be helpful. *If at ~~some~~^a subsequent stage my help*
indication is needed I would be very happy to ~~take~~
see what I can do

vt32thu.362



10 DOWNING STREET
LONDON SW1A 2AA

DAS

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THE PRIME MINISTER

19 June 1991

Dear Jim,

Thank you for your letter of 24 May.

I am grateful to you for following up our meeting with such a full and frank explanation of your concerns. Before turning to the more detailed points, I would like to make a few general comments.

I accept entirely that industry is bound to be concerned about measures which will affect its competitiveness. From your perspective, higher ECGD premium rates, controls on ECGD cover availability, shortage of ATP and so on are obviously unwelcome. However, this is only part of the picture. GEC is also benefiting from corporation tax rates which are the lowest in the European Community and the Group of Seven. And GEC's employees are benefiting from low income tax rates. Our decisions on ECGD must therefore take account of the high costs of our support for exports. Exports which are not paid for are of no benefit to the UK and we cannot, therefore, overlook the very high levels of claims paid by ECGD in the last six or seven years. The Government, therefore, needs to take decisions which balance the often conflicting interests of exporters and the taxpayer.

In particular, recent decisions about ECGD's Portfolio Management System were taken after weighing up carefully both sides of the argument. Ministers reviewed the future of ECGD at

6

the end of 1989 and decided that export credit and financing support should continue to be provided, but measures should be taken to reduce the costs of such support to the taxpayer. This decision was conveyed in Nicholas Ridley's statement of 18 December 1989 and has been reaffirmed since on many occasions. I can confirm that this is the policy the Government will continue to implement. Indeed, last Financial Year ECGD Project Group issued over £2.3 billion worth of new guarantees overall and anticipates at least a similar level of business in 1991/92. A substantial portion of this will be on markets where the risk is high and/or ECGD's exposure is concentrated. But it is right that such business should be subjected to the more rigorous disciplines of the new Portfolio Management System (PMS).

Let me now turn to the more specific issues you raise.

Government Support for Project Exports - Hunan Telecommunications/China Project

The Government recognises that it has an important role to play in helping UK companies win project business overseas, by providing appropriate political and diplomatic support. In the example you gave, the Hunan Five Cities project in China, GPT have received a consistently high level of support from the Government. It was the first project to receive an offer of ATP following relaxations of the Madrid agreement. We have also pressed for the acceptance of System X as an approved switching system in China and will continue to do so.

Lynda Chalker has expressed support for the project to the Chinese on three occasions, the latest when she mentioned the project to the Chinese Chargé d'Affaires in May. Francis Maude, Malcolm Caithness, Tim Sainsbury and Douglas Hurd have all spoken or written in support of the project; indeed it was the only Chinese project raised by Douglas Hurd in his meeting with the Chinese Foreign Minister in April. I am also very keen to support British exporters, though I obviously have to take advice on whether and when I should intervene personally.

You mention Kuwait as a possible model for Government support to exporters. You will appreciate that Kuwait presented a unique set of circumstances, unlikely to be repeated; but Peter Lilley is indeed considering whether the approach which has been so successful in Kuwait could be adapted to other countries.

USSR

You comment on ECGD's attitude to the USSR. It may be helpful if I were to explain the present position. A review of ECGD's cover for the USSR is being carried out. This is, as I am sure you will accept, necessary not only because of ECGD's high level of existing exposure but also because of the political and economic problems in the Soviet Union. The review is taking account of the representations made by industry and the cover position of other export credit agencies. We must, however, form our judgements on our own assessment of the risks involved, recognising the potential costs to the taxpayer which can be involved in supporting project business. I cannot say how long the review will take or pre-judge its outcome. I can assure you, however, that we will complete it as soon as we reasonably can.

ECGD Premiums and South Africa

Turning to the question of premiums, I acknowledge that ECGD's rates are among the highest being charged by Export Credit Agencies. However, I must stress that in arriving at ECGD premium rates we have taken into account the impact on UK competitiveness since the new rates are considerably lower than those which would be required if the full rigours of a wholly commercial PMS were to be implemented. I also appreciate your concern about "unilateral disarmament". Equally, we cannot automatically match every state aid offered abroad. This makes it all the more important to make progress in the international campaign to ensure that export credit premium rates for medium/long term credit business are set at economic levels and do not constitute a subsidy. So far the progress made is fairly encouraging; the Export Credit Group of the OECD Trade Committee have agreed to undertake a comparative study of premium systems

and charges, utilising a questionnaire developed by ECGD. In addition, ECGD has been instrumental in initiating discussion of premium systems in the relevant EC Working Group in Brussels and in the Berne Union (International Union of Credit Insurers). In both instances the studies are to be taken further. We are also aware of a number of agencies reviewing their rates. I doubt that we would have made this progress without the increase in the UK rates. More importantly, it would be difficult to justify delaying increasing premiums against the background of claims still running at eight times the level of premium income.

You touch specifically on the question of premiums for South Africa. Supporting business with South Africa is not without its risks and, as you know, ECGD is already heavily exposed on the market. Premium rates are of course periodically reviewed. But the PMS necessarily involves a more disciplined and prudent approach to risk assessment and pricing. The fact that ECGD may have paid few, if any, claims on South Africa so far is not the only factor. If we look at what happened to the problem debt markets which have contributed to ECGD's cash deficit it is striking that none gave rise to more than a handful of claims in respect of project business before they defaulted generally.

Privatisation

From your comments about the arrangements to privatise the short-term business of ECGD, I see that your specific concern relates to the possible duration, rather than the substance, of the Government support arrangements following privatisation. Tim Sainsbury has already assured Parliament that the "national interest" facility is not subject to a specific time limit and will be kept under close review. I would hope that this would be welcomed by exporters. The "top up" reinsurance facility is designed to assist the transition of the company to the private sector during the first three years. It is quite premature and misleading to conclude that the private sector reinsurance market will not be able to handle the company's business. In fact, the majority of the required reinsurance capacity is already committed. Because of the commercial sensitivities it has not

been possible for us to give specific details on the success being achieved in establishing the private sector reinsurance programme. Incidentally, I understand that over £8 billion of the £12.3 billion reinsurance you quote as being provided by the Dutch Government to NCM relates to medium term business ie the sort of which will remain with ECGD and will not be privatised.

ATP

You also mention ATP. This year's problem is one of success. As a result of an exceptional run of successes by UK companies in securing ATP funded businesses, we are unable to make further ATP offers involving expenditure this financial year.

But some headroom currently remains in 1992/93 and beyond, and ATP offers can still be made on this basis. More generally, I have to say that not all infrastructure projects in markets such as China, Indonesia, Thailand, Malaysia and Turkey are won on aid terms. It is true that aid may be invoked in these markets more often than we would wish - hence our attempt to introduce with other donors greater discipline and transparency into the use of tied aid credits - but even in these markets business can be transacted on commercial terms. Given that the ATP budget is not unlimited, it is essential that we use it only when we are convinced that a project cannot proceed on a commercial basis.

You describe the ATP procedures as "arthritic". I accept that they may not be either as rapid or as flexible as some companies would wish. But they exist for the necessary purpose of ensuring that taxpayers' money is used only in support of sound projects which require aid if they are to proceed. Within that constraint the departments concerned do everything possible to ensure that cases are dealt with as rapidly as possible. If you have specific suggestions for further speeding up the process we shall of course be glad to look at these.

Kenya Coastal Loop Project

You mentioned specifically the Coastal Loop Telecommunications Project from Kenya. I recognise the importance of this both to Kenya and to the business it would bring to the company. It was not a simple case, and we did not need to offer ATP if the contract could be won commercially. In the event, as you know, we went ahead with an appraisal of the project as finally put to us in May 1990 even though the position over ECGD cover was uncertain. In practice, for most of the last year there has been no possibility of an ATP offer since there has been no ECGD cover available to support the project. We have nonetheless continued to process the project in case sufficient cover should become available.

However, I have to say the prospects of ECGD cover for this business are not good. Kenya's economic situation and defaults on existing obligations make the risks of further ECGD exposure unacceptable in current circumstances. If existing outstanding payments are settled and repayments due in the next few months are met, cover will be released equivalent in value to those repayments. This very modest amount of cover will be allocated to projects which the Kenyan authorities deem to be of sufficiently high priority. It appears likely that other business will be nominated by the Kenyans.

Whilst the position will be reviewed again towards the end of the year, without a drastic improvement in the Kenyan economic position there is unlikely to be further substantial ECGD cover. The state of Kenya's economy is indicated by the fact that the IMF has agreed only a very modest annual ceiling on new non-concessional borrowing. The Kenyans have recently confirmed that this limit has already been filled for this year.

Thank you again for taking the trouble to set out your concerns in such detail. I fully understand the significance of the issues you raise but I hope that for your part you will appreciate that Government cannot escape the difficult task of weighing the balance between the legitimate needs of exporters

and what the experience of the last ten years has proved to be a very high cost to the taxpayer of providing support in this area. I confirm again the importance we attach to the capital goods sector and the need to provide a stable framework of support for project exports.

Your Ever
faithful
— —

Ms. Sue Bishop,
Department of Trade and Industry.

The Right Honourable The Lord Prior



Handwritten signature

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

Handwritten initials

13 June 1991

I attach a copy of a letter Andrew Turnbull has received from Lord Prior.

I should be grateful if you could provide a draft reply for the Prime Minister's signature. It would be helpful if this could reach me by Thursday 27 June.

I am copying this letter to Christopher Prentice (Foreign and Commonwealth Office).

J. S. WALL

Ms. Sue Bishop,
Department of Trade and Industry.

Handwritten initials

THE GENERAL ELECTRIC COMPANY, p.l.c.

1 STANHOPE GATE · LONDON W1A 1EH

071-493 8484

FROM THE CHAIRMAN
THE RT. HON. LORD PRIOR, PC

Andrew Turnbull, Esq.,
Private Secretary to the Prime Minister,
10 Downing Street,
LONDON S.W.1.

13th June, 1991

Dear Andrew,

I am enclosing a brief for the Prime Minister about a public switching opportunity in Spain for GPT. I should be very grateful if the Prime Minister could have a look at it and then speak to Felipe Gonzalez when they meet at the next Heads of Government ministerial meeting. You will see that Mr. Gonzalez will be expecting to be asked about it.

Yours sincerely
Andrew Turnbull

REGISTERED IN ENGLAND NO. 67307 · REGISTERED OFFICE: 1 STANHOPE GATE, LONDON

meeting.

PUBLIC SWITCHING OPPORTUNITY IN SPAIN

BRIEF FOR PRIME MINISTER

Since establishing an office in Madrid in early 1990, GPT have been discussing the supply of System X public exchanges to Telefonica. Telefonica are the private, monopoly public telecommunications operator in Spain. These discussions culminated in an offer, submitted on the 10.4.91, to supply a single 5000 line exchange successfully, then to become the fourth exchange supplier to Telefonica with expected business of 300,000 lines (over £30 million) per year. Success will also offer opportunities in other Hispanic market places. So far the offer has been approved on a technical basis and it is known to be very competitive.

A key issue in selecting GPT as a supplier is the effect on the Spanish telecommunications employment market. GPT can make this very competitive offer by manufacturing the equipment in the UK. The effects on the Spanish employment market are expected to be minimal because GPT would not be a dominant supplier.

The benefits to Telefonica are the stimulation of competition between the existing suppliers, improved service quality perceived by both users and operator, acknowledgement of the EEC spirit of open procurement.

GPT feel there would be impetus added to the offer decision if the Prime Minister could ask an appropriate question of the Prime Minister of Spain at the forthcoming EEC meeting on the 28th and 29th June 1991. The question would be along the lines of, "GPT have offered System X to Telefonica to help them improve their network. The offer has been approved technically and we know it is very competitive, could you comment on how it is progressing?"

GPT's partners in Spain are Telecommunications y Electronica (TYE) whose new Managing Director has recently relinquished the post of Secretary of State for Commercial Affairs. The UK's Prime Minister's intent to ask the question will be made known to the Spanish Prime Minister's Aides. Our partners inform us that the meeting agenda is short which will improve the opportunity for such a meeting.



CCP

Foreign &
Commonwealth
Office

12 June 1991

London SW1A 2AH

Pear Stephen,

ECGD: Lord Prior's Letter

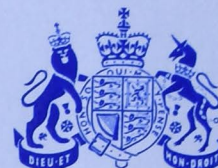
filed into JSW

The Foreign Secretary has seen the proposed reply to Lord Prior's letter of 24 May in Martin Stanley's letter of 10 June and thinks that it addresses well the issues which have been before Ministers in past months.

The Foreign Secretary is sure that we should not lightly deprive British exporters of the chance to compete, on comparable terms with their competitors, for major project business in growing markets. Of course we need to improve ECGD's finances. He welcomes the improvements in ECGD's risk assessment methods, and moves to link more closely premium rates to risk but notes that we have consistently argued that we should not impede ECGD's ability to sell to British exporters a service they badly need when other governments are providing it to their competitors.

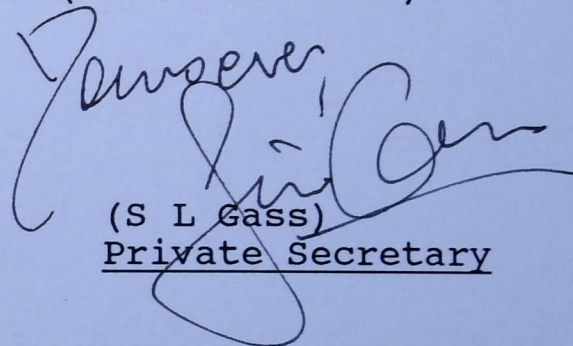
There is a balance to be struck and it is perhaps a little too early to tell whether we have got this balance absolutely right. For example, the Foreign Secretary shares Lord Prior's concern about the wisdom of applying tight limits on the volume of cover available in relatively low risk markets such as Indonesia and South Africa. There is some force in his allegation that we are practising unilateral disarmament by raising premium rates to a level far higher than that of ECGD's competitors, in the hope that they will follow. We can expect continued lobbying on this from our exporters.

The Foreign Secretary believes that until we can persuade other governments to base their export credit policies on principles similar to those of the PMS, HMG will be vulnerable to criticism from those who believe PMS was an own goal. He does not suggest that we retreat from our agreed policy. However, we may need to look at the subject again in the light of the first few months' experience of PMS and of our efforts to achieve a level playing field with other export credit agencies.



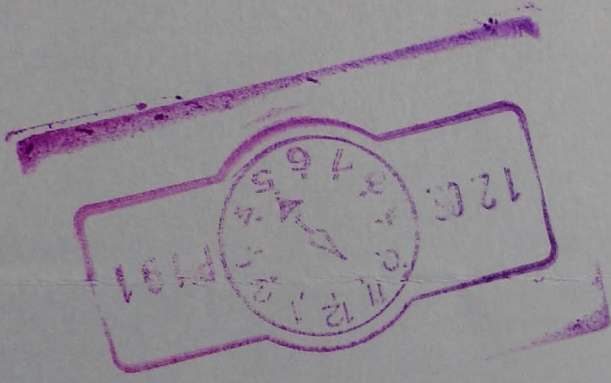
The Foreign Secretary can understand the frustration of exporters who have faced uncertainty about the availability of ECGD cover in certain markets because of the inordinate amount of time it has taken to agree on the implementation of PMS. However, he hopes that, now that the business budget for this financial year has been agreed, ECGD will be allowed to get on with their business, implementating PMS as flexibly as possible.

I am copying this letter to Martin Stanley (Department of Trade and Industry), Nicholas Holgate (HM Treasury), Suma Chakrabarti (Overseas Development Administration) and Sonia Phippard (Cabinet Office).


(S L Gass)
Private Secretary

J S Wall Esq
10 Downing Street

PM: better into examples of latent
press



The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry



FAX COPY
WITH JSW

J S Wall Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Direct Line
071-215 4440

DTI Enquiries
071-215 5000

10 June 1991

Dear Sir,

REPLY TO LORD PRIOR'S LETTER OF 24 MAY 1991

Thank you for your letter of 15 May 1991.

My Secretary of State has considered the points raised in Lord Prior's letter and suggests that the Prime Minister should reply along the lines of the attached draft. The draft deals with each of the main issues raised but refrains from commenting on every point of detail.

My Secretary of State has asked me to point out that Lord Prior's letter is typical of a considerable volume of high level representations from industry about Government policy towards support for UK exporters. The Prime Minister has also been exposed to some of this lobbying. These representations are not unexpected particularly following the introduction by ECGD of new premium rates at the beginning of May (aggravated by delays in reaching agreement) and the non-availability of ATP for new offers in this financial year. ECGD premium rates are now the highest of any Export Credit Agency (ECA) and in many markets cover is not available to British exporters from ECGD when it is available to overseas competitors for their ECAs. To this extent, it is true that British capital goods and project exporters often do not face a "level playing field". My Secretary of State believes that we must therefore maintain the campaign to persuade other countries to introduce more economic premium rates.

The ATP question will not be easy to handle. It is inevitably a volatile budget given its dependence on contracts won in a competitive environment. Our firms are currently having a number of successes in concessionally financed projects, and this is putting pressure on this financial year. And pressure is already building up on 1992/93.

dti

the department for Enterprise



Recycled Paper



The draft letter has been cleared by officials in the Treasury, Foreign and Commonwealth Office and Overseas Development Administration. You will, however, wish to ensure that it is consistent with what the Prime Minister told Lord Prior when they met a couple of weeks ago.

I am copying this letter and attachment to Simon Gass (Foreign and Commonwealth Office), Suma Chakrabarti (Overseas Development Administration), Jeremy Heywood and Nicholas Holgate (HM Treasury) and to Sonia Phippard (Cabinet Office).

Yours truly

Martin Stanley

SCANNED

DRAFT LETTER TO LORD PRIOR FOR SIGNATURE OF THE PRIME MINISTER

12/11/6

Thank you for your letter of 24 May.

I am grateful to you for following up our meeting with such a full and frank explanation of your concerns. Before turning to the more detailed points, I would like to make a few general comments.

I accept entirely that industry is bound to be concerned about measures which will affect its competitiveness. From your perspective, higher ECGD premium rates, controls on ECGD cover availability, shortage of ATP and so on are obviously unwelcome. However, this is only part of the picture. GEC is also benefitting from corporation tax rates which are the lowest in the European Community and the Group of Seven. And GEC's employees are benefitting from low income tax rates. Our decisions on ECGD must therefore take account of the high costs of our support for exports. Exports which are not paid for are of no benefit to the UK and we cannot, therefore, overlook the very high levels of claims paid by ECGD in the last six or seven years. The Government, therefore, needs to take decisions which balance the often conflicting interests of exporters and the taxpayer.

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Let me now turn to the more specific issues you raise.

Government support for project exports -

Hunan Telecommunications/China Project

The Government recognises that it has an important role to play in helping UK companies win project business

overseas, by providing appropriate political and diplomatic support. In the example you gave, the Hunan Five Cities project in China, GPT have received a consistently high level of support from the Government. It was the first project to receive an offer of ATP following relaxations of the Madrid agreement. We have also pressed for the acceptance of System X as an approved switching system in China and will continue to do so.

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Turning to the question of premiums, I acknowledge that ECGD's rates are among the highest being charged by Export Credit Agencies. However, I must stress that in arriving at ECGD premium rates we have taken into account the impact on UK competitiveness since the new rates are considerably lower than those which would be required if

the full rigours of a wholly commercial PMS were to be implemented. I also appreciate your concern about "unilateral disarmament". This makes it all the more important to make progress in the international campaign to ensure that export credit premium rates for medium/long term credit business are set at economic levels and do not constitute a subsidy. So far the progress made is fairly encouraging; the Export Credit Group of the OECD Trade Committee have agreed to undertake a comparative study of premium systems and charges, utilising a questionnaire developed by ECGD. In addition, ECGD has been instrumental in initiating discussion of premium systems in the relevant EC Working Group in Brussels and in the Berne Union (International Union of Credit Insurers). In both instances the studies are to be taken further. We are also aware of a number of agencies reviewing their rates. I doubt that we would have made this progress without the increase in the UK rates. More importantly, it would be difficult to justify delaying increasing premiums against the background of claims still running at eight times the level of premium income.

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involves a more disciplined and prudent approach to risk assessment and pricing, ~~taking account of such factors.~~ The fact that ECGD may have paid few, if any, claims on South Africa so far is not the only factor. If we look at what happened to the problem debt markets which have contributed to ECGD's cash deficit it is striking that none gave rise to more than a handful of claims in respect of project business before they defaulted generally.

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~~proceed on a commercial basis.~~

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some headroom currently remains in 1992/93 and beyond, and ATP offers can still be made on this basis. More generally, I have to say that not all infrastructure projects in markets such as China, Indonesia, Thailand, Malaysia and Turkey are won on aid terms. It is true that aid may be invoked in these markets more often than we would wish - hence our attempt to introduce with other donors greater discipline and transparency into the use of tied aid credits - but even in these markets business can be transacted on commercial terms. Given that the ATP budget is not unlimited, it is essential that we use it only when we are convinced that a project cannot proceed on a commercial basis.

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Kenya Coastal Loop Project

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practice, for most of the last year there has been no possibility of an ATP offer since there has been no ECGD cover available to support the project. We have nonetheless continued to process the project in case

sufficient cover should become available. the experience of the last 10 years has proved to be a very high cost to

However, I have to say the prospects of ECGD cover for this business are not good. Kenya's economic situation and defaults on existing obligations make the risks of further ECGD exposure unacceptable in current circumstances. If existing outstanding payments are settled and repayments due in the next few months are met, cover will be released equivalent in value to those repayments. This very modest amount of cover will be allocated to projects which the Kenyan authorities deem to be of sufficiently high priority. It appears likely that other business will be nominated by the Kenyans.

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Thank you again for taking the trouble to set out your concerns in such detail. I fully understand the significance of the issues you raise but I hope that for your part you will appreciate that Government cannot escape the difficult task of weighing the balance between

the legitimate needs of exporters and what the experience of the last 10 years has proved to be a very high cost to the taxpayer of providing support in this area. I confirm again the importance we attach to the capital goods sector and the need to provide a stable framework of support for project exports.

Alan John

I think I owe you an explanation for my lack of knowledge of my letter to you. On Friday I was approached by the Financial Times on the subject of ECGD. At an interview I expressed certain reservations on Government policy. I mentioned that I had written to David Butler at the Treasury. I was a little surprised to receive a call from the Financial Times to say that they had contacted the Treasury who had no knowledge of my letter to David. I knew I had written to the Prime Minister. The letter to David was dated 3rd March. Unfortunately I have had no reply, but I do not wish to be accused of being untruthful to you.

Alan John

C F
PPS.

THE GENERAL ELECTRIC COMPANY, p.l.c.

1 STANHOPE GATE · LONDON W1A 1EH

071-493 8484

FROM THE CHAIRMAN
THE RT. HON. LORD PRIOR, PC

The Rt. Hon. John Major, MP,
Prime Minister,
10 Downing Street,
LONDON S.W.1.

4th June, 1991

Alan John

I think I owe you an explanation as to how the knowledge of my letter to you became public property. Last Friday I was approached by the Financial Times on the subject of ECGD. At an interview in which I expressed certain reservations on Government policy, I mentioned that I had written to David Mellor at the Treasury. I was a little surprised to receive a call that evening from the Financial Times to say that they had checked with the Treasury who had no knowledge of my letter to David, but knew I had written to the Prime Minister. The letter to David was dated 3rd March. Incidentally, I have had no reply, but I do not wish to be thought to be discourteous to you.

Alan

[Signature]



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 May 1991

Dear Martin,

As you know, when Lord Prior called on the Prime Minister last week he said that he would write about his concerns on ECGD in general and the Kenyan Coastal Loop Project in particular.

Lord Prior has now written and I enclose a copy of his letter. I should be grateful for a draft reply for the Prime Minister's signature, cleared as necessary with other departments.

I think the Prime Minister will attach importance to the draft being looked at carefully by Mr Lilley himself before it comes to him. The Prime Minister will want to address Lord Prior's concerns as effectively as possible and not fob him off with a standard reply.

I am copying this letter and enclosure to Simon Gass (Foreign and Commonwealth Office), Suma Chakrabarti (Overseas Development Administration), Jeremy Heywood and Nicholas Holgate (HM Treasury) and to Sonia Phippard (Cabinet Office).

J. S. Wall

J S WALL

Martin Stanley Esq
Department of Trade and Industry

KW

THE GENERAL ELECTRIC COMPANY, p.l.c.

1 STANHOPE GATE · LONDON W1A 1EH

071-493 8484

FROM THE CHAIRMAN
THE RT. HON. LORD PRIOR, PC

The Rt. Hon. John Major, MP,
Prime Minister,
10 Downing Street,
LONDON S.W.1.



24th May, 1991

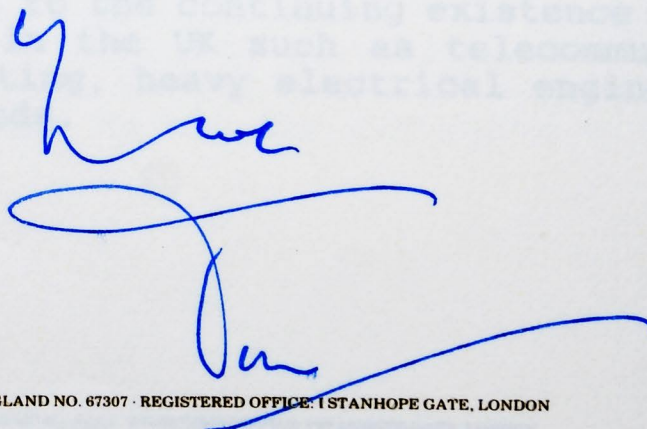
When we met, I said it would be valuable if you could meet a very small group of industrialists who have expressed anxiety to me about various aspects of industrial policy. I could, of course, accompany the group if you thought that helpful, but will leave this entirely to you.

The group is as follows:

Lord Toombs	Chairman of Rolls Royce and NEI
Mr. Alan Gormley	Chief Executive of John Brown
Sir William Barlow	Chairman of BICC (which includes Balfour Beatty)

If it would help your office, once you have fixed a convenient time, I will gather the others around.

If your office would like other lists for you to meet, or for Norman Lamont, then of course I can prepare these. If it would help, we could always arrange for some hospitality here at dinner time.



THE GENERAL ELECTRIC COMPANY, p.l.c.

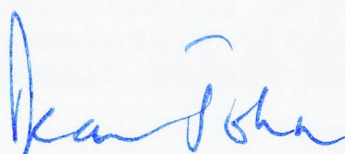
1 STANHOPE GATE · LONDON W1A 1EH

071-493 8484

FROM THE CHAIRMAN
THE RT. HON. LORD PRIOR, PC

The Rt. Hon. John Major, MP,
Prime Minister,
10 Downing Street,
London SW1

24th May, 1991



When we met last week I suggested I should put down on paper some of the problems industry faces in dealing with Government in trying to win more business overseas. At present, as I said to you, I fear that relations between Government and industry, particularly those of us who are engaged in trying to expand our exports, are at a very low ebb. There are many reasons for this, and I will try to list some of them.

I should begin by emphasising that all my experience since becoming Chairman of GEC suggests that in many parts of the world political and other support from Governments is essential to obtain business. It is not enough that companies should be "competitive" to succeed. It is a well documented fact that the great mass of our competitors are able to call upon substantial political and other support from their Governments and British exporters need at least some measure of support from HMG especially if we are to continue to win project business overseas. After all, winning such business is vital to the continuing existence of several important industries in the UK such as telecommunications, process plant contracting, heavy electrical engineering and capital electronic goods.

/.....

Exporters need, first of all, political and diplomatic support, even where no financial support is required. But I do not see our companies obtaining the same level of support as, eg: the French gave on the Hunan Telecommunications Project in China, about which you have seen some correspondence from GEC/Plessey Telecommunications (GPT). That support needs to be organised by the DTI, but it involved others, especially the FCO, who generally are very helpful, other Departments as necessary and even yourself if the opportunity occurs. Political support costs little, but is absolutely vital to our success. What happened in relation to Kuwait should be the model.

Turning to ECGD, the very strong impression industry has is that the Treasury wishes to get rid of ECGD - the "zero option". Having failed to persuade the Cabinet that this was a desirable policy, those concerned now seem to be endeavouring to attain the same objective through the PMS review and heavy increases in premiums. The review itself took many months and is still not yet finally completed. While it was going on Banks and exporters were unable to obtain answers to requests for cover and a great deal of uncertainty was generated. It is not unfair to say that important customers were alienated during this period and the whole episode illustrates very well the lack of realism in the Treasury so far as the outside world is concerned.

Moreover, the result of the review so far as we understand it is not at all encouraging in that medium term credit facilities seem likely to be very limited in many promising markets, eg, Indonesia, China and Malaysia, simply because we have been successful in the past in these countries. There are also some difficult markets where it seems likely that nothing will be available even though a case for supporting medium term credit facilities on a selective basis can reasonably be made. An example is the Soviet Union, where if no medium term credit is available our position will stand in stark contrast to the rest of the world and UK companies will be unable to bid for contracts of any size.

/.....

I know very well that the Soviet Union does not look such a good risk at the moment, but they have never reneged on a debt guaranteed by the Vnesheconombank, and there are good projects available to UK industry which could strengthen the Soviet foreign exchange position.

As to premiums, as I said to you, it has recently become apparent from their own survey that ECGD is the most expensive credit agency in the world - often by a very substantial margin - despite the assurance given by Nicholas Ridley last year. In South Africa, for example, premiums for business there are $2\frac{1}{2}$ to $3\frac{1}{2}$ times the level of the Germany, French, Italian and Swiss credit agencies. Broadly, the same picture is true around the world for both medium and short term business with sometimes the premium amounting to double percentage figures, which seems designed to prevent us obtaining the business rather than being an assessment of risk. The numbers involved are not small and may amount to tens of millions of pounds in relation to a major project, all of which has to be incorporated in our price which may well make us uncompetitive compared to other bidders. I do not believe that these figures can be derived from any rational analysis of the risks involved. Taking South Africa again as an example, though it is only an example, ECGD is unable to recall when they last paid a claim in that country and South Africa has recorded a current account surplus and a reduction in its foreign debt in every one of the last six years. UK exports to South Africa rose to almost £1.2 billion last year, about 65% of which were capital goods. Export finance on terms equivalent to that available to our competitors is, therefore, crucial. We are told that it is the policy of the Government on ECGD's premiums to persuade other Governments to follow its heroic example. I will not comment on the realism of that stance but merely ask when it became our policy to indulge in unilateral disarmament!

/.....

The Bill dealing with the privatisation of ECGD's short term business, as at present drafted, also seems to pose grave dangers to exporters. GEC is probably the biggest customer of Cardiff and also uses the private insurance sector. Our experience of private sector insurance suggests that it is most unlikely that the facilities offered by the Cardiff office will be wholly replaced by the private sector, unless what is known as a "top up" facility is available from ECGD for the foreseeable future. The current state of the UK insurance market with recent experience of hurricanes in the UK, Piper Alpha and asbestosis, is bad which is reflected in the state of Lloyd's and the lack of British companies interested in acquiring ECGD's business. The only candidate, Trade Indemnity, lost £28.8M last year. There is no point in praying in aid the international reinsurance market since that is already available to underwriters and fully taken into account in determining the level of risk they are prepared to underwrite. In these circumstances it seems to me to be the height of folly to take away the "top up" facility from ECGD in three years time, as is currently proposed, when nobody knows how the private sector will perform. If the private sector is unable to match the quality and scope of ECGD's facilities then thousands of exporters up and down the country will suffer. If, however, I am wrong then the facility need not be used. In these circumstance the right approach should be for a top up facility to be available under the legislation until it is clearly seen that the private insurance sector has responded satisfactorily. In addition a facility to cover national interest of political risk cases will be required indefinitely. The Dutch company, NCM, which seems to be the front runner at the moment to take on ECGD's Cardiff Office, had re-insurance from the Dutch Government at the end of 1989 for a total of £12.3 billion of political risk cover. I do not know how the Dutch Government defines "political risk", and it would be interesting to find out, but certainly it appears to be readily available in Holland and similar backing from HMG will be required here.

/.....

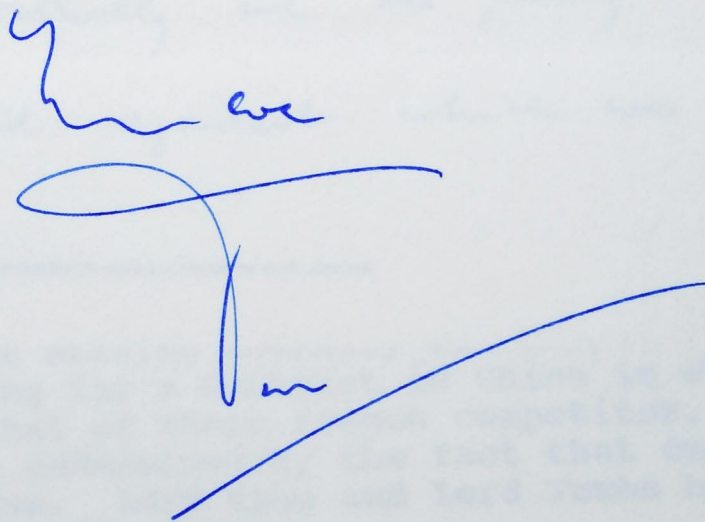
Finally I must refer to the ATP facility. It has been decided right at the beginning of the current financial year that no further offers can be made as the budget for this year seems likely to be fully taken up. There are also gloomy forecasts about next year. Unfortunately, there is no way that infrastructure projects in certain important markets, such as China, Indonesia, Thailand, Malaysia and Turkey, can be obtained without some element of soft money. Like it or not our competitors provide such money on a scale which we do not begin to match and have access to it with an ease which makes our difficulties to reach agreement with Departments on making an offer even more galling. A relatively small sum of money, say £30M - £40M added to that budget over the next two years together with a flexibility in rolling over the funds available from one year to another which is also necessary for a budget that is inherently very difficult to manage, would help enormously. Without some such amelioration I am afraid there will be little or no business for industry in the territories to which it is applicable for a long time, if ever again. I know that discussions are going on with other countries to eliminate or reduce the use of soft money but our experience is that the steps taken so far in this field to make it more expensive have merely led other countries to increase their commitments.

I must also refer to the procedures that we have to follow in order to obtain the use of the ATP facility. They can only be described as arthritic. I mentioned to you the Kenya Coastal Loop Project pursued by GPT. This project is worthwhile by any standards, commercially, industrially and developmentally. It will bring much needed foreign exchange to Kenya. It has been tailored specifically to meet the requirements of the Departments involved, particularly ODA. We first started to talk to HMG in March 1989, over two years ago. The Kenyans are still waiting for an offer although a contract has been awarded to us subject to the appropriate finance. Unless we receive some strong indication that we will be able to proceed early in June it is

/.....

likely that we will have to declare redundancies within the division concerned. It seems to me quite wrong that a relatively simple case of this character should take so long to resolve. You will understand how difficult it is for companies to plan their business on such an uncertain basis. Perhaps I could ask you to see whether something could not be done, in particular, for this project quickly. But I would emphasise that it is fairly typical of the problems companies have in dealing with Government in this area; the procedures need to be reviewed and rationalised and decisions taken far more quickly.

I am writing to you separately about the idea of a small delegation to see you, but they would certainly wish to raise with you the current lack of confidence between exporters and the Government. The present situation is damaging economically and will be damaging politically in the short term. It also directly affects our political standing in non OECD countries. It does not simply affect big business, but many companies large and small up and down the country. I would not be writing to you at this length but for the seriousness of what I have described and I do hope you will feel able to do something to improve a deplorable situation.



THE GENERAL ELECTRIC COMPANY, p.l.c.

1 STANHOPE GATE · LONDON W1A 1EH

071-493 8484

FROM THE CHAIRMAN
THE RT. HON. LORD PRIOR, PC

~~Ruise M...~~

Do you want us
to go find time for the
meeting below?
23/5

for the 27/5

Dear John,

Thank you for our talks last week.

I enclose a long letter which deals with
a number of the points raised. As it will
go round Whitehall I have set out the
arguments fully. I only hope that Whitehall
will not draft a reply telling us that we
are not competitive and have to plug away
at overseas markets. Actually we do pretty
well, but it is state aid against which we
need help!

I ought to mention that
GPT is certain to have at least 200
redundancies at Bechtel ^{relatively} very soon
unless we can clinch the Kenya deal

If there are any ways
in which I can help you personally
please let me know.

Yours
J
W



SUBJECT cc Martin

File
BSG

cc PB
PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 May 1991

Dea Martin,

CALL ON THE PRIME MINISTER BY LORD PRIOR

Thank you for your letter of 14 May and for the briefing for Lord Prior's call on the Prime Minister.

Lord Prior said that the content, as opposed to the tone, of the letter to the Prime Minister from the GPT Network Systems Group had been right. The Company's concern reflected wider anxiety about the lack of availability of ATP and about interest rates on ECGD and lack of cover in some markets. Lord Prior saw a risk that the Government's policy would not only lead to a loss of jobs in the short term, but to the loss of quite a lot of industry which would not then be there when it was most needed. Another example was South Africa which was a very good market with no history of defaults, but where our rates were three times higher than those of our competitors. He cited the Dutch as competitors whose Government was willing to carry a much greater degree of exposure than we were.

Lord Prior said that British industry was competitive. For example, GEC was tendering for a contract in China in which their bid was 15% lower than that of their French competitor. But its competitive position was undermined by the fact that our terms of credit were more expensive. Lord King and Lord Tombs had made representations to him on this point.

Lord Prior said that a little release of ATP funds would help. An extra £15-20 million this year and next would make a big difference, given that one could multiply by ten the sum the Government put in in terms of business to be won. Closing off ATP for this year meant that industry could not in practice look for any fresh business.

The Prime Minister noted these points but did not comment in substance since Lord Prior said that he would follow them up in writing.

I am copying this letter to Simon Gass (Foreign and Commonwealth Office) and Suma Chakrabarti (Overseas Development Administration).

Jans.

J. S. Wall

J. S. Wall

Martin Stanley, Esq.,
Department of Trade and Industry.



The Rt. Hon. Peter Lilley MP

J S Wall Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

**Department of
Trade and Industry**

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071 215 5621
Our ref JW5115
Your ref
Date 15 May 1991

file X

Don Slipp

CALL ON THE PRIME MINISTER BY LORD PRIOR

I wrote to you ~~yesterday~~ ^{attached} with briefing for today's meeting.

Merely for the record, I should like to posthumously correct the penultimate sentence of the last page of the brief, in which we said that the Foreign Secretary disagreed with Mr Lilley's recommendation on the Hunan project.

We should have said that we understand that FCO officials disagree with Mr Lilley's recommendation, but the papers had not at that time been put in front of the Foreign Secretary.

I am copying this to Simon Gass and Suma Chakrabarti.

Yes

MARTIN STANLEY
Private Secretary

dti

the department for Enterprise



Recycled Paper



cc P
cc Back-up

The Rt. Hon. Peter Lilley MP

J S Wall Esq
Private Secretary to
the Prime Secretary
10 Downing Street
LONDON
SW1A 2AA

**Department of
Trade and Industry**

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line
Our ref 071-215 5621
Your ref PE5196
Date

14 May 1991

CALL ON THE PRIME MINISTER BY LORD PRIOR

In response to your letter of 11 May, I earlier today faxed you a brief for the Prime Minister's meeting with Lord Prior on Wednesday, 15 May. This was prepared by ECGD in consultation with ODA and DTI.

ECGD believe it is at least possible that, although the meeting has been requested to discuss the particular case of GPT's contract in Kenya, Lord Prior will wish to use this as an entrée to discussion of ECGD and other official support generally for project and capital goods exports, in the light of what he sees as the effect on Government backing for the UK export effort of the changes resulting from the introduction of ECGD's Portfolio Management Systems (PMS). The brief therefore dealt with this wider subject and also with the proposed privatisation of ECGD's Insurance Services business.

I now attach a clean and final version of the brief, which differs from the fax in the following ways:

1. Para 5 of the first part of the brief (sidelined, dealing with ATP) has been amended by ODA, although its sense is not greatly different to the original.
2. I have made two manuscript changes to the third page of the brief (again sidelined).

dti

the department for Enterprise



Recycled Paper

3. I attach further briefing (which was not earlier faxed to you) in case Lord Prior raises Telectron or Hunan.

I am copying this letter and attachments to Simon Gass (FCO) and Suma Chakrabarti (ODA).

*Yours
Martin*

MARTIN STANLEY
Principal Private Secretary

BRIEF FOR PRIME MINISTER'S MEETING WITH LORD PRIOR, WEDNESDAY,
15 MAY 1991

ECGD COVER AND ATP SUPPORT FOR GPT PROJECT IN KENYA

LINE TO TAKE

1 Appreciate concern at restrictions on ECGD cover for Kenya and ATP support generally this financial year. However, no commitment of ECGD cover or ATP support was ever given to GPT.

ECGD Cover

2 The Kenyan Government is already in default on some payments and the overall Kenyan economic situation is so uncertain that further ECGD exposure would be extremely risky. Therefore Government has decided that new ECGD cover should be made available only if, when and to the extent that Kenyan Government meets outstanding payments and honours repayment obligations under existing facilities.

3 These repayments, if made, will release only limited amounts of cover. In view of heavy demand, Kenyan authorities have been asked to assess and submit their priorities for its use. Initial response suggests other business is likely to have higher priority in Kenyan eyes. Therefore, regrettably, it is difficult to foresee ECGD cover being available for the Coastal Loop Radio Project in near future.

4 Position will be reviewed again towards the end of this year but unless there are real improvements in Kenyan economic performance there is not likely to be further substantial new ECGD cover. Kenya's economic position is now so difficult that the IMF has agreed only a very modest ceiling on new non-concessional borrowing. The Kenyans have just confirmed that this limit has already been filled for the current year.

ATP

Revised

5. Recent successes by UK companies in winning ATP-supported projects have resulted in heavy over-commitment of the ATP budget. Therefore, if the Kenyan Government gave GPT project priority over all others, if aid support was agreed, and if ECGD cover was available, financing arrangements would have to be such that no aid was drawn down before April 1992.

ECGD COVER
May 1991

2. However, arrangements for ECGD cover have recently been reviewed in view of the high level of Kenya's debts. Ministers decided that further cover should be made available over the next 6 months only as and when, and to the extent that, the Kenyans make repayments under existing facilities. If the Kenyans meet certain payments already outstanding and those falling due from April to September this will release a very limited amount of fresh cover. (The principal and interest due under any export credit arrangements, the principal amounts of any new facilities which could be supported would amount to an aggregate value of only about £16m).

3. In view of the vast excess of demand for ECGD cover over and above this level and the impracticality of operating on a normal "first come, first served" basis for allocating the available cover, it has also been agreed that the Kenyans should be invited to nominate the projects which they wish to give priority for the use of the cover. Initial soundings of the Kenyans via the British High Commission in Nairobi suggest that the GPT Coastal Loop project is unlikely to feature in the immediate priorities. If this is confirmed, there will be not be enough ECGD cover for the contract.

Enough

BACKGROUND

1 The Group Director of GEC Plessey Telecommunications (GPT), Network Systems, wrote to the Prime Minister on 30 April about the company's difficulties in finalising arrangements to finance a £23m contract signed with the Kenyan Posts and Telecommunications Corporation in June 1990. The company hoped to secure grant aid funds under the Aid and Trade Provision (ATP) for 35% of the contract value with the balance to be financed by way of an ECGD-supported export credit facility.

ECGD COVER

2 However, arrangements for ECGD cover have recently been reviewed in view of the high level of Kenya's debts. Ministers decided that further cover should be made available over the next 6 months only as and when, and to the extent that, the Kenyans make repayments under existing facilities. If the Kenyans meet certain payments already outstanding and those falling due from April to September this will release a very limited amount of fresh cover. (The principal ~~and interest~~ ~~sums due under any export credit arrangement, the principal~~ amounts of any new facilities which could be supported would amount to an aggregate value of only about £16m).

3 In view of the vast excess of demand for ECGD cover over and above this level and the impracticality of operating on a normal "first come, first served" basis for allocating the available cover, it has also been agreed that the Kenyans should be invited to nominate the projects which they wish to give priority for the use of the cover. Initial soundings of the Kenyans via the British High Commission in Nairobi suggest that the GPT Coastal Loop project is unlikely to feature in the immediate priorities. If this is confirmed, there will ~~be not be~~ ^{enough} ECGD cover for the contract.

4 Although ECGD issued an indication last year of the terms on which it would be willing to consider supporting the transaction, no commitment of such support was given and GPT have been regularly advised of the review of ECGD cover arrangements, whose outcome could not be prejudged.

5 Kenya benefits from an enhanced structural adjustment facility (ESAF) from the IMF, under the terms of which the Kenyan Government has agreed not to borrow overseas, on non concessional terms, more than US\$77.5m this financial year. They told our High Commission last week that they had already entered into commitments up to this limit on their borrowing.

ATP SUPPORT

6 The IMF ceiling on non concessional borrowing should not apply to business partly or wholly aid funded. GPT applied for ATP support for 35% (the OECD minimum) of their contract value. Again no commitment of support has been given to GPT and no offer of aid made to the Kenyan Government. Since the ATP budget for the current financial year has been fully committed, the only basis on which GPT could achieve their desired financial package would be if the Kenyans honoured their outstanding payment obligations and, contrary to their recent intimations, declared this project to be of sufficient priority to have the benefit of all the ECGD cover which might become available in the next 6 months, and if ATP support was agreed by ODA, and if GPT could devise acceptable arrangements to avoid a need to draw down such ATP funds until next financial year. There appears to be little realistic prospect of such a combination of factors and, therefore, the company should not be encouraged to think that the official support they seek will be forthcoming.

ECGD

May 1991

AVAILABILITY OF MEDIUM TERM COVER FOR PROJECT EXPORTS

POINTS TO MAKE

1 Stress that "Zero Option" (ie withdrawing all or most ECGD support for capital goods and project exports sold on two years credit or more) has been rejected and that Government policy is that a stable and viable framework of ECGD support for project exports will be made available. However, no avoiding the facts first that ECGD has incurred very heavy deficit on project business (it is currently borrowing about £3.5 billion from the Exchequer) and that it is simply not sensible (or helpful) for ECGD to encourage and support exports which are not paid for.

2 The Portfolio Management System (PMS) will involve controls on the availability of cover at the portfolio level, as well as on individual markets and cases.

3 PMS is designed specifically to recognise these points and to try to draw a balance between, on one hand, the national interest in supporting particular cases and the interests of exporters and, on the other hand, the interests of taxpayers who, at the end of the day, have to foot the bill for losses.

4 Confident that PMS will provide a framework of stable support within which exporters can pursue worthwhile project exports.

5 Broadly, the new framework reflects a view that ECGD should remain on cover for most higher risk markets, but at a price which reflects both the risks and the interests of the taxpayer and within prudent country limits.

6 ECGD have never sought to match availability of cover from other ECAs on a case by case basis. Overall, I am confident PMS framework will allow ECGD to support worthwhile project exports where there is a reasonable prospect of payment.

ECGD
May 1991

ECGD
May 1991

PMS PREMIUM RATES FOR PROJECT/CAPITAL GOODS EXPORTS

POINTS TO MAKE

1 There has been no general increase in ECGD premium rates for project business since 1984, despite the international debt crisis.

2 During this period ECGD has paid claims on project business equal to eight times its premium income.

3 Premium rates are not being put up to recoup past losses: PMS is essentially a forward looking system.

4 Thus some premium increases are justified, given both the risks involved and ECGD's financial position. Increases are being targeted on the higher risks. Better risks will qualify for reduced rates.

5 Account has been taken of the premium rates of other Export Credit Agencies and of the competitive position of British exporters. In other words, the full rigours of a "commercial" PMS system have not been applied.

6 Recognise that this means ECGD's rates are amongst the highest of Export Credit Agencies. Nevertheless, I am confident UK exporters will still be able to compete for worthwhile export orders, particularly in the better risk markets where premiums are to be reduced.

7 A vigorous international campaign is already underway to persuade other countries to charge more realistic premium rates. It should not be assumed that it is doomed to failure. Concern is growing in other countries about the deficits of their Export Credit Agencies.

8 Premium rate increases have to be seen in perspective. In many cases, they will have less impact on export prices than wage increases.

9 ECGD has never matched premium rates on individual cases. Nor do other Agencies. It would be a one way losing bet. After all, exporters would not expect to pay more if other ECAs were charging higher rates than ECGD on individual cases.

ECGD
May 1991

PRIVATISATION OF INSURANCE SERVICES

ISSUE 1: PURPOSE OF PRIVATISATION

POINTS TO MAKE

- Privatisation will give ECGD's Insurance Services Group freedom it needs to meet competitive and legal challenges of Single European Market.
- In private sector, Insurance Services will be able to offer British companies a more comprehensive, more flexible and even more up-to-date service.
- ECGD's counterparts in EC all making similar moves: changes will ensure UK exporters are not disadvantaged.
- Not true Government is not providing political risk reinsurance: it will do so and this has been made clear in assurances to Parliament.
- Not true that privatisation has "flopped": bids have been made by one of largest insurance companies in the world (Generali) and one of largest and most respected credit insurers is in the EC (NCM of Netherlands).

ISSUE 2: PREMIUM INCREASES FOR SHORT TERM BUSINESS AFTER PRIVATISATION

POINTS TO MAKE

- Market fiercely competitive: this keeps prices down.
- Existing rates are not subsidised but fixed according to commercial criteria. This will continue in private sector.

- Level of Insurance Services premium rates - whether in public or private sector - will be determined by claims experience, just like any other insurer.

ISSUE 3: EXPORTERS WILL SUFFER DROP IN SUPPORT

POINTS TO MAKE

- Private insurance market expected to take on vast bulk of current business.
- Government committed to maintain an adequate level of support for UK exporters. There will therefore be
 - for up to 3 years after privatisation a Government reinsurance facility to top up what is available from private market. (Top-up Reinsurance).
 - continuing ECGD support for business in more difficult places where there is no private market capacity at present. (National Interest Facility).
- Premature to speculate now on what the capacity of the private reinsurance market will be in 3 years' time.

ISSUE 4: PRIVATISATION HAS "FLOPPED"

POINTS TO MAKE

- Wide range of institutions expressed an interest in bidding for the business - six were shortlisted to receive an invitation to tender.
- Responses to Government's invitation to tender now received from

- Trade Indemnity (the UK's largest domestic credit insurer)
- Assicurazioni Generali (one of the largest general insurance companies in the world) and
- NCM (one of Europe's leading and most respected credit insurers).
- Responses currently being evaluated. Aim is to complete privatisation, subject to enabling legislation, by late summer.
- Premature to comment on any of the responses in advance of a proper evaluation.
- Government concerned to ensure that preferred purchaser will be committed to the business, including existing customer base. Price will be an important, but not the sole, factor, in determining choice of preferred purchaser.
- Many British exporters already use foreign-owned banks for their export and domestic business. Likewise many British banks offer facilities to foreign companies. Any attempt to interfere with these commercial arrangements would be contrary to EC regulations.
- Normal competition legislation and procedures will apply to the sale process. The Office of Fair Trading have been conducting their review of each bidder. Any monopoly or public interest concerns will be dealt with accordingly.

BRIEF FOR PRIME MINISTER'S MEETING WITH LORD PRIOR, WEDNESDAY 15
MAY 1991

ATP: KENYA: NORTH WEST DIGITAL MICROWAVE SYSTEM: TELETRON

Line to Take

(If raised). Understand that Telectron are still discussing situation with Kenyans. Keeping situation under review. Aware of GPT's interests.

Background

1 In June 1988, Telectron Systems Limited (part of AT&T International) were awarded a contract worth £12.04 million (separate £6 million contract for US element) to provide a digital microwave link between Nairobi and Kisumu. ATP support and ECGD backed export credit was offered for the UK element of the project and was accepted by the Kenyans. Since then, work has begun on the project, ATP of £1.835 million has been spent and ECGD supported loan funds have been drawn down.

2 The Kenyan telecommunications authority (KPTC) informed Telectron in a letter dated 22 March 1991 that work on the project should cease. The implication was that the contract value had increased by US\$6 million which was unacceptable to KPTC. Telectron replied that the increase in costs was a result of extra work requested by KPTC and that Telectron would be happy to return to the original contract. Telectron were aware that GPT wanted to take over the project and were unhappy that GPT appeared to be undermining KPTC's confidence in Telectron.

3 Telectron have improved the non UK element of their financing package and put forward a revised proposal to KPTC on 7 May. The reaction from officials at KPTC was positive but Mr N'geni, the Managing Director was out of the country. Officials said they would put forward a positive report to Mr N'geni on his return and Telectron would hear from KPTC within 2-3 weeks from 20 May.

4 However, GPT are anxious to meet officials at DTI as soon as possible to discuss taking over this project. They say they have a letter of intent from KPTC and that KPTC have now written to the Post in Nairobi outlining the situation (not yet seen).

5 We have been reluctant to meet GPT until we are certain of the situation. Preliminary investigation suggests that it would, in principle, be possible to transfer the ATP funds and ECGD cover from Telectron to GPT.

BRIEF FOR THE PRIME MINISTER'S MEETING WITH LORD PRIOR, WEDNESDAY
15 MAY 1991

CHINA: HUNAN FIVE CITIES TELECOMMUNICATIONS PROJECT: GPT

Line to Take

(If raised). Response to Mr Lawson's letter is under consideration.

Background

1 This project, valued at £30.7 million (UK content £27 million) is for the supply of 54 digital exchanges in five cities in Hunan. Success would represent an important market entry and type approval for GPT's System X exchange in the Chinese public switching market. An ATP offer letter was sent to MOFERT on 12 February 1991.

2 Competition for the project comes from the French (Alcatel), who were able to make an offer of aid before the imposition of the Madrid Declaration in June 1989 and who, under pressure from the centre, have since signed a provisional agreement with the Hunan Posts and Telecommunication Authority (HPTA), although the HPTA are understood to prefer the GPT bid technically and commercially.

3 Barrie Lawson, Group Director of GPT responsible for switching systems, has recently written several times to Graham Bright at Number 10 seeking political support for project business. This stems from a discussion with Mr Lilley at the IETF exhibition in India and an encounter with the Prime Minister when he received a sympathetic response.

4 In his latest letter of 17 April 1991, Mr Lawson requested that the Prime Minister should make further high level representations to help win the Hunan project. Mr Lilley wrote to Mr Bright on 9 May recommending that the Prime Minister should indeed write to the Chinese Prime Minister. The letter was copied to the Foreign Secretary, who disagrees with Mr Lilley's recommendation. Further advice on this will be submitted shortly.

PEP3a
14 May 1991

BRIEF FOR PRIME MINISTER'S MEETING WITH LORD PRIOR, WEDNESDAY,
15 MAY 1991

ECGD COVER AND ATP SUPPORT FOR GPT PROJECT IN KENYA

LINE TO TAKE

1 Appreciate concern at restrictions on ECGD cover for Kenya and ATP support generally this financial year. However, no commitment of ECGD cover or ATP support was ever given to GPT.

ECGD Cover

2 The Kenyan Government is already in default on some payments and the overall Kenyan economic situation is so uncertain that further ECGD exposure would be extremely risky. Therefore Government has decided that new ECGD cover should be made available only if, when and to the extent that Kenyan Government meets outstanding payments and honours repayment obligations under existing facilities.

3 These repayments, if made, will release only limited amounts of cover. In view of heavy demand, Kenyan authorities have been asked to assess and submit their priorities for its use. Initial response suggests other business is likely to have higher priority in Kenyan eyes. Therefore, regrettably, it is difficult to foresee ECGD cover being available for the Coastal Loop Radio Project in near future.

4 Position will be reviewed again towards the end of this year but unless there are real improvements in Kenyan economic performance there is not likely to be further substantial new ECGD cover. Kenya's economic position is now so difficult that the IMF has agreed only a very modest ceiling on new non-concessional borrowing. The Kenyans have just confirmed that this limit has already been filled for the current year.

ATP

5. Recent successes by UK companies in winning ATP-supported projects have resulted in heavy over-commitment of the ATP budget. Therefore, if the Kenyan Government gave GPT project priority over all others, if aid support was agreed, and if ECGD cover was available, financing arrangements would have to be such that no aid was drawn down before April 1992.

ECGD
May 1991

2. However, arrangements for ECGD cover have recently been revised in view of the high level of Kenya's debts. Ministers decided that further cover should be made available over the next 6 months only and when, and to the extent that, the Kenyan make repayments under existing facilities. If the Kenyan meet certain payments already outstanding and those falling due from April to September this will release a very limited amount of fresh cover. (The principal and interest ~~due under any export credit arrangements~~ the principal amounts of any new facilities which could be supported would amount to an aggregate value of only about £10m).

3. In view of the vast excess of demand for ECGD cover over and above this level and the impracticality of operating on a normal "first come, first served" basis for allocating the available cover, it has also been agreed that the Kenyans should be invited to nominate the projects which they wish to give priority for the use of the cover. Initial soundings of the Kenyans via the British High Commission in Nairobi suggest that the GPT Coastal Loop project is unlikely to feature in the immediate priorities. If this is confirmed, there will be no ECGD cover for the contract.

BACKGROUND

1 The Group Director of GEC Plessey Telecommunications (GPT), Network Systems, wrote to the Prime Minister on 30 April about the company's difficulties in finalising arrangements to finance a £23m contract signed with the Kenyan Posts and Telecommunications Corporation in June 1990. The company hoped to secure grant aid funds under the Aid and Trade Provision (ATP) for 35% of the contract value with the balance to be financed by way of an ECGD-supported export credit facility.

ECGD COVER

2 However, arrangements for ECGD cover have recently been reviewed in view of the high level of Kenya's debts. Ministers decided that further cover should be made available over the next 6 months only as and when, and to the extent that, the Kenyans make repayments under existing facilities. If the Kenyans meet certain payments already outstanding and those falling due from April to September this will release a very limited amount of fresh cover. (~~The principal and interest sums due under any export credit arrangement, the principal amounts of any new facilities which could be supported would amount to an aggregate value of only about £16m).~~

3 In view of the vast excess of demand for ECGD cover over and above this level and the impracticality of operating on a normal "first come, first served" basis for allocating the available cover, it has also been agreed that the Kenyans should be invited to nominate the projects which they wish to give priority for the use of the cover. Initial soundings of the Kenyans via the British High Commission in Nairobi suggest that the GPT Coastal Loop project is unlikely to feature in the immediate priorities. If this is confirmed, there will be not be enough ECGD cover for the contract.

ECGD
May 1991

4 Although ECGD issued an indication last year of the terms on which it would be willing to consider supporting the transaction, no commitment of such support was given and GPT have been regularly advised of the review of ECGD cover arrangements, whose outcome could not be prejudged.

5 Kenya benefits from an enhanced structural adjustment facility (ESAF) from the IMF, under the terms of which the Kenyan Government has agreed not to borrow overseas, on non concessional terms, more than US\$77.5m this financial year. They told our High Commission last week that they had already entered into commitments up to this limit on their borrowing.

ATP SUPPORT

6 The IMF ceiling on non concessional borrowing should not apply to business partly or wholly aid funded. GPT applied for ATP support for 35% (the OECD minimum) of their contract value. Again no commitment of support has been given to GPT and no offer of aid made to the Kenyan Government. Since the ATP budget for the current financial year has been fully committed, the only basis on which GPT could achieve their desired financial package would be if the Kenyans honoured their outstanding payment obligations and, contrary to their recent intimations, declared this project to be of sufficient priority to have the benefit of all the ECGD cover which might become available in the next 6 months, and if ATP support was agreed by ODA, and if GPT could devise acceptable arrangements to avoid a need to draw down such ATP funds until next financial year. There appears to be little realistic prospect of such a combination of factors and, therefore, the company should not be encouraged to think that the official support they seek will be forthcoming.

ECGD

May 1991

AVAILABILITY OF MEDIUM TERM COVER FOR PROJECT EXPORTS

POINTS TO MAKE

- 1 Stress that "Zero Option" (ie withdrawing all or most ECGD support for capital goods and project exports sold on two years credit or more) has been rejected and that Government policy is that a stable and viable framework of ECGD support for project exports will be made available. However, no avoiding the facts first that ECGD has incurred very heavy deficit on project business (it is currently borrowing about £3.5 billion from the Exchequer) and that it is simply not sensible (or helpful) for ECGD to encourage and support exports which are not paid for.
- 2 The Portfolio Management System (PMS) will involve controls on the availability of cover at the portfolio level, as well as on individual markets and cases.
- 3 PMS is designed specifically to recognise these points and to try to draw a balance between, on one hand, the national interest in supporting particular cases and the interests of exporters and, on the other hand, the interests of taxpayers who, at the end of the day, have to foot the bill for losses.
- 4 Confident that PMS will provide a framework of stable support within which exporters can pursue worthwhile project exports.
- 5 Broadly, the new framework reflects a view that ECGD should remain on cover for most higher risk markets, but at a price which reflects both the risks and the interests of the taxpayer and within prudent country limits.
- 6 ECGD have never sought to match availability of cover from other ECAs on a case by case basis. Overall, I am confident PMS framework will allow ECGD to support worthwhile project exports where there is a reasonable prospect of payment.

ECGD
May 1991

ECGD
May 1991

PMS PREMIUM RATES FOR PROJECT/CAPITAL GOODS EXPORTS

POINTS TO MAKE

1 There has been no general increase in ECGD premium rates for project business since 1984, despite the international debt crisis.

2 During this period ECGD has paid claims on project business equal to eight times its premium income.

3 Premium rates are not being put up to recoup past losses: PMS is essentially a forward looking system.

4 Thus some premium increases are justified, given both the risks involved and ECGD's financial position. Increases are being targeted on the higher risks. Better risks will qualify for reduced rates.

5 Account has been taken of the premium rates of other Export Credit Agencies and of the competitive position of British exporters. In other words, the full rigours of a "commercial" PMS system have not been applied.

6 Recognise that this means ECGD's rates are amongst the highest of Export Credit Agencies. Nevertheless, I am confident UK exporters will still be able to compete for worthwhile export orders, particularly in the better risk markets where premiums are to be reduced.

7 A vigorous international campaign is already underway to persuade other countries to charge more realistic premium rates. It should not be assumed that it is doomed to failure. Concern is growing in other countries about the deficits of their Export Credit Agencies.

8 Premium rate increases have to be seen in perspective. In many cases, they will have less impact on export prices than wage increases.

9 ECGD has never matched premium rates on individual cases. Nor do other Agencies. It would be a one way losing bet. After all, exporters would not expect to pay more if other ECAs were charging higher rates than ECGD on individual cases.

ECGD
May 1991

PRIVATISATION OF INSURANCE SERVICES

ISSUE 1: PURPOSE OF PRIVATISATION

POINTS TO MAKE

- Privatisation will give ECGD's Insurance Services Group freedom it needs to meet competitive and legal challenges of Single European Market.
- In private sector, Insurance Services will be able to offer British companies a more comprehensive, more flexible and even more up-to-date service.
- ECGD's counterparts in EC all making similar moves: changes will ensure UK exporters are not disadvantaged.
- Not true Government is not providing political risk reinsurance: it will do so and this has been made clear in assurances to Parliament.
- Not true that privatisation has "flopped": bids have been made by one of largest insurance companies in the world (Generali) and one of largest and most respected credit insurers is in the EC (NCM of Netherlands).

ISSUE 2: PREMIUM INCREASES FOR SHORT TERM BUSINESS AFTER PRIVATISATION

POINTS TO MAKE

- Market fiercely competitive: this keeps prices down.
- Existing rates are not subsidised but fixed according to commercial criteria. This will continue in private sector.

- Level of Insurance Services premium rates - whether in public or private sector - will be determined by claims experience, just like any other insurer.

ISSUE 3: EXPORTERS WILL SUFFER DROP IN SUPPORT

POINTS TO MAKE

- Private insurance market expected to take on vast bulk of current business.
- Government committed to maintain an adequate level of support for UK exporters. There will therefore be
 - for up to 3 years after privatisation a Government reinsurance facility to top up what is available from private market. (Top-up Reinsurance).
 - continuing ECGD support for business in more difficult places where there is no private market capacity at present. (National Interest Facility).
- Premature to speculate now on what the capacity of the private reinsurance market will be in 3 years' time.

ISSUE 4: PRIVATISATION HAS "FLOPPED"

POINTS TO MAKE

- Wide range of institutions expressed an interest in bidding for the business - six were shortlisted to receive an invitation to tender.
- Responses to Government's invitation to tender now received from

- Trade Indemnity (the UK's largest domestic credit insurer)
- Assicurazioni Generali (one of the largest general insurance companies in the world) and
- NCM (one of Europe's leading and most respected credit insurers).
- Responses currently being evaluated. Aim is to complete privatisation, subject to enabling legislation, by late summer.
- Premature to comment on any of the responses in advance of a proper evaluation.
- Government concerned to ensure that preferred purchaser will be committed to the business, including existing customer base. Price will be an important, but not the sole, factor, in determining choice of preferred purchaser.
- Many British exporters already use foreign-owned banks for their export and domestic business. Likewise many British banks offer facilities to foreign companies. Any attempt to interfere with these commercial arrangements would be contrary to EC regulations.
- Normal competition legislation and procedures will apply to the sale process. The Office of Fair Trading have been conducting their review of each bidder. Any monopoly or public interest concerns will be dealt with accordingly.

- Private sector companies issue short term export credit facilities in Germany, Netherlands, Italy, Belgium, Portugal and Spain. Privatisation of export credit agencies has begun, or is a prospect, in Denmark and Ireland.

ECGD
 May 1991

Teletron Systems Limited (part of AT&T) has entered a contract worth \$12.54 million to provide a telecommunications system between Nairobi and Kisumu. ATF support was offered for the UK element of the contract. Since then, work on the contract has been slowed down and \$1.5 million has been spent on the project.

The Kenya Communications Authority (KPTC) informed Teletron on 22 March 1991 that work on the contract should be stopped. The implication was that the contract value had increased to \$14 million which was unacceptable to KPTC. Teletron replied that the increase in costs was a result of work requested by KPTC and that Teletron would be happy to accept the original contract. Teletron were aware that GPT wanted to take over the project and were unhappy that KPTC appeared to be undermining KPTC's confidence in Teletron.

Teletron have improved the non UK element of their financing package and put forward a revised proposal to KPTC on 2 May. The reaction from officials at KPTC was positive but Mr N'geni, the Managing Director was out of the country. Officials said they would put forward a positive report to Mr N'geni or his deputy and Teletron would hear from KPTC within 2-3 weeks from 22 May.

However, GPT are anxious to meet officials at KPTC as soon as possible to discuss taking over this project. They say they have a letter of intent from KPTC and that KPTC have now written to the Post in Nairobi outlining the situation (not yet seen).

We have been reluctant to meet GPT until we are certain of the situation. Preliminary investigation suggests that it would, in principle, be possible to transfer the ATF funds and ECGD cover from Teletron to GPT.

PEP3a
 14 May 1991

BRIEF FOR PRIME MINISTER'S MEETING WITH LORD PRIOR, WEDNESDAY 15
MAY 1991

ATP: KENYA: NORTH WEST DIGITAL MICROWAVE SYSTEM: TELETRON

Line to Take

(If raised). Understand that Telectron are still discussing situation with Kenyans. Keeping situation under review. Aware of GPT's interests.

Background

1 In June 1988, Telectron Systems Limited (part of AT&T International) were awarded a contract worth £12.04 million (separate £6 million contract for US element) to provide a digital microwave link between Nairobi and Kisumu. ATP support and ECGD backed export credit was offered for the UK element of the project and was accepted by the Kenyans. Since then, work has begun on the project, ATP of £1.835 million has been spent and ECGD supported loan funds have been drawn down.

2 The Kenyan telecommunications authority (KPTC) informed Telectron in a letter dated 22 March 1991 that work on the project should cease. The implication was that the contract value had increased by US\$6 million which was unacceptable to KPTC. Telectron replied that the increase in costs was a result of extra work requested by KPTC and that Telectron would be happy to return to the original contract. Telectron were aware that GPT wanted to take over the project and were unhappy that GPT appeared to be undermining KPTC's confidence in Telectron.

3 Telectron have improved the non UK element of their financing package and put forward a revised proposal to KPTC on 7 May. The reaction from officials at KPTC was positive but Mr N'geni, the Managing Director was out of the country. Officials said they would put forward a positive report to Mr N'geni on his return and Telectron would hear from KPTC within 2-3 weeks from 20 May.

4 However, GPT are anxious to meet officials at DTI as soon as possible to discuss taking over this project. They say they have a letter of intent from KPTC and that KPTC have now written to the Post in Nairobi outlining the situation (not yet seen).

5 We have been reluctant to meet GPT until we are certain of the situation. Preliminary investigation suggests that it would, in principle, be possible to transfer the ATP funds and ECGD cover from Telectron to GPT.

BRIEF FOR THE PRIME MINISTER'S MEETING WITH LORD PRIOR, WEDNESDAY
15 MAY 1991

CHINA: HUNAN FIVE CITIES TELECOMMUNICATIONS PROJECT: GPT

Line to Take

(If raised). Response to Mr Lawson's letter is under consideration.

Background

1 This project, valued at £30.7 million (UK content £27 million) is for the supply of 54 digital exchanges in five cities in Hunan. Success would represent an important market entry and type approval for GPT's System X exchange in the Chinese public switching market. An ATP offer letter was sent to MOFERT on 12 February 1991.

2 Competition for the project comes from the French (Alcatel), who were able to make an offer of aid before the imposition of the Madrid Declaration in June 1989 and who, under pressure from the centre, have since signed a provisional agreement with the Hunan Posts and Telecommunication Authority (HPTA), although the HPTA are understood to prefer the GPT bid technically and commercially.

3 Barrie Lawson, Group Director of GPT responsible for switching systems, has recently written several times to Graham Bright at Number 10 seeking political support for project business. This stems from a discussion with Mr Lilley at the IETF exhibition in India and an encounter with the Prime Minister when he received a sympathetic response.

4 In his latest letter of 17 April 1991, Mr Lawson requested that the Prime Minister should make further high level representations to help win the Hunan project. Mr Lilley wrote to Mr Bright on 9 May recommending that the Prime Minister should indeed write to the Chinese Prime Minister. The letter was copied to the Foreign Secretary, who disagrees with Mr Lilley's recommendation. Further advice on this will be submitted shortly.

PEP3a
14 May 1991

CONFIDENTIAL



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

11 May 1991

CALL ON THE PRIME MINISTER BY LORD PRIOR

Lord Prior is calling on the Prime Minister on Wednesday morning (15 May) to discuss the attached letter to the Prime Minister from the Managing Director of GPT, a subsidiary of GEC.

After the letter had been received here, Lord Prior telephoned, evidently rather embarrassed about the tone of the approach to the Prime Minister, and asked if he could come and discuss the matter with the Prime Minister.

I should be grateful if you could let me have a brief for that meeting, in consultation with the ODA, to reach me by Tuesday, 14 May.

I am copying this letter to Simon Gass (Foreign and Commonwealth Office) and Suma Chakrabarti (Overseas Development Administration).

J.S. WALL

Martin Stanley, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

Andrew
Fixed for
Wed 15 May
1215 - 1245.
5 8/5

PRIME MINISTER

LORD PRIOR: EXPORT CREDIT AND APT

The Managing Director of GPT, a subsidiary of GEC has written to complain of the difficulties GPT are having in securing ECGD and ODA support for a contract they are seeking in Kenya. The letter adopted a very pre-emptory tone stating that, unless this support was received by the end of May, the company will declare 250 redundancies, no doubt blaming them on the Government.

Lord Prior phoned me to ask me not to submit this letter. He believes there is a genuine problem about export credit and that feelings are running high in the business community. He is rather embarrassed, however, about the manner in which one of his subsidiaries has approached you.

He would prefer to call on you in the near future to set out his concerns.

Agree a meeting on this basis?

AT

Yes

ANDREW TURNBULL

1 May 1991

C:\pps\prior (pmm)



NETWORK SYSTEMS GROUP

New Century Park, PO Box 53, Coventry, United Kingdom CV3 1HJ
Tel: (0203) 452152 Fax: 0203 448416 Int Tel: +44 203 45152 Tx: 31361 GPTEL G

The Prime Minister
The Rt. Hon. John Major MP
10 Downing Street
London
SW1A 2AA

30th April 1991

Dear Mr. Major,

EMPLOYMENT IN THE MIDLANDS

I write to you in the hope that I can save the jobs of 250 people.

I apologise if the statement is seen as a threat; it is nevertheless true.

The company that I manage designs, manufactures and sells highly complex electronic "transmission" equipment. In simple terms, our products provide and manage the routes between telephone exchanges and customers (subscribers).

Over the last few years, as the UK has liberalised its public telecommunications industry, GPT has had to face competition from many overseas competitors, principally Japanese, North American, French, German and Swedish. This has produced some startling results:

- GPT is now the only major UK owned public telecomms supplier.
- Prices in the UK are on average 60% of those in Europe.
- Most European markets are not price sensitive - the Government managed PTT's buy from national champions.
- Unless GPT is successful in winning overseas business, the UK companies will decay until they become sales outlets for overseas products. This will result in thousands of redundancies and a loss of future prosperity.

However, as a company we have not given up - we have invested time and money into establishing ourselves overseas (for example in France, Spain, Kenya, Nigeria, USSR, and China we have established companies and Joint Ventures).

Currently we have re-established GPT as the Number One supplier in Kenya and we intend to expand this position to cover the whole of East Africa - thereby pushing out the Japanese dominance that was established in the 1960's.

I write to you for support of a specific contract in Kenya with a value of £23M that was won by GPT against international competition. This contract both strengthens our position in Kenya and also provides employment for 250 people within the Coventry area.

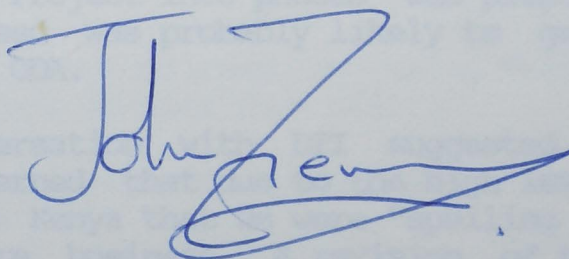
The attached document chronicles the steps we have taken to gain ECGD and ODA support for this business. Additionally, I met with the Kenyan Head of State, Daniel Arap Moi, in March of this year - the Kenyans are very supportive of the UK and GPT. **However, unless we receive the necessary ODA and ECGD support by the end of May 1991, I will have to inform my workforce that 250 redundancies will be necessary.**

Over the last months I have written to the local MP's to canvass support; many meetings have been held with the DTI, ODA, ECGD and others, all to no avail. I am now at the stage where I cannot go on waiting while the "Kenyan situation is under review" - we need firm contracts to keep our people employed.

As a company I believe we have gone out there and "won for Britain" - can we now count on the Government support that is necessary to do business in most of the open markets of the world?

I sincerely hope we can.

Yours sincerely,



JOHN ZIEMNIAK
Group Director - Network Systems

Copy: Lord Prior

KENYA: KENYA POSTS AND TELECOMMUNICATIONS (KP&TC)
COASTAL LOOP RADIO PROJECT

- MARCH 1988** Asked to Tender by KPTC for North Eastern Radio Project.
- NOVEMBER 1988** Awarded Contract subject to survey and finalisation of Contractual negotiations.
- 29.03.90** ODA consulted concerning possibility of aid for this Project.
- APRIL-JUNE 1989** Survey completed of Project including Coastal Route/Coastal Loop and North Eastern Region. Request for aid assistance for TOTAL Project received by GPT (verbal).
- 02.08.89** ATP for whole Project submitted to DTI. With advice from DTI a revised ATP case was submitted on 21.08.89.
- 13.06.89** DTI advised us during August that ODA were concerned at the large amount of aid KPTC had received from HMG. Further, they were concerned that no formal request for aid had been received from KPTC, nor had any of our competition put forward an aid package.
- 15.09.89** Discussions with DTI suggested that ODA were concerned about the North-Eastern route of the Project, due to small population in the region. They did not like the inclusion of TV carriers onto the system. Felt total Project should be undertaken on commercial terms. The splitting of the Project into phases was proposed - which DTI advised was probably likely to get better support from ODA.
- 05.10.89** Conversation with DTI suggested that ODA were concerned that due to the high levels of aid going into Kenya that we were "spoiling the market" for future business. A revision of the ATP case was requested to split it into different phases. ODA look at assisting on just the first phase, which ODA believed should be Coastal Region.
- 17.11.89** Verbal request for aid received from KPTC, which asked for aid for not only Coastal Route but also linking back to the Coast to Nairobi, (the "Coastal Loop"). formally submitted to GPT 13.12.89 with clarification 19.01.90.

January 1990

ATP case submitted to DTI for Coastal Loop Project. DTI advised certain changes. Amended submission 05.02.90.

15.02.90

(From Kenya) asked ODA for indication in principle that the case was being positively received - not received.

21.03.90

Conversations with DTI suggested that no decision had as yet been made by ODA - anticipated further 1 month.

06.04.90

DTI wrote back asking for further information. Again, ODA unhappy concerning Coastal Loop - only want to consider Coastal Route. Responded to DTI 11.04.90; further conversation 19.04.90 suggested still further concern from ODA, regarding the economic viability of total loop back to Nairobi.

04.05.90

DTI submit full SCAT draft to GPT.

13.06.90

Meeting with ODA. Little progress made. Indication that an Economist would need to go to Kenya to evaluate the Project. Further information requested by ODA sent 18.06.90.

21.06.90

ODA letter (Mr Millet) suggested "major problems" with our ATP case. Responded by GPT on 26.06.90.

26.06.90

Contract for Coastal Loop signed with BHC (Kenya) present for signing ceremony.

01.08.90

ODA confirmed a team would need to go to Kenya for economic and developmental evaluation of the project.

14.08.90

ODA team confirmed as being Ewbank Preece and 1 Economic Adviser from ODA.

01.09.90

Team in Kenya for evaluation. Report due in to ODA 21.09.90.

21.09.90

Informal indication from Ewbank Preece that report was positive with Economic rate of return justifying project. This was latter confirmed by both ODA and DTI.

24.10.90

Formally informed by DTI that a value for money check would be required and would take place 3 weeks to complete.

22.11.90

ODA value for money check commenced (completed in December 1990).

08.03.91

Report on value for money received by Kenyan desk in ODA from 'Value for Money' department.

04.04.91

ODA informed GPT that:-

- a) Small amount of cover may be available (dependent on Kenyan priority of projects).
- b) No new ATP commitments during 1991/92. No new drawdown of funds during 91/92 financial year.

GPT in Kenya

GPT, the GEC and Siemens venture, has won two orders worth a total of £30 million from Kenya Posts and Telecommunications Corporation. The new work, on microwave radio systems, will link with the Nairobi-to-Mombasa system currently being installed by GPT.

THE TIMES
MONDAY 16 JULY 1990

GPT in Kenya

GPT, the GEC and Siemens venture, has won two orders worth a total of £30 million from Kenyan Posts and Telecommunications Corporation. The new work, on microwave radio systems, will link with the Nairobi-to-Mombasa system currently being installed by GPT.

GPT wins a £30m order in Kenya

By RICHARD EMMETT
Industry Reporter

GPT in Coventry has won a £30 million order to make and install equipment in Kenya.

The contract, the biggest ever in Africa for GPT's Network Systems Group, has been awarded by the Kenyan Posts and Telecommunications Corporation.

It comes as a major boost to the troubled company which has just axed 650 jobs and is being hit by strike action and an overtime ban.

The order follows two deals worth a total of £24 million which were struck with KPTC over the past two years.

GPT will provide a network of microwave radio systems, linked with the Nairobi-Mombasa microwave system installed following a contract with KPTC last year.

Placed

Work will also start on a 10-year scheme to provide and manufacture locally GPT pre-pay card payphones in Kenya.

The signings mark the latest success for GPT in Kenya where orders have already been placed for the range of GPT switching, transmission and terminals products.

John Ziemniak, Network Systems Group director, said: "These agreements taken together represent the largest single order awarded to GPT in Africa.

The microwave system will upgrade the Kenyan network and a coastal route will provide digital capability into the main tourist areas.

It will handle a high proportion of international traffic and provide links with neighbouring Tanzania.

Mr Ziemniak said the new contract was good news for Network Systems Group but warned that industrial action at the New Century Park and Helen Street plants could still hit business which last year fell £55 million short of targets.

Losses

He added: "The next 12 to 15 months are going to be very difficult. It is sad we have got this industrial action going on at the moment.

"It can only harm the prospects of the business. We have been making large losses and with all the action this year going to be hard-pressed to break even."

● Around 3,000 GPT workers were expected to join a third one-day strike today in protest over compulsory redundancies and redundancy agreements.

COVENTRY EVENING TELEGRAPH
MONDAY 16 JULY 1990

Electronics Times
Planner No. 18A-260
52xY - 40,500



Kenya to buy GPT network

GPT is to supply a digital microwave backbone network to the Kenyan pto in a contract worth £23m. It will link outlying towns and coastal regions with a link between Nairobi and Mombasa which GPT is already installing.

The microwave contracts are in addition to digital switches which GPT has supplied to Kenya. The Kenyan pto also placed orders with GPT for pay-phones.

John Ziemniak, GPT's network systems group director, said that an order, which will be spread over 10 years, included a £7m "guaranteed element".

The ultimate value of the deal could be many times more than that, he said, depending on the popularity of the payphones, particularly in rural areas.

Ziemniak said GPT would begin local assembly of the pay-phones in about two years.

CPI Group JS

TRADE & TECHNICAL
CLIPPING SERVICE

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Electronics Weekly
Planner No. 18A-280
52xY - 42,200

990



GPT in £30m African venture

GPT HAS won its biggest ever African order, worth £30m, to install a microwave radio network in Kenya and begin local manufacture of payphones.

GPT Network Systems Group will provide a backbone network of microwave radio systems from the border with Tanzania to Nairobi, running in a wide loop along the Kenyan coast.

It will be linked with the Nairobi-Mombasa microwave system that GPT is in the process of installing, after winning the contract last year from the Kenyan Posts and Telecommunications Corporation (KPTC).

The new digital loop will cover Kenya's main tourist areas, replacing 960-channel analogue equipment.

Work will also start on a ten year scheme to manufacture GPT's pre-pay card payphones in Kenya, for installation in both urban and rural areas of the country.

GPT network group director, John Ziemniak, is confident of further orders from Kenya as KPTC pursues its five year plan to modernise the country's communications network.

file DAS.

Subject cc Master

MRS HOGG

PRIME MINISTER'S MEETING WITH SIR GEOFFREY HOWE

Sir Geoffrey Howe met the Prime Minister today for about half an hour in the Prime Minister's room at the House of Commons. The Prime Minister said he wanted to pick Sir Geoffrey's brains. For the manifesto he wanted to build on the theme of providing opportunity for those who had missed out, in buying their council houses, in training, or in education and he wanted to open up possibilities for women who were stuck at home. He personally was not too concerned about driving the basic rate of income tax down further. He welcomed any ideas Sir Geoffrey wished to offer, particularly practical ideas which could be turned into detailed policies.

The Prime Minister thought that Europe had been put on one side as a controversial matter. The main issues were the recession and the Community Charge. He was looking again at the interface of taxation and social security, and it was very helpful to have Bill Robinson at the Treasury to help with this. Sir Geoffrey offered the following thoughts:

(i) ERM

He was delighted that sterling was now in the ERM but recognised that this constrained policy on interest rates. He believed that this called for a tough fiscal stance which would open the way for lower interest rates in due course. (It could equally well be argued that if interest rates are to remain high, the balance of policy on demand would be maintained by looser fiscal policy.) If policy was constrained it was all the more important to look for douceurs which had political impact but cost relatively little.

(ii) Taxation and the Family

No-one was expecting direct tax to be reduced further.

He suggested that it would be helpful to identify, in theory at least, that part of child benefit which represented the old child tax allowance. This element could then enjoy Rooker-wise indexation. The Prime Minister said he had, at one stage, wanted to break child benefit down into its constituent parts but this had become impossible with the arrival of independent taxation. One possible change would be a premium for under-fives. He had asked the Treasury if there was some way of scoring child benefit as part of the tax system but had met with a negative response (quite rightly!).

(iii) Women's Issues

Sir Geoffrey said he had been a member of the Cripps Committee but most of its recommendations had now been implemented. Nevertheless, he urged the Prime Minister to "comb the women's cupboard fully".

(iv) Savings

Sir Geoffrey commended Julian Brazier's Bow Group pamphlet which highlighted the disincentive to saving created by the various capital rules in the social security system.

(v) Homelessness

Sir Geoffrey commended the efforts to clear up the Inner Cities.

(vi) The Elderly

Sir Geoffrey handed over a copy of a recent speech to Age Concern. He commended the work of Michael Pilch, the former Chairman of Noble Lowndes. He had set up the Miller Centre in Sir Geoffrey's constituency which was an old people's centre with a theatre attached. It

was an imaginative venture to combine accommodation with a role for old people. He urged the Prime Minister to acquaint himself with Mr Pilch's work.

(vii) Infrastructure and Public Transport

It was important to develop links from the Channel Tunnel to all parts of the country so that the project was not seen simply as a benefit to the South East but as a national asset.

(viii) The Parliamentary Estate

It was essential to complete the parliamentary estate involving the renovation of the Palace of Westminster and the construction of phase two of Bridge Street by the end of this century. Tidying up this part of London was a good objective for the millennium. He estimated that it would be necessary to raise public spending from £15 million to £30 million a year. He commended the architect, Michael Hopkins, but warned that the antiquarians would create obstacles but wanting everything preserved.

(viii) Legislation

Sir Geoffrey returned to his theme that there was too much legislation which was too poorly drafted. In the last three years there had been 2,500 papers, three times as much as in Labour's last three years. This was a sign of over government.

(ix) Education

Sir Geoffrey agreed with the emphasis the Prime Minister had put on this but thought there was still much to be delivered from the reforms of the recent past.

(x) Local Government

Sir Geoffrey regretted that the Local Government Commission, whose approach had been to examine local government structure area by area around the country, had been replaced by the comprehensive schemes of Crossman, Redcliffe, Maud and Walker. He believed it was a mistake to tackle such problems nationally. Sir Geoffrey said he was attracted by regional government, to which he would transfer many of the planning powers.

(xi) Community Charge

Sir Geoffrey would abolish the Community Charge and replace it with a property tax of one form or another with surcharges for additional residents. An important weakness of the Community Charge was its lack of buoyancy. Sir Geoffrey was sympathetic to sales taxation which he thought had worked well in the United States. He also felt that the UBR had lost its point now that the proceeds went into central government. It was simply a fixed deduction paid by businesses which could be absorbed into profits-related tax.

(xii) Enterprise Zones

As the originator of these, Sir Geoffrey thought they had been a success which left the Prime Minister wondering whether it had been wrong to call a halt to the creation of any others.

The meeting was extremely successful in giving Sir Geoffrey the feeling that his views were valued. He promised to offer further contributions.

AT
ANDREW TURNBULL

12 February 1991

C:\PPS\HOWE (DAS)

SECRET

FILE
cc Angela Horder
Lindsey Wilkinson

NOTE FOR THE RECORD

John Moore came to see the Prime Minister today to inform her about his plans. He had concluded that he should not stand again at the next election. His aim was to develop an alternative career in finance and consulting but he had been advised that he would be able to do this better full-time rather than part-time as an MP. He would, however, like to serve the Party in the House of Lords.

The Prime Minister said there was another side to the case. Being an MP provided a base, an income, a pension, a secretary, an office and a location at which to entertain. It also provided an entrée to certain places.

Mr. Moore acknowledged this, but felt the balance lay with ceasing to be an MP. He wanted to be able to take charge of something which he could not do while still in the house. He had secured two part-time assignments (Gartmore and Monitor) but he wished to be able to develop beyond them.

The Prime Minister acknowledged this and agreed that she would put him forward for the House of Lords.

It was agreed that no announcement should be made to the Constituency Association for the time being. Mr. Moore should keep in touch with the Chief Whip on timing.

AT

ANDREW TURNBULL

15 October 1990

c:\pps\moore (kk)

SECRET

PERSONAL

file

PRIME MINISTER

MEETING WITH MR. MOORE

John Moore is coming to see you on Monday to discuss his political future. He has finally secured some worthwhile outside employment. A non-executive directorship of the Gartmore investment group was announced recently. He is also joining the board of Monitor, an American consulting group but I have not seen any public reports of this.

I suspect he may indicate his wish not to stand at the next election and seek confirmation that you would recommend him for the House of Lords. At Bournemouth, you expressed the hope that more former Ministers would stay in the House to make a worthwhile contribution from the Back Benches rather than drifting off into commercial careers or leaving the House entirely. David Howell and Norman Tebbit in their different ways still make such a contribution. Over the past year, John Moore has been almost invisible and you may feel that there is little point in trying to persuade him to stay.

He may also raise the subject of the Cyclotron. The discussion with Sir Nicholas Bonsor in the summer was inconclusive and the project was left to wait upon the results of the neutron trial on prostate cancer. These results were expected in October but have not yet emerged. Flag A is a note from Department of Health on subsequent developments. They maintain their scepticism of neutron therapy but there have been favourable developments on proton therapy which is used for treatment of eye cancers. The option of moving the existing machine to London, where it would have a larger catchment area and better research support is being researched. John Moore may commend this course. This is a complex problem involving both technical and financial issues. The best course is for John Moore to continue discussions directly with the Department.

(ANDREW TURNBULL)

12 October 1990

c:\wpdocs\pps\moore (srw)

PERSONAL

PERSONAL

✓ Made
2. File BIF expenses
Friday
AK

PRIME MINISTER

John Moore

John Moore rang me to request a meeting with you to discuss his political future. He did not state what he has in mind but I suspect he has concluded that he does not wish to stand again at the next election.

He did, however, report better news on his personal position. He will shortly be announcing that he will be taking a position on the US Board of Monitor, a consultancy advising companies on strategic thinking. This will take about two days a week and will be remunerative. He will also be advising Gartmore, a fund management group owned by Banque Indo-Suez. This will take about one day a week. I have arranged a meeting for Monday, 15 October at 1800.

AK

AK

ANDREW TURNBULL

20 September 1990

PERSONAL

PRIME MINISTER ^①

Chores

CAS

LORD JOSEPH

Lord Joseph's office telephoned today to ask whether you might see him for fifteen minutes on either Friday or Sunday about what was described as a British domestic problem connected with Europe. These two days would seem to be the only possible ones for a meeting in the immediate future as he will otherwise be abroad.

I explained that I was not clear what your plans were for these days and that you might not be in London. But I have pencilled in 12.00 - 12.15 on Friday in case you should wish to see him then or at any other time on Friday. *Agreed mt*

Are you able to see him then and would you like to?

Or shall I find a day later this summer or in the early autumn?

CAS

Caroline Slocock

6 August 1990

CONFIDENTIAL

PRIME MINISTER

MEETING WITH LORD JOSEPH

Lord Joseph has given no advance warning of what he wants to raise. Over the past year, he has raised a wide variety of issues.

- i) ERM. You saw recently some papers he sent on so-called covert exchange controls - Flag 1. He also suggested that you might have a talk with Sir Alan Walters. This has now been arranged for this coming Saturday evening.

- ii) Marathon. You and President Bush have agreed in principle that neither Government will encourage a UK or US version of the fibre optic cable. We are now in the process of finalising an agreement with the Americans, but are not yet ready to announce this. You should tell Lord Joseph that consultations with the Americans are continuing but that you hope to be able to make an announcement before you leave for the USSR in June.

- iii) Family policy. Lord Joseph wrote to you last November - Flag 2 - about the way the tax and benefit systems were interacting on families with dependant children. In March this year you agreed that he could write up his ideas in a pamphlet provided he made clear that they represented purely his own personal views. I am not aware that the pamphlet has yet appeared.

- iv) Docklands. Lord Joseph was instrumental in bringing to your attention the need for action on the transport infrastructure of Docklands. You can ask him whether he is satisfied with progress.

- v) Education. He wrote to you last week commending a pamphlet by Adrian Wooldridge - Flag 3.

(ANDREW TURNBULL)

14 May 1990

CONFIDENTIAL

CONFIDENTIAL



File JD
SUBJECT cc Mather

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 April 1990

Dear Norman.

PRIME MINISTER'S MEETING WITH LORD PRIOR

The Prime Minister saw Lord Prior this afternoon at his request.

ECGD

Lord Prior said that GEC was concerned about some of the implications for them of the Portfolio Management System, in particular the risk that cover might not be available for new project business in some large markets. He recognised that the Government had rejected the Zero Option. But he hoped nonetheless there could be flexibility, if we were to avoid British companies losing major orders. The Prime Minister said that this point was in Ministers' minds. The Government attached great importance to capital goods' exports. GEC should keep in close touch with DTI, so that potential problems could be identified in advance.

Lord Prior also expressed anxiety about possible premium rate rises, which could make British companies uncompetitive. The Prime Minister pointed out that no decisions on premium levels had yet been reached.

Power Stations

Lord Prior spoke of the difficulties which the absence of orders for heavy power plant in the United Kingdom was causing for GEC, following the cancellation of a number of nuclear and coal-fired power stations. This could result in considerable unemployment. It also increased even further the importance of securing overseas orders, and having sufficient Government assistance to do so.

The Prime Minister said she assumed that GEC would bid for the Combined Cycle Gas Turbine power stations. Lord Prior said that GEC did not produce turbines over 35 megawatts, and the main orders would go to France, although GEC might win some subsidiary business.

Project Marathon

Lord Prior emphasised the importance of this project to GEC. He hoped the Government would show flexibility. The Prime

CONFIDENTIAL

2

CONFIDENTIAL

- 2 -

Minister said that the issue might well come up in her meeting with President Bush.

Soviet Union

Lord Prior said that GEC were installing their System X telephone equipment in Moscow. They hoped that the Prime Minister would speak to Mr. Gorbachev on it during her visit to the Soviet Union. The Prime Minister said that this might appear a bit odd, given that she would be meeting Mr. Gorbachev in person. But following her recent telephone conversation with him, she would welcome anything which improved the line between London and Moscow.

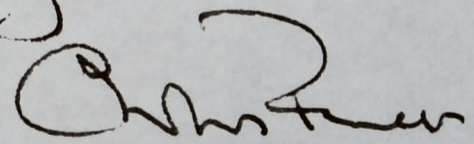
Turkey

Lord Prior said there were indications that Turkey was interested in purchasing night-vision equipment from the United Kingdom. He hoped that the Prime Minister would mention this in her talks with Mr. Ozal. The Prime Minister took note.

China

Lord Prior referred to GEC's efforts to win an order for System X in Hunan Province in China. The French appeared to be offering preferential credit terms, despite the Madrid Agreement. He was not asking for Government intervention yet, but might need to do so later in the week.

I am copying this letter to Carys Evans (HM Treasury), Bob Peirce (Foreign and Commonwealth Office), Simon Webb (Ministry of Defence), John Neilson (Department of Energy), and Myles Wickstead (Overseas Development Administration).

Yours sincerely,


C.D. POWELL

Martin Stanley, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

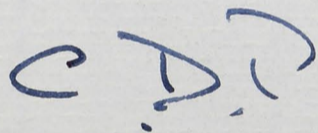
PRIME MINISTER

MEETING WITH LORD PRIOR

You are seeing Lord Prior tomorrow at his request. He has said only that he wants to talk about a number of topics, including 'problems with ECGD'.

I attach briefing by the Department of Trade and Industry on a number of issues which he may raise. As you know, GEC are major beneficiaries from ECGD and ATP and are always lobbying to be sure their interests are considered. If he mentions the continuing dispute between GEC and DTI over the former's merger with Plessey, you should make clear that this is entirely a matter for the Trade and Industry Secretary.

You might for your part ask how their business in Malaysia is progressing.



(CHARLES POWELL)

9 April 1990

c:\wpdocs\foreign\prior.dca

dti

the department for Enterprise

CP
cc/lo

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
01-215 5000

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line
Our ref
Your ref
Date

215 5622
PE5ALA

9 April 1990

See Charles

LORD PRIOR'S VISIT ON 10 APRIL 1990

Thank you for your letter of 3 April 1990 in which you said that Lord Prior had asked to come and see the Prime Minister on 10 April 1990 about a number of topics which included an item described as 'Problems with ECGD'.

I enclose a background brief on ECGD issues which we believe might be raised, and a short note on GEC/Siemens/Plessey following last week's announcement by my Secretary of State of his agreement to a partial variation in the terms of undertakings given by GEC in 1987.

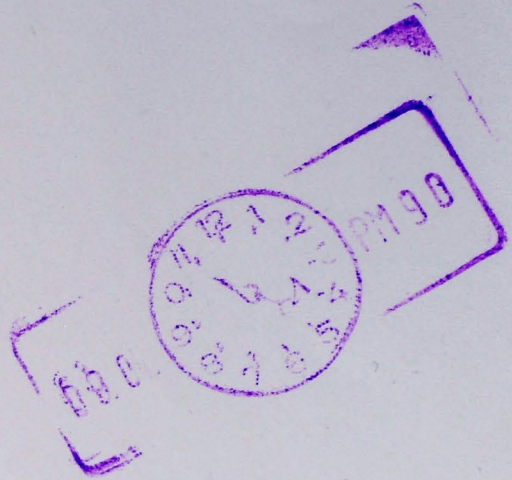
Yours ever

Ben Slocock

BEN SLOCOCK
Private Secretary



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BRIEF FOR PRIME MINISTER'S MEETING WITH LORD PRIOR ON 10 APRIL 1990

ECGD

Issue

GEC and some other major companies have expressed concern over various changes ECGD are introducing to support capital goods exports.

Recent letters from GEC to Ministers and MPs have raised the following major issues:-

- 1) That the prospect of substantial premium increases with the introduction of the Portfolio Management System (PMS) will damage exporters' competitive position.
- 2) That the withdrawal of interest rate support from Category II countries even if implemented multilaterally could put exporters at a disadvantage in view of high UK interest rates.
- 3) Larger budgets for aid and soft loans are needed and on a more flexible basis.
- 4) Concern about the prospect of new ECGD cover not being available for new project business for some large markets where ECGD's existing exposure is already high, eg, India, China, Hong Kong, Indonesia, USSR and South Africa.

Line To Take

1. It is premature for companies to complain as premium rate levels will only be settled when ECGD's Business Plan for 1990/91 has been approved by Ministers. No decisions have yet been taken and, indeed, no recommendations have even been put to Ministers.

Project business is risky and the intention of the new PMS system is to allow a financial framework to be established which enables national interest and trade encouragement arguments to be considered against financial risks to ECGD and the Exchequer. A difficult balance has to be drawn between these demands. Regard will be paid both to the premium rates charged by Export Credit Agencies in competitor countries and to the need to maintain a viable framework of support from ECGD for project and capital goods exports.

2. UK's long standing international objective has been to aim for progressive elimination of export subsidies but HMG does not wish to put UK exporters at a disadvantage by unilateral action. Should sterling currency appear unattractive ECGD support can be made in other major trading currencies. In this and other areas, the Government does not wish to put UK exporters at a competitive disadvantage.
3. Budgetary allocation for mixed credits has generally been greater than amount of business to be supported. HMG has been flexible in designing hybrid financing packages.
4. The Portfolio Management System also addresses how ECGD handles markets where there is already a heavy concentration of ECGD exposure but where UK exporters can be expected to secure further large scale orders. The strength of the national interest argument then becomes the prime issue.

Officials are already working on these aspects and it would be helpful if GEC would liaise with them so that they are fully aware of the implications for UK trade.

Support for Project Exports: General

It may be helpful to reassure Lord Prior of the importance that the Government attaches to capital goods exports and that it fully recognises the benefits which accrue to the economy from such exports.

The case for withdrawal of ECGD support for project exports (known as the Zero Option) was examined by Ministers as recently as last Autumn. The Government then decided that export credit and financing support should continue to be provided. Mr Ridley confirmed ^{this} in his December statement about the future of ECGD.



the department for Enterprise

BRIEF FOR LORD PRIOR'S CALL ON PRIME MINISTER
(TUESDAY 10 APRIL)

GEC-SIEMENS ACQUISITION OF PLESSEY

Line to take (only if raised)

Right that this merger should have been fully scrutinized by the MMC.

If raised

- Departures from the undertakings GEC gave on the 1986 MMC report or from the specific alternative examined by the MMC in the 1989 report must be looked at closely to consider effects on public interest. For DTI to determine what is acceptable.

Background

1. A bid by GEC for Plessey was blocked in August 1986, following an MMC report. GEC gave undertakings in 1987 not to acquire more than 15% of Plessey or its subsidiaries, and not, without the Secretary of State's consent, to enter into any arrangement which would constitute a "merger situation" with any of the Plessey businesses.
2. In March 1988 the Secretary of State for Trade and Industry agreed to a variation of these undertakings to allow the establishment of a joint venture company to handle the telecommunications interest of both companies. The variation followed the Secretary of State's decision not to refer the joint venture to the MMC.
3. In mid-November 1988 GEC announced that it was making a further bid for Plessey in association with Siemens. This was referred to the MMC for investigation on 12 January 1989. The MMC report, published on 21 April 1989, concluded unanimously that the acquisition could be allowed to proceed provided appropriate undertakings were given by GEC and Siemens to deal



the department for Enterprise

with aspects of the merger which might otherwise be expected to operate against the public interest. The Secretary of State therefore requested:

(a) that the Director General of Fair Trading should seek undertakings from GEC that GEC should not acquire any influence or control over the management of the Plessey Radar and Defence Systems businesses or Plessey's traffic control activities;

(b) that the Secretary of State for Defence should seek undertakings from GEC and Siemens that access to the technology and the licences for production of JTIDS (Joint Tactical Information Distribution Systems) equipment be available on terms satisfactory to the MOD to competing companies designated by the MOD; and that he should seek undertakings from GEC and Siemens that would satisfy United Kingdom national security requirements as to the ownership and management of defence, R & D and semiconductor activities.

4. Undertakings were subsequently obtained and published on 2 August 1989. The Secretary of State then agreed to waive GEC's 1987 undertakings to the extent necessary to enable GEC Siemens to renew its bid for Plessey, and to carry out the restructuring envisaged in the MMC's report.

4. Since the acquisition of Plessey GEC has asked for full release from the 1987 undertakings, contending that these are no longer applicable. GEC representations on this point are still being considered. In separate representations GEC requested specific relaxations in order to be able to restructure some Plessey business differently from what was proposed at the time of the 1989 MMC report. The Secretary of State has agreed to a partial waiver of the 1987 undertakings in respect of some (but not all) of the businesses involved, as indicated in the press notice at Annex A.

CP1/DTI

9 April 1990

9MO09APR.HM



press notice

90/188

3 April 1990

GENERAL ELECTRIC COMPANY PLC - RESTRUCTURING OF PLESSEY BUSINESSES

The Secretary of State for Trade and Industry has agreed to a variation of the undertakings given by GEC in June 1987 (following the 1986 MMC report on the merger proposed in 1985 between GEC and Plessey). This will allow GEC and Siemens to restructure certain of Plessey's businesses in a manner that was not foreseen in the 1989 MMC report on the 1988 GEC Siemens bid for Plessey. This press notice also clarifies the position with regard to review under the Fair Trading Act 1973 of new mergers which may arise as a result of the proposed restructuring of the Plessey businesses.

Two groups of Plessey businesses are involved:

1. Businesses where it was expected in the 1989 MMC Report that GEC should have a 51 per cent or more share.

The Secretary of State has released GEC from the undertakings given in 1987 in relation to those businesses where it was expected in the 1989 MMC report that GEC should take a 51 per cent or more share. This will allow GEC to increase its holding in any such business up to 100 per cent.

Since GEC already has a controlling interest in businesses in this category, any increase in GEC's holding would not give rise to a new "merger situation" under the Fair Trading Act 1973. The Secretary of State does not therefore intend to consider further any increase in GEC's holding in businesses in this category under the merger provisions of the Fair Trading Act.

2. Businesses where it was expected in the 1989 MMC Report that GEC and Siemens should each have a 50 per cent share.

The Secretary of State has released GEC from the undertakings given in 1987 in respect of a number of businesses where it was expected in the 1989 MMC report that GEC and Siemens should each take an equal 50 per cent share. The release will allow GEC to increase its holding in the relevant businesses up to 100 per cent. The businesses concerned are:

MORE/...

Plessey Semiconductors Limited
Plessey Research Caswell Limited
Plessey Materials
Plessey Aerospace Limited
Plessey Aero Precision Corporation (USA)
E.S. Marine Systems Corporation (USA)

Any increase in GEC's holding above 50 per cent gives rise to a controlling interest, and may therefore give rise to a new "merger situation" under the Fair Trading Act 1973. The Director General of Fair Trading will advise the Secretary of State in the usual way on whether any of the above transactions is a merger which qualifies for investigation under the Act and if so whether it should be referred to the MMC. Release from the 1987 undertakings does not prejudice the Secretary of State's ability to refer any of the above mergers to the MMC.

Restructuring of Other Businesses where it was proposed in the 1989 MMC Report that GEC have a 50 per cent share or less.

If GEC and Siemens propose in the future that GEC should increase its share in any other business where it was expected in the 1989 MMC report that GEC should have a 50 per cent share or less, the companies should provide details to the Director General of Fair Trading, who will advise the Secretary of State:

- whether GEC should be released from the 1987 undertakings in respect of the particular proposals;
- on possible reference to the MMC under the merger provisions of the Fair Trading Act.

NOTES FOR EDITORS

1. In June 1987 GEC gave undertakings to the Secretary of State not to acquire Plessey businesses following the 1986 MMC report into the acquisition of Plessey by GEC alone proposed in 1985.

2. The Secretary of State announced on 2 August 1989, following the 1989 MMC report into the acquisition of Plessey by GEC Siemens plc proposed in 1988, that he had agreed to waive the 1987 undertakings to the extent necessary to enable GEC Siemens to make a bid. The 1987 undertakings otherwise remain in effect. A further waiver is required to allow any restructuring of Plessey businesses which is not in accordance with the proposals set out in the 1989 report.

MORE/...

3. References in this press notice to "the 1989 MMC report" mean the 1989 MMC report into the GEC Siemens bid for Plessey.

Press Enquiries: 01-215 4472/1/5
(Out of Hours: 01-215 4657/8)
Public Enquiries: 01-215 5000

ENDS



2

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 April 1990

Lord Prior has asked to come and see the Prime Minister next week about a number of topics including what he describes as "problems with ECGD". He is coming on Tuesday 10 April. It would be helpful to have a short brief on ECGD issues by the previous evening.

BU

(C. D. POWELL)

Martin Stanley, Esq.,
Department of Trade and Industry.

l



10 DOWNING STREET

Amends

Can you find
a time please

Ch

Charles

I have spoken
to Jim Prior
and agreed
1530 on
Tuesday 10th
April

AP

3/4

PERSONAL

①

PRIME MINISTER

Jim Prior has telephoned to ask whether he could come to see you in the next week or two to discuss three subjects: the Marathon project, the problems with ECGD and a honour for Mr. Stones of China Light and Power.*
Would you be ready in principle to see him if we can find a time?

CDP Yes

C. D. POWELL

30 March 1990

* Mr Stones is being recommended for a KC in the next list.

— AF

PERSONAL



10 DOWNING STREET

Draw : *Narath*
ECAD
Spur

free me



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

28 March 1990

BT 11
Thank you so much for ringing me back this morning about a time for Lord Joseph's meeting with the Prime Minister. I can now confirm that I have written the meeting in the diary for 11.00 am on Friday 20 April.

With every good wish,

(MRS. AMANDA PONSONBY)

Lady Ruth Strange
Liscartan House
127 Sloane Street
LONDON
SW1X 9BA

A handwritten signature or mark in the bottom right corner of the page.

1100

PRIME MINISTER

Keith Joseph has asked if he could see you for half an hour on Friday 20 April for one of his private chats. There is plenty of time in the diary that morning.

Content, therefore, to see Lord Joseph?

Amanda

Yes

AMANDA PONSONBY

27 March 1990

C:\DIARY\JOSEPH.DAS

MASTER

cc SUBJECT

CONFIDENTIAL

filed on ART and AMENITIES Policy PT3

NOTE FOR THE RECORD

ROYAL EXHIBITION

Lord Whitelaw spoke to the Prime Minister about the Royal Exhibition being canvassed for the 40th Anniversary of The Queen's reign. He set out the issues as in my minute of 11 April.

Lord Whitelaw said that his intention was to limit himself to activities where he could take a non-executive role.

The Prime Minister shared his reservations about the project. There would be a natural tendency for it to drift towards over-commercialisation. She felt that Lord Whitelaw's involvement would not simply be a question of lending status or giving general direction.

This would inevitably be somewhat stressful. It would inevitably involve some degree of executive involvement in keeping a close eye on the details of the project. She thought this would be done better by some one within the Royal Family who could not only give advice but could also take decisions on whether proposals were acceptable. For these reasons, she felt it better that Lord Whitelaw did not take this on.

Lord Whitelaw said he was most grateful for this advice which he would follow.

AT

ANDREW TURNBULL

13 April 1989

Temporarily Retained

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

FILE KK

PRIME MINISTER

Temporarily Retained

MEETING WITH LORD WHITELOW

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RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

Royal Exhibition

Lord Whitelaw's main purpose in coming to see you is to discuss a tricky proposition that has been put to him. Mr. Robin Gill, who made the film about the Royal Family in 1968-69, proposes to establish a permanent exhibition about the Royal Family in Canary Wharf. This would be opened in 1992 to commemorate the 40th year of The Queen's reign.

This idea grew from a proposal to build a new version of the Dolls House which is on show at Windsor. It was then decided to create replicas of the State Rooms with videos of State occasions and film of Royal tours. It is further to be expanded with some Commonwealth involvement. This is entirely a private sector venture requiring no financial support from Government.

The Duke of Edinburgh was approached to be chairman of the trustees. He declined though the Palace has taken a stance of benevolent neutrality.

A celebration for The Queen's 40th anniversary may seem odd, being neither the silver nor the golden jubilee. Against that a reign of 40 years is undoubtedly a major achievement, surpassed by only five previous monarchs. There is no guarantee that The Queen would survive to the 50th but if she did it would be a major Government occasion.

Lord Whitelaw feels unenthusiastic about the project
His appointment would inevitably imply, to some degree, a seal of approval by Government. He would not wish to undertake this if you were opposed to it.

The Council for Charitable Support

Lord Whitelaw has become the Council's chairman. Attached is a copy of his letter lending his support to the invitation extended by the Council's secretary for you to attend a seminar around this time next year. This would discuss such issues as the role of individuals, the role of companies, tax incentives, status of charities etc. The Home Office see merit in this if you would like to do it.

Other matters

You may wish to talk to Lord Whitelaw about current political developments. You can also seek his views on the management of Government business in the Lords. Are any changes needed to procedures? Is a new list of working Peers called for?

Temporarily Retained

AT

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

ANDREW TURNBULL

11 April 1989

KKLANO

file - CF

PRIME MINISTER

LORD WHITELAW

For various reasons it is not possible for Lord Whitelaw to attend the lunch for colleagues on 4 July, although I know you wanted to have a talk with him afterwards. It is likely in any event that that lunch may have to be cancelled for a lunch for an overseas visitor. I know that it is really the talk with Lord Whitelaw which is important and so I have pencilled him into the diary for later that day so that he can come and have a cup of tea/drink with you.

DM

TESSA

15 June 1988

SLH/85

cc. Shana Hole
✓ Sue Goodchild

6.00 pm.
Mon 4 July

~~Reading Change 2~~
~~Time/dave~~

PRIME MINISTER

I think Nigel mentioned to you that Lord Whitelaw would very much welcome a chat and that you agreed to combine this with inviting him to a lunch for colleagues. You do not have a lunch for colleagues until 4 July. Would you like me to invite him on this day and ask him to stay on for a private chat with you afterwards?

Yes ✓
minuted
9/6

Alternatively, 29 June, which is the day after you return from the European Council, is free and if you wanted to ask him to lunch in the flat, you could do so.

Which would you prefer?

DM

PP TESSA GAISMAN
7 June 1988

