



B
CCP
CCP/P

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

cc EST
Sir P Middleton
Sir T Burns
Mr Wicks
Mr Lankester
Mr Scholar
Mr R I G Allen
Mr Peretz
Mr Gieve
Mr Ilett
Miss O'Mara
Mr Odling-Smee
Mr Watts
Mr Williams
Mrs Chaplin

13 March

The Rt. Hon. The Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1

Dear Secretary of State

THE ECU TREASURY BILL PROGRAMME

You might like to know that I shall be announcing the continuation of the Ecu Treasury bill Programme in my Budget statement tomorrow. This follows the success of the initial six month programme.

There will be various changes in the arrangements for the programme, including the removal of one firm from the list of market makers and the addition of five new firms. Houses chosen as market makers for the initial six monthly tenders were those with a proven track record in the Ecu market, and their selection was so presented. The five additions are all houses that have in practice been extremely active in distributing and trading Ecu Treasury bills.

Three of the new firms are Japanese. There is an argument for continuing to exclude the Japanese, given our general tactics for dealing with them in regard to the membership by UK firms of the Tokyo Stock Exchange. But my conclusion is that it would be very difficult indeed to do so: the Japanese firms concerned would see such action as clearly discriminatory given their involvement in Ecu Treasury bills; and the legal ground on which the Bank would be standing would be most uncertain. Such discriminatory action would have damaged our stance against reciprocity in the Community context without, in my judgement, making any contribution to our objectives in Japan. Finally, I believe that it will be to our financial advantage in that the new firms will add to the



competition at the monthly tenders and so help us to secure tighter prices.

The Bank will be starting their consultation process shortly, although the new Information Memorandum which will list all the market makers will not be published until 28 March.

I am sending a copy of this letter to Geoffrey Howe and the Governor.

Yours sincerely

Jonathan Taylor

pp. NIGEL LAWSON

[Approved by the Chancellor
+ signed on his behalf.]

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

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

*CF Please review
PIL's*

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 15 March 1989

NRBm ~~etc~~ dt this stage

*FR6
15/3*

See Nigel attached

You wrote to David Young on 13 March about the ECU Treasury bill programme.

I accept that there may be strong arguments for including Japanese market makers. But I have to say that I think it would have been helpful if we had been consulted about the decision to include those Japanese firms on the revised list of market makers for the programme. Equally I am concerned that we should not overlook the message that we may inadvertently give the Japanese if we are seen to grant special official status to further Japanese firms in London while the problem remains of the outstanding British applicants for membership of the Tokyo Stock Exchange.

You will recall that the Prime Minister made clear to Takeshita last year that he must expect to see delays in the handling of applications by Japanese firms in London, to match the way in which British firms were treated in Tokyo. I take it from your letter that the Japanese firms will be offered roles as market makers. Because of this, I think it will be important to ensure that any public announcements do not undermine the Prime Minister's warning to Mr Takeshita.

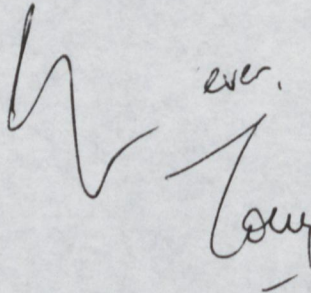
MA2ACR

dti

the department for Enterprise

I suggest urgent consultation by officials of the relevant
Departments.

I am sending copies of this letter to the Prime Minister as well
as to Geoffrey Howe and the Governor.

A handwritten signature in cursive script, appearing to read 'Tony Newton'. The signature is written in dark ink and is positioned above the printed name.

TONY NEWTON

MA2ACR