BRITAIN

British production figures belie the promise of the North Sea boom

The latest set of figures from the Government's Central Statistical Office reveals that during the fourth quarter of 1978 the British economy virtually froze. Based on Gross Domestic Product figures published by the Department, the British economy not only stopped growing last year, but actually contracted. The drop was sharpest in productive sectors even before the current wave of strikes disrupted output. Manufacturing stood a mere 2.7 percent above the 1975 level.

It is not exactly news that the British economy has been in fundamentally senile shape for many decades. What is worth underlining is the accumulated evidence against the past several years' torrents of claims that the speculative North Sea oil development would do great things not only for sterling, but for the United Kindom's economy.

Gross Domestic Product, based on total output data, declined by .2 percent between the third and fourth quarters of 1978 and stood only slightly above the second quarter level. In the last three months of 1978, GDP stood at 108.4 (at constant prices, 1975 = 100) compared with 108.3 and 108.6 respectively in the previous two quarters. According to the *Financial Times*, most economists expect total output to be even lower this year while the Confederation of British Industry's monthly trends for inquiry, published last week shows that demand has further weakened in the last two months.

The underlying level of industrial output has changed little since a sharp rise between the spring and early summer and the all-industries output between October and December fell 1.2 percent from the level of the previous three months. Manufacturing production was down 2.1 percent from the third quarter.

Overall, domestic output grew by about 3.5 percent during the whole of 1978, but there was a gain of only .7 percent in manufacturing production.

The detailed breakdown shows that in the last three months of 1978,

GOLD

Gold prices reflect dollar stabilization

The spot price of gold continued to hang fire below the $254 an ounce peak three months ago, though it reached $251.50 at Feb. 28 deadline, reflecting heightened fears over the Mideast and China's war.

Not only has the interim dollar stabilization produced the ordinary countereffect — under extraordinary conditions — of slowing gold demand, with Bankers Trust senior vice-president Gordon Curtis the latest to stress the dollar's firmness. As well, a margin of flight money has flowed into silver rather than gold in the past few weeks, as well as into sterling. Silver futures have also jumped.

The latest U.S. Treasury gold auction sold a million ounces at $252.38 an ounce, up from $219.71 at the January auction. Dresdner Bank, one of the prime movers in creating the new gold-backed European Monetary System, bought almost the entirety.

James Blanchard's latest *Gold Newsletter* is full of smug projections that "there will be a *perpetual* atmosphere of world crisis," to cite Blanchard himself, emphasis his; but the newsletter also carries a more sober, if not better-intentioned, appraisal of the EMS's gold remonetization by Robert Guy of N.M. Rothschilds, along with Guy's expectation that Japan, which has not officially upvalued its reserves like the Europeans, will follow suit. Guy added that this brand of "pro-gold" sentiment is emphatically not anti-dollar.

—*Alice Shepherd*

output in the metal manufacturing sector was 4 percent lower than in the previous quarter and production in engineering and allied industries was 4.9 percent lower. Textile output was down 2.1 percent, with shipbuilding also dropping.

Despite this startling evidence that the British economy has ground to a halt, the British Tourist Board has invited 100 foreign journalists to London to dispel the idea that the country is on its knees.

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No nuclear power for Britain: The achievement of negative economic growth has prompted British authorities to consider seriously the findings of a recent study by the International Institute for Environment and Development which calls for the scaling down, if not outright scrapping, of Britain's nuclear energy goals. Based on a two and a half year research project funded jointly by the Ford Foundation and British Petroleum, this crew of environmentalists has concluded that official forecasts have greatly overestimated future energy requirements. They warn that if these forecasts go unchallenged, money could be needlessly wasted on the development of new energy sources. In the opinions of the study's authors, Britain could stop building nuclear power stations, reduce its nuclear industry to a fraction of its present size and still produce enough energy to ensure "substantially higher living standards."

According to the group's findings total energy use in the year 2025 could be no higher than 1975 without adversely affecting the British way of life. "It is astonishingly easy to save energy," the authors told the London Guardian. "It had really surprised us over the past two years how easy it is to achieve zero energy growth..."

—Marla Minnicino

TRADE

Chinese cancellations shock trading community

The ink was barely dry on over $2 billion worth of Japanese industrial deals with the People's Republic of China when China announced this week that all post-Dec. 15 projects with Japan are suspended. Earlier suspicions that many of the vaunted China trade possibilities are a swindle were further confirmed by the British Coal Board's collusion in planning to dump Chinese coal onto third markets. Meanwhile, qualified observers say that the Chinese move against Japanese industry is intended to punish Japan for its refusal to support China's instigation of war.

The major Japanese trading companies abroad voiced their shock at being "bluntly notified by the Chinese that all contracts signed since mid-December were not to be considered effective for the time being," reported the March 1 *Journal of Commerce*. The $2.1 billion subsumed 49 contracts, including the $1.1 billion Paoshan steel mill near Shanghai, a giant petrochemical complex, and a fertilizer plant. Japanese trade representatives left for China Feb. 28 to notify Peking that the "suspension" action is "unacceptable."

What the Chinese are demanding is that these major deals, concluded on a cash basis, be renegotiated on a deferred settlements, or effective credit, basis. This reflects China's shortage of foreign reserves, stressed both New York and Western European sources. It is now clear that the Chinese are out to garner the bulk of international financing for its military purposes, at the expense of developing nations who propose to use credit for industrialization and modernization of agriculture. British spokesmen — including Lord Eric Roll of S.G. Warburgs in a Frankfurt speech we reported last week — have been perfectly candid about their commitment to serving as China's brokers in deploying hundreds of billions of Eurodollars to the Bank of China.

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Coals to Newcastle:
Britain also intends to help China get foreign exchange through export earnings of a singular kind. The London *Financial Times* reported Feb. 7 that China envisages making its coal into a major export item. In fact, it has told some of its trading partners in Europe that it intends to sell 60 million tons a year by 1985, a huge increase in total market supplies that would greatly depress the price and that could only be carried out as a massive dumping operation. The situation came to light because China is demanding that Great Britain accept coal as payment for building a $200 million coal mine in China — an attempt to sell coal to Newcastle, since Britain itself is a coal exporter. China's demand has stalled negotiations to wrap up the deal. Britain's only option is to try to market the Chinese coal abroad, but, according to the head of the National Coal Board, this might pit Britain against Germany, which apparently has been asked to take coal as well. The *Financial Times* author neglected to mention that Britain would also be selling Chinese coal in competition with its own. In fact, he said, Britain may accept the absurd package in order not to prejudice other deals in the works.

—Peter Rush