

*Prime Minister**rus 9/9**From the Secretary of State*CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
London  
SW1P 3AG

9 September 1982

*Dear Geoffrey,*

AID AND TRADE PROVISION

You wrote to me on 9 August and suggested that, since no room can be found to increase the ATP within the existing Aid Framework, the appropriate course is to consider the scope for finding the additional funds which Patrick Jenkin and I seek within the PESC exercise. I suggest therefore that we take it up in the context of possible measures to improve the outlook for industry, about which you and Patrick have written.

Having said this, some of the points in your letter are dubious. Just to take a few, you rightly draw attention to the relatively small number of companies of the strength and drive to pursue larger projects in less familiar markets: this is every reason for encouraging them, and so stimulate others to join them. But in any project, the resulting work is spread through many hundreds of suppliers, and to the extent that they themselves do not have the resources nor expertise to pursue business in these markets, this is the only way in which they can take advantage of them. So, in practice, the bulk of the benefit is not taken by the lead company, but a competitive lead company is essential to gaining the business for many other companies.

Second, I am surprised at your suggestion that the costs per job of export subsidies do not compare with other direct employment assistance. Whilst employment effects are not the only or prime benefit from ATP, in practice, under ATP, the

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*From the Secretary of State*

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positive impact on employment through orders is almost immediate, whereas immediate expenditure is considerably less, and the full cost to public funds is spread out over many years. In addition:-

- (i) the foreign buyer is paying a substantial proportion of the cost; and
- (ii) the jobs arising from orders placed with our more competitive companies will have greater permanence.

.... We would not therefore accept your assertion. The attached annex and tables illustrate this from actual ATP projects.

Again, no-one suggests that we should match each and every case where we know foreign governments are mixing aid into the finance, but industry has a perfectly just complaint that, having made themselves more competitive at considerable cost, they are being denied the proper rewards because of the practices of other countries. An adequate ATP, carefully and flexibly deployed, is therefore essential unless we are to cede virtually all this major business - and significant industrial/employment benefits - to aid-supported competitors.

The ATP is now the only significant manifestation of our declared policy of giving greater weight to industrial and commercial considerations in aid spending. As recently as last February, colleagues in E Committee affirmed this commitment, and welcomed my predecessor's proposal that the ATP be increased. I naturally welcome the small increase already agreed, but the allocation still barely covers existing commitments and outstanding applications. We should also note that the annual allocation of £66m includes over £8m earmarked for country lines of credit, which should properly be regarded as part of the main bilateral programme.

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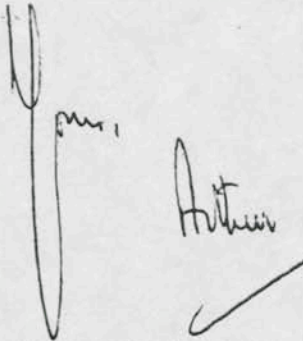
*From the Secretary of State*

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Moreover, there are already at least two very large projects (in India and China) which colleagues may well consider it politically important for us to support. Neither of these could be accommodated within the current ATP, and we would have to lay claims on either the unallocated reserve of the Aid Framework or the Contingency Reserve to meet such a demand.

Finally, our export performance is one of the very few bright spots in the present economic scenario. We really ought to do everything we conceivably can to help our exporters. As it is we face very considerable criticism that we are not as aggressive or as effective as many of our competitors. We are going to find it more difficult to withstand pressures for protectionism if we cannot point to a major and concrete effort to support our competitive companies in the harsh, and far from idealistic, world in which they have to try to win business. A sufficient ATP is a major element in this approach.

I am copying this to the recipients of your letter.



LORD COCKFIELD

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### EXPENDITURE PROFILES

The expenditure profiles of two typical projects have been drawn up after detailed analysis with the prime contractor. In each case the phasing of subcontracts placed is shown compared with the phasing of export assistance. For illustrative purposes, in calculating ECGD expenditure a market interest rate of 15% averaged over the loan was assumed for both projects: the costs would be reduced as actual rates are lower than 15%.

#### Project: Extension to Transmission System, Paraguay

Main Contractor: Balfour Beatty

Main Sub-  
contractors: NEI Reyrolle Ltd  
GEC High Voltage Equipment  
Brush Power Equipment Ltd  
Bowthorpe Emp Ltd  
Painter Bros Ltd  
Balfour Beatty Power Construction Ltd  
Pirelli Cable Ltd  
Hawker Siddeley Power Transformers Ltd  
South Wales Transformers Ltd

Total contract  
value: £11.3m

Total subcontract  
element: £9.2m

ATP: £2.87m variant 1 loan over 25 years  
(including 7 years' grace and interest free)

ECGD: Interest  $7\frac{3}{4}\%$  - repayment over 10 years

#### Project: Wood-burning Power Station, Philippines

Main Contractor: Balfour Beatty

Main Sub-  
contractors: Powers Clacton  
P Brotherhood  
Brush Power Equipment Ltd

Total contract value: £8.6m

Total subcontract  
element: £7.8m

ATP: £1.963m variant 1 loan over 25 years

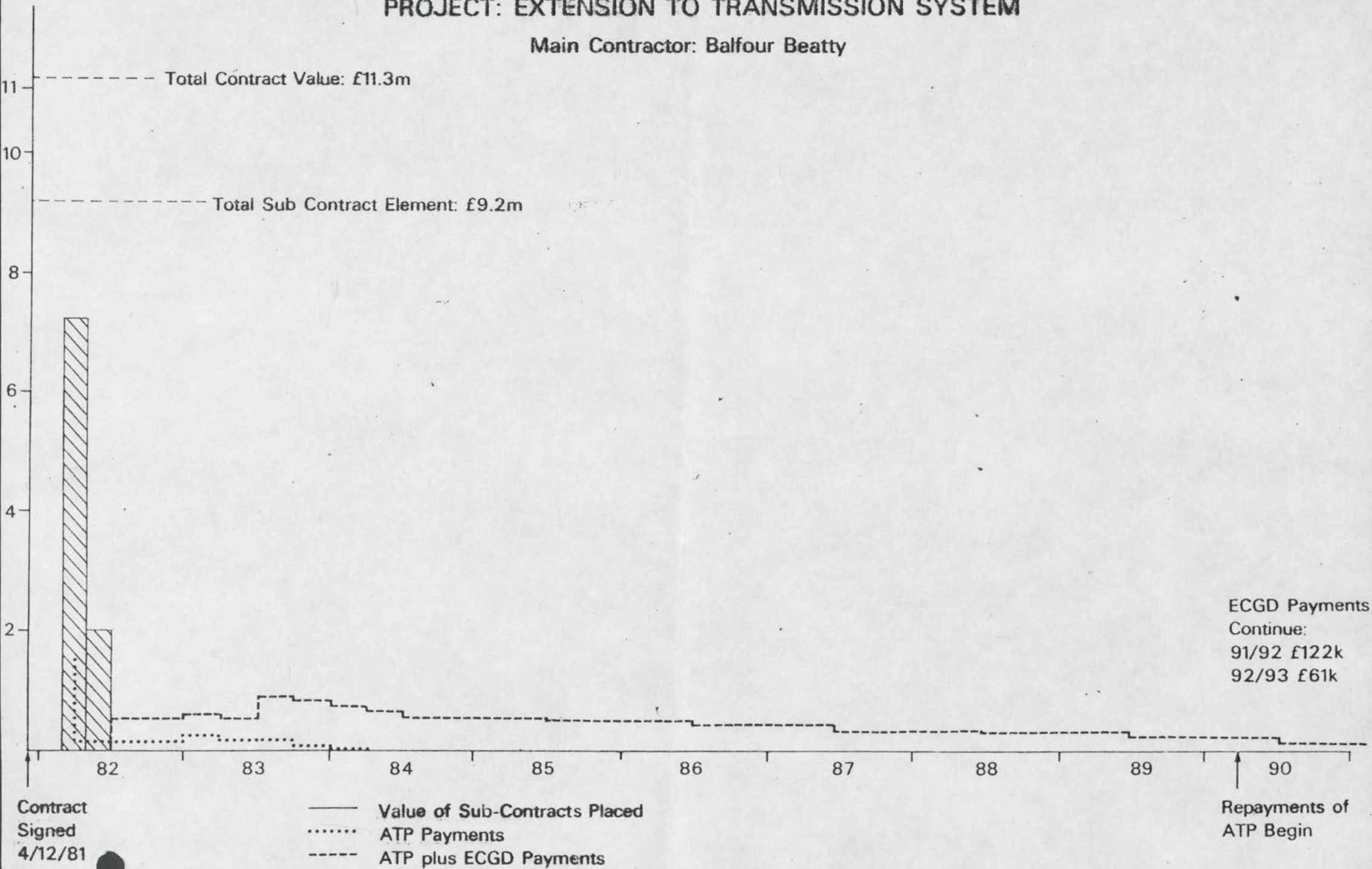
ECGD: Fixed interest rate  $7\frac{1}{2}\%$  - repayment  
over 10 years

# PROJECT: EXTENSION TO TRANSMISSION SYSTEM

Main Contractor: Balfour Beatty

Total Contract Value: £11.3m

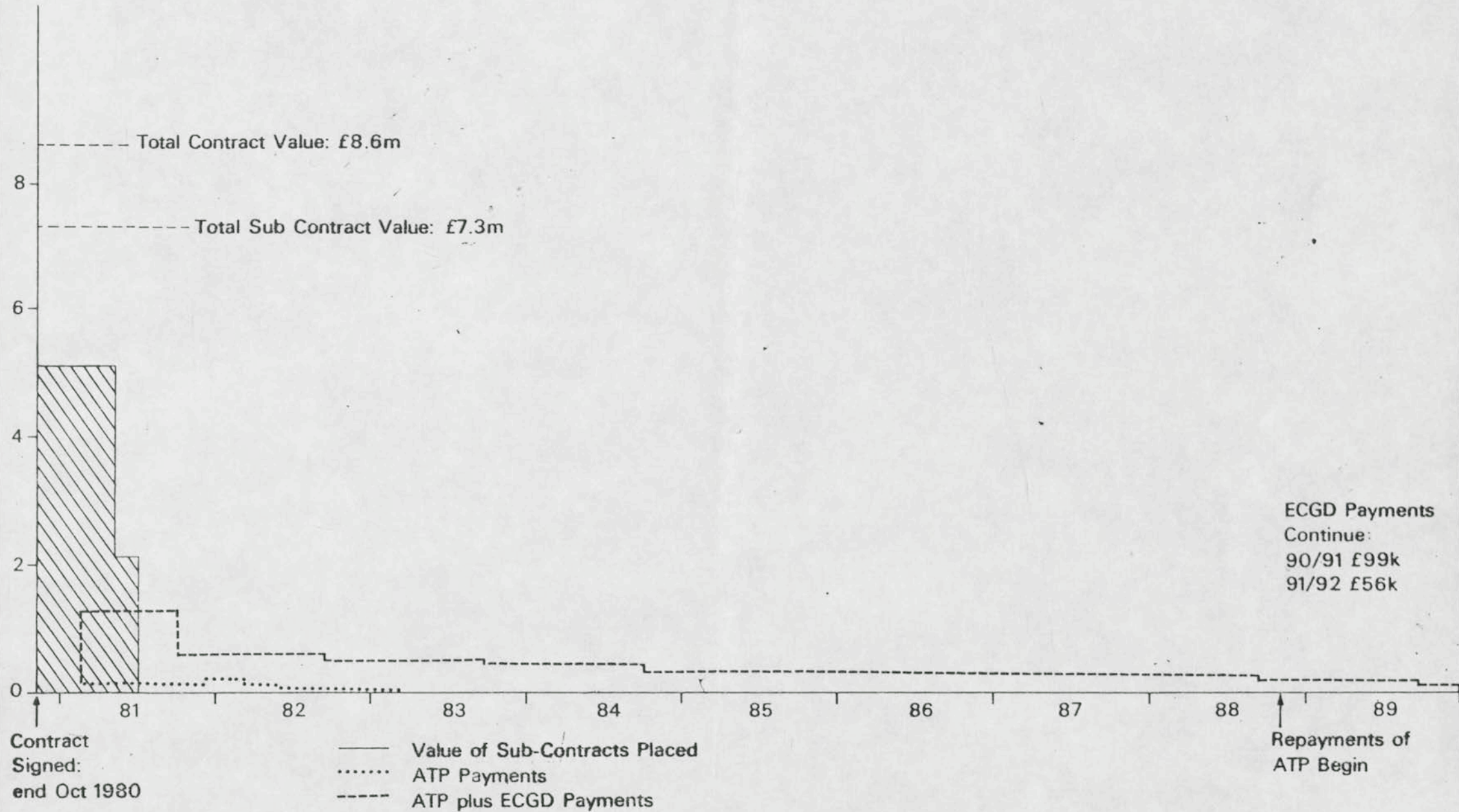
Total Sub Contract Element: £9.2m





# PROJECT: WOOD BURNING POWER STATION, PHILIPPINES

Main Contractor: Balfour Beatty





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*Overseas Aid*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

*Prime Minister 2*

The Rt. Hon. The Lord Cockfield  
Secretary of State for Trade

9 August 1982 *The Chancellor*

*argues that any further increase in the A&T provision should be considered in the normal way in the forthcoming Public Expenditure Survey discussions, rather than in E(X).*

*Dr AM*

AID AND TRADE PROVISION

Thank you for your further letter of 29 July. Patrick Jenkin wrote, as you know, on the same date and in similar vein.

I can well understand that you are under pressure from industry to increase the ATP further. Since we are concerned here with a high rate of subsidy which tends to be concentrated on relatively few capital exporting firms, it is understandable that they press hard for more. However, as Francis Pym has pointed out in his own minute of 29 July, his proposals already go well beyond our announced policy of maintaining the 1979-80 level in real terms.

You and Patrick suggest that perhaps a discussion in E(X) would be an appropriate next step. However I find it hard to read your letters as other than a proposal for a significant increase in public expenditure. Francis Pym has said that it would not be possible for him to agree to a larger ATP provision being found from within the existing Aid Programme and you and Patrick have not suggested savings from your own programmes. So I think that if you really cannot see your way to accept the increase to £66m which the Foreign Secretary and I are able to accept, the proper course would be to consider the idea of additional expenditure in the forthcoming Survey discussions on giving effect to the Cabinet's objective of keeping to present public expenditure totals.

While we all want to increase UK exports, I do not think it follows that it is in our national interest to pay very high levels of subsidy in a succession of major cases in order to get more of this type of capital export. If our competitors sometimes offer massive subsidies, that does not mean that there is a presumption that it is sensible for us to match them. It is not clear that this is the best way of helping UK industry as a whole. Moreover a good part of the subsidy goes to benefit the foreign customer. In terms of cost per job export subsidies tend to be much more expensive than other forms of direct employment assistance. I certainly agree that we should seek to improve the ratio of exports to ATP money spent and there seems a good case, whatever the total level

/of ATP,

*CR 9/8*

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of ATP, for putting a ceiling, well below 50 per cent, on the subsidy level in any one case.

I am copying this letter to the Prime Minister, Francis Pym and Patrick Jenkin.

A handwritten signature in black ink, appearing to be "G. Howe", written over a horizontal line.

GEOFFREY HOWE



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Secretary of State for Industry

Prime Minister <sup>(2)</sup>

Ms 30/7

DEPARTMENT OF INDUSTRY  
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29 July 1982

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Whitehall SW1

mb

Dear Geoffrey,

Thank you for your letter of 23 July, replying to mine about the need for an increased Aid & Trade Provision.

2 I fully appreciate the constraints upon public expenditure, and the impossibility of accommodating all the competing claims within those constraints. Your letter nevertheless leaves me wondering whether you have taken fully into account the exceptional value of the ATP in securing genuinely additional business for British companies which they would not otherwise have won, despite their demonstrable competitiveness on price and technical performance. It may be difficult to explain to such companies why, after they have taken pains to improve their competitiveness, we for our part are unable to compete with the government-backed soft funding available to their competitors.

3 It is clear from the applications reaching this department that we could make effective and worthwhile use of an ATP allocation double that currently proposed. While I do not propose an increase on that scale, I am certain that £66 million p.a will prove grossly inadequate.

4 I believe there would be value in our meeting to discuss this matter, perhaps in E(X), and am accordingly copying this letter to the Prime Minister, as well as to Francis Pym and Arthur Cockfield.

You are  
Patric

30 JUL 1982







WM  
9/8

*From the Secretary of State*

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The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
London  
SW1P 3AG

29 July 1982

*Dear Geoffrey,*

AID FRAMEWORK 1983/84-1985/86

I note from your letter of 23 July to Patrick Jenkin your views on accommodating his and my requests for some extension of the resources allocated to the Aid and Trade Provision. *attached*

Even with the modest increase already proposed, the ATP is already heavily committed for the period of the Aid Framework, and will quickly become fully committed - even the cases currently under consideration would be sufficient to ensure this. In current circumstances, this is tantamount to denying United Kingdom firms any prospect of winning scarce orders, which will go instead to overseas competitors bidding with support from their governments.

Apart from the strong criticism from our leading companies and their many sub-contractors that such losses would precipitate, I am already under considerable pressure from individual companies and from the Overseas Projects Board, comprised of leading project managers. The thrust of their criticism is that the actual pattern of our aid spending has diverged and is diverging further

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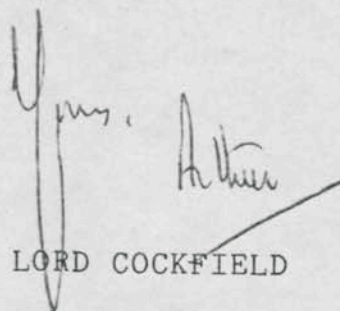
*From the Secretary of State*

from the declared strategy which the Foreign Secretary announced in February 1980, of laying increased emphasis on commercial and industrial considerations within this programme. ATP remains an extremely effective means of supporting our viable companies and of securing long-term employment: the employment impact in fact arises immediately orders are placed, whereas the aid expenditure mostly falls much later.

In your comments about the direct benefits from the use of ATP, you are making partial arguments. Leaving aside the often very significant direct benefits from major capital projects, you will know that the 2:1 gearing represents the most conservative estimate of the return from ATP, taking full account of ECGD inputs, and one which is frequently bettered. I take it from your remarks that you would therefore encourage us to improve even further on the ratio of exports for each £1 of ATP, and we are very ready to do so whenever practicable.

Even such steps will not, however, offset the severe weakening implied in our ability to match our competitors' practices at a time when the survival of many otherwise viable companies and products is at risk to those practices. I strongly hope, therefore, that on reconsideration you will agree that the available ATP funds may be increased, even if not to the full extent that I have suggested as needed.

I would favour a meeting with colleagues on this, and I suggest that E(X) may be the best forum; I am accordingly copying this to the Prime Minister as well as to Francis Pym and Patrick Jenkin.

  
LORD COCKFIELD

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cc Chief Secretary  
Minister of State (C)  
Sir K Couzens  
Sir A Rawlinson  
Mr Littler  
Mr Mountfield  
Mr Hart  
Mr Hawtin  
Mr Ridley  
Mr Gilhooly



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry

23 July 1982

A handwritten signature in dark ink, appearing to read 'Patrick Jenkin'.

AID FRAMEWORK 1983/84 - 1985/86

You, and Arthur Cockfield, wrote to me on 20 July about the Aid and Trade Provision.

Cabinet last week endorsed the Chief Secretary's objective of holding to present public expenditure totals; and you will not be surprised that I would see great difficulty about any proposal to switch new resources into the Aid Programme. Moreover, I think we should be careful not to claim too much for the ATP. I can see that ATP, when associated with export subsidy, may generate a larger volume of exports than normal aid and thus offers some advantages in terms of both exports and employment. But these advantages apply only where ATP really is in substitution for normal aid expenditure.

There is no case for adding to total public expenditure (which of course includes drawing on the general contingency reserve, or reclassifying expenditure out of the aid programme in order to ease the pressures on it) in order to subsidise certain individual exports at the astonishingly high rate of 50% - for that is, I fear, the reality lying behind your statement that ATP generates twice its value in new orders. To do so would not only be inconsistent with the Cabinet decision. It would also mean adding, via higher interest rates or taxes, to the burdens on industry as a whole while giving benefits to a few firms, and also to their customers abroad. If we did this, we could well produce a net effect on UK employment which was adverse, especially in view of the transfer of benefit to the foreigner.

If therefore Francis Pym is prepared to make room for a bigger ATP provision within the existing Aid Framework totals I would not want to object: though I can imagine that that would not be easy for him. But I could not agree to increase the Aid Programme, directly or indirectly, in the interests of a larger ATP.

Copies of this letter go to Francis Pym and Arthur Cockfield.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe'.

GEOFFREY HOWE



5 JUL 1982

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