

Confidential



10 DOWNING STREET

Mr Turnbull

Export Policy

Your purposes only, I enclose a copy of a DTI draft on this subject, and comments on it from me. Mr Tebbit's office has asked officials to respond to them, I hope, in the interests of keeping up what is a fairly bland effort.

Miles O'Brien
18 May.

Chron. file
by NO
(Comments on
DTI Paper)

16 May 1984

EXPORT POLICY

General

The draft is helpful in that it suggests a number of questions. Could it develop some of these further in the interests of a fuller discussion? It could usefully begin by referring to job generation, since the Seminar will discuss other means of generating jobs. The question might be asked: which aspects of export-promotion achieve this, and roughly at what cost per job?

The two other general points, linked to this point, are philosophy, and balance.

On the question of philosophy, it is consistent with the Government's economic approach that export services should be provided by Government where it is better placed eg by virtue of its overseas posts to provide advice than private sector agencies; and that these services should be charged for. The philosophy underlying the initiative work is less clear: why is the Government involved in this work at all, and how successful has the BOTB been in identifying market prospects?

On balance, there are on the one hand many large, experienced exporters who do not need export support at all, other than introductions; and on the other, small firms who find the services and support essential. Would support be more cost-effective if it focussed more on the latter?

Detailed Points

Paragraph 3

I presume that £70 million a year is the net cost, after charging for services? How substantial is the revenue from these charges? Could they not be increased? Wouldn't the charging principle give the best guide to the kinds of services which the market wants?

Paragraph 4

This paragraph is not as illuminating as it might be. If the ATP is designed to counter subsidies by other countries, should we not be aiming for a consensus on subsidy disarmament in respect to ATP, as we have done in respect to interest support?

Paragraph 6

The note questions whether export promotion could be made more effective by increasing the real resources devoted to it. Should the paper not also raise the question whether fewer resources should be made available, but deployed more effectively? As regards the balance between different sectors, could the paper say what the balance is?

Paragraph 7

The monitoring analysis is given a short shrift here: what kinds of results does it come up with, and what are their value? For example, are we concentrating on economies likely to continue to grow?

Paragraph 8

Is it possible to say anything about the success or otherwise of the "task force" exercises mentioned, or of any others?

Paragraph 9

The weakness of small companies in export marketing might be discussed more fully. It is sometimes suggested that the larger companies need very little help at all from Government. To what extent do smaller companies use the services provided?

Paragraph 10

What is the extent of the use of DTI export promotion resources by the services sector? How does this compare with their share of exports?

Paragraph 11

The observation here about ECGD's pursuit of large projects in dubious markets sits a little oddly alongside paragraph 5, which tells us that ECGD has run into difficulties "mainly as a result of widespread world indebtedness.... despite the considerable effort that ECGD puts into the assessment of credit worthiness". Is the implication here that ECGD is pushed into markets it doesn't like, by industrial and diplomatic pressures? If so, should this not be exposed more clearly?

Paragraph 12

Has anyone considered how the orientation of ECGD's export promotion effort might look if indeed it were not encouraged to depart from to "prudent practice and sound management"?

Paragraph 13

The point about multilateral reductions in subsidies is well made. The advantage claimed for unilateral disarmament is not so much that it would free resources for other export promotion activities, but that it would free these resources for other uses in general eg by lower taxation or Government borrowing. This paragraph might acknowledge the force of the Byatt Report arguments, namely that interest subsidies are an expensive form of job support, which favours a narrow slice of our export activities, at the expense, ultimately, of other industries.

Paragraph 14

This paragraph is mainly about administration. What in principle has been agreed about ATP to remove the conflicts which surround it?

Paragraph 15

Should this summary not explain why targeting work is conducted at all by Government, however well advised by its industrial advisers?

PERSONAL

DRAFT PAPER

EXPORT POLICY

At our meeting on 16 December, I was charged with the preparation of a paper

"On the way export promotion is currently working, on how it might be made more effective, how the export promotion effort might be better targetted on countries able to pay, and on whether support should be re-directed to different sectors of industry and services".

2 Since then, I have set in hand work within the Department to examine the thrust of our export policy in the light of this remit; there are also a number of other activities - such as the Matthews Report on the future of the ECGD - which have important implications for this exercise. The purpose of this note is to set out the outline of our present policy; and to propose how, where appropriate, it might be modified. I also report progress on some of the action in train to remedy deficiencies in our present policy and practice, some of which concern Departments other than my own.

Export Promotion at Present

3 At present, the main engines of export promotion are the British Overseas Trade Board

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(BOTB); the Aid and Trade Provision (ATP); and the Export Credit Guarantee Department (ECGD). Since 1972, the BOTB has directed official services to exporters of both manufacturers and "invisibles", maintaining regular contact and consultation with DTI Ministers. It costs around £70m a year to provide its services (£46m of which are staff costs in the FCO and DTI; many services are charged for). Our philosophy is that the bulk of export promotion activity should be demand-led, in response to industry's requests; clearly, these are focussed on markets which can be expected to pay. But as far as limited resources allow, the Board also directs initiative work in markets thought by its 16 Area Advisory Groups to have good prospects both for volume and value of sales and for prospects of obtaining payment. Resources are concentrated on markets and sectors where we are likely to achieve the greatest increase in exports, not necessarily where big export volumes already exist. About half of BOTB resources are devoted to the 24 OECD countries, the recipients of over 70% of UK exports.

4 The ATP is designed to counter subsidies given by other countries towards exports, particularly major projects; it is co-ordinated by one Division in this Department and expenditure runs at about £65m a year. Project business is important to our companies (particularly the larger ones); it is relatively economical and effective, subject to the reservations in paras ~~below~~ *below*.

5 ATP is always offered with export credits,

and is thus only available for those countries where ECGD offers long-term cover. ECGD has run into difficulties recently, mainly as a result of widespread world indebtedness. This is despite the considerable effort that ECGD puts in to the assessment of creditworthiness of overseas markets in consultation with its Advisory Council for the "commercial" account, or with the inter-Departmental Export Guarantees Committee for "national interest" cover; its record in assessing sovereign risk is very good. Even though much exporting to our most solvent markets takes place without the intervention of ECGD at all, 54% of their cover in 1982 was provided for exports to developed countries, and 66% for consumer goods.

How export promotion might be made more effective

6 I do not believe that, given current public expenditure constraints, there is any case for making our export promotion more effective by increasing the real resources devoted to it. What we are really talking about, therefore, is how the export promotion effort might be better targetted, and whether the balance between different sectors of industry and services is about right: the last points in my remit from our December meeting.

7 An objective, statistical approach to targetting our export effort might seem attractive. My Department monitors performance at product level, and has looked at the level of UK exports to markets with the highest per capita incomes. Instructive as such analysis is, it

tends to explain past events rather than providing leads for the future, and it would be a mistake to exaggerate its value.

8 There are two main options for varying the allocation of resources: we could devote more effort to promoting opportunities, and less to providing services in response to exporters' requirements, or we could allocate resources for services by markets or sectors. In their initiative work, the BOTB are consciously selective; for instance, on their advice the Department has recently mounted "task force" exercises in both North and Latin America, as well as undertaking an annual cycle of market assessments for some 75 sectors. I am satisfied that this method of targetting our efforts, which relies heavily on exporters' demands and expert commercial advice, is much more effective than any more interventionist, "Whitehall knows best" scheme could be.

9 This is not to say that officials have nothing to contribute. The merger of the former Departments of Trade and Industry has provided a further opportunity to streamline export promotion effort; my Ministers and I are ensuring that the industry sponsor Divisions play their full role in export promotion - a role hitherto conducted by ex-Department of Trade "country desks". Paul Channon is seeking the co-operation of colleagues in other industry sponsor Departments (eg MoD, Energy, Transport, DHSS) to integrate our efforts further, and to impress upon colleagues the

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importance of effective co-ordination.

< Departmental sponsors can play a particularly useful role in making smaller companies better aware of the services available.

10 I am, however, concerned that the services sector does not make as extensive use of DTI export promotion resources as manufacturing. There are structural reasons for this, in the Department and in the services sector itself. I have commissioned a study, with the co-operation of the British Invisible Exports Council, which will be reporting to me around the end of this month. I do not anticipate any need for dramatic changes, but I expect some improvements to be recommended in internal arrangements and external communication, which I shall implement.

11 We are agreed that it is desirable to direct our efforts towards countries that are able to pay. It is important to note that, as a rule, the export of consumer goods paid for in cash by developed solvent countries takes care of itself: Government involvement - except in dealings with state trading countries - tends to be almost superfluous. Nonetheless, I am concerned that - at its baldest - ECGD frequently find themselves providing cover in order to chase large projects in dubious markets where the prospects of payment are poor. Their exposure in the less desirable markets is already at a level which their Secretary regards as critical. Because of this, cover is necessarily being directed at more

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solvent markets already - unless, of course, we dictate otherwise for political reasons.

12 As you know, the Matthews Report on ECGD was published last month. It would be mistaken to pre-empt the consultations on the Report currently ^a underway, but there are aspects of the Matthews recommendations which point to ways in which ECGD's operations might be made more flexible and responsive to exporters' needs. Clearly, we should welcome any such proposals provided they are consistent with ECGD's commitments (some of which are statutory) to prudent practice and sound management. However, I should warn that I do not find the main recommendation that ECGD should be hived off attractive. Without revising ECGD's basic objectives - which I do not favour, since ^(presumably) this would imply some relaxation of our requirement that it should cover its costs - I do not believe there is scope for substantial reorientation of our export promotion effort as carried out by ECGD.

13 On the ATP, one of the criticisms made (and touched upon at our December meeting) is that it often assists industry sectors where goods are already in surplus: the classic case is the sale of steel plants to newly industrialising countries. We should obviously examine case by case the balance of interest as between exporters and domestic producers concerning the export on favourable terms of plant in order to produce goods in surplus. However, for as long as ATP is confined to use as an instrument to protect us

from unfair competition from other countries' subsidised exports, we cannot have complete control over the sectoral balance of this particular component of our export promotion effort. We cannot abandon ATP, even in present conditions where - pace those who feel the criticisms of the Byatt Report are still valid - the extent of export subsidy is declining because of lower interest rates. We cannot and should not disarm unilaterally: it would damage many of our producers, and would free only very limited resources for other export promotion activities. We can, and do, however, make efforts in OECD (for example at last week's Ministerial), the GATT and in bilateral contacts with our developed competitors towards multilateral lowering of these subsidies.

14 However, the extent to which the allocation of ATP is the subject of inter-Ministerial consultation (and conflict) is a matter of great concern to me: it impedes the effective use of this instrument, as well as wasting a great deal of senior colleagues' time. Paul Channon is in discussion with colleagues in the Treasury and ODA on a number of facets of ATP, with a view to streamlining its administration. We plan to seek colleagues' agreement to changes in E(A). I believe that when this consideration is complete, it will be much easier for my Department to see whether individual cases are being determined with sufficient selectivity as regards industry sectors; they are already determined selectively as regards markets. It would be in all our

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interests if less time were wasted on argument about which cases should be pursued, and which should not be supported.

Summary

15 There are, as I have made clear, a number of leads to be followed up which should streamline our export promotion policy and ensure that what targetting work is undertaken by Government is effectively directed. But I would mislead colleagues if I said there was much that I thought ought to be done: common sense, as well as our wider philosophy, suggests that our promotion should be far more responsive than dirigiste.