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PART A



Part A.

Begins: 19/9/88  
Ends: 24/10/88

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Chancellor's (Lawson) papers:  
(Aid and Trade Provision) ATP on Exports

DD's: 25 rows



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# TRAFALGAR HOUSE

PUBLIC LIMITED COMPANY

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19th September, 1988.

as from:

20 Eastbourne Terrace,  
W2 6LE

The Rt. Hon Nigel Lawson, MP  
Chancellor of the Exchequer,  
HM Treasury,  
Parliament Street,  
London, SW1P 3AG

\* REPORT  
TO ACTION  
COPY ONLY.

CH/EXCHEQUER	
REC.	23 SEP 1988
ACTION	Mr P.G.F. DAVIS
COPIES TO	CST, Sir P. MIDDLETON Sir G. LITTLE Mr LANKESTER Mr MOUNTFIELD Mr BURGNER Mr BOTTRILL

23/9

*Dear Chancellor,*

ATP ON EXPORTS

4904

As you know, there are many differing views about the role of Government in the export world, particularly large projects.

The attached report describes the experience of John Brown Engineering Ltd., a Trafalgar House subsidiary, in China. The analysis work was carried out by the Fraser of Allander Institute. At my request the format of the report is presented in as close to every day language as possible.

I feel that HMG got good value for money, and the company and its many sub-contractors gained substantial business which would undoubtedly have gone to competitor countries. I draw your attention particularly to the follow on contracts won and the stop press note on the inside back cover announcing a further contract. This is ATP doing its job for U.K. industry - creating the opportunity for additional business on commercial terms. I hope you find the story interesting. I will be delighted to respond to any points you may wish to raise.

*Yours sincerely  
Allan Garmy*

AGG/meaq

DIRECTORS · SIR NIGEL BROACKES (CHAIRMAN) · ERIC W PARKER (GROUP CHIEF EXECUTIVE)  
G H B CARTER · THE MARQUESS OF TAVISTOCK · V A GRUNDY · A W CLEMENTS  
G E KNIGHT CBE · D M CALVERLEY · J W S FLETCHER · I FOWLER · J R WILLIAMSON  
A G KENNEDY OBE · A G GORMLY · D ST J McDERMOTT



**ATP**  
AND THE  
**CHINESE POWER  
STATION CONTRACTS**

WON BY  
**JOHN BROWN  
ENGINEERING LIMITED**

IN  
**1986**



**AN ANALYSIS**  
OF  
**UK BENEFITS**

Power Engineering

**JOHN BROWN**

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## THE PROJECTS

**T**hroughout 1986, John Brown Engineering of Clydebank, Scotland – a Trafalgar House Group Company – fought against international competition for three power station contracts in the Peoples' Republic of China.

The client was the Ministry of Petroleum and the Buying Agency was the China National Technical Import Corporation. Negotiations centred in Beijing.

The Power Stations were based on the latest fuel/energy technology – gas/steam turbine combined cycle plants – a technology that the UK must lead and develop for the future.

The three Power Stations together were planned to provide 280 MW of power and the contracts were worth £47.16m.

China was seeking competitive offers at every level for technology, price, training, finance and grant aid. John Brown Engineering worked closely with Her Majesty's Government on the latter aspects.





## THE FINANCIAL ASSISTANCE

**B**y July of 1986, contracts for two of the projects – at Liao He and Zhong Yuan – were about to be let to the French company Alstom on the basis of a long term aid protocol. The Minister of State, Department of Trade and Industry, therefore approved support from the Aid and Trade Provision (ATP) for a third project at Shengli.

The value of the ATP offer was £4.873 million and by dint of strong sales efforts by JBE it was applied by the Chinese Client against all three Ministry of Petroleum Projects. The three contracts were then negotiated as one project.

The contract for the three power station project was signed with John Brown Engineering in Beijing on December 15th, 1986.







## COMMERCIAL AND POLITICAL REVIEW

**T**he Fraser of Allander Institute, of Strathclyde University, has undertaken a professional and independent evaluation of the benefits of the ATP support.

The evaluation has covered such aspects as 'Value for Money', employment benefits, comparative costs per job, net cost to the Exchequer, benefits to Scotland and to the UK as a whole and longer term benefits.

Economic Input-Output models, already proved in many national studies, were used to calculate the effects of the contracts across regions and industries.

In all cases additionality and displacement factors were rigorously applied.

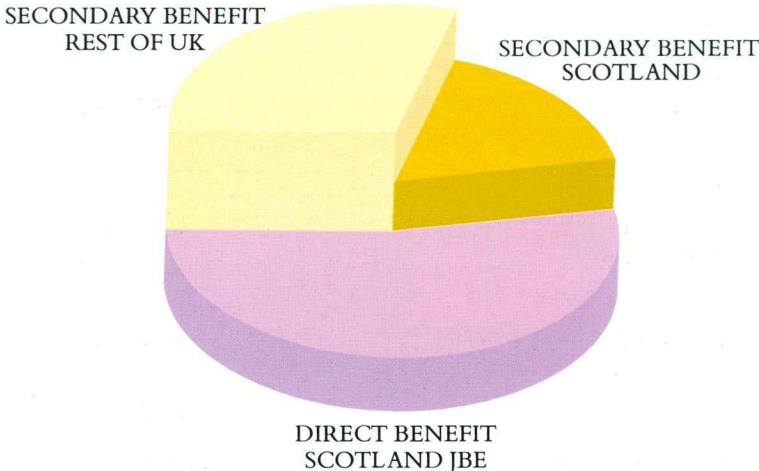
The study was based on factual analysis and interviews with John Brown Engineering, sub-contract companies throughout Britain, and Government departments.

The key results of the study are given in the rest of this report.

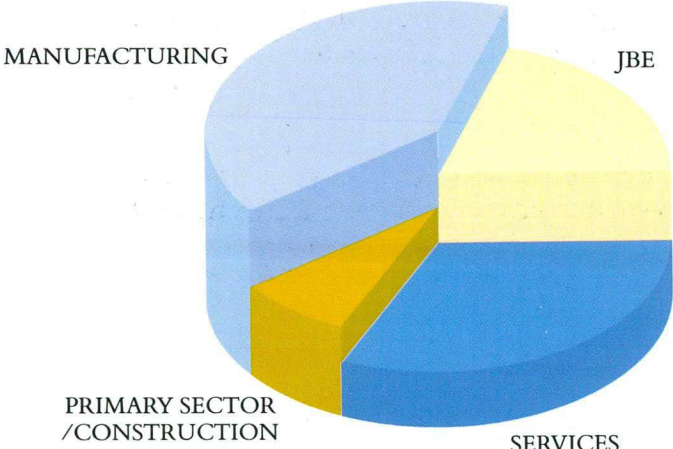




**IMPACT ON OUTPUT**



**IMPACT ON EMPLOYMENT**



## IMPACT ON OUTPUT & EMPLOYMENT

The direct benefit to output derived from the contracts was

Scotland – JBE \_\_\_\_\_ £47.16m

The secondary benefit to output was

Scotland \_\_\_\_\_ £18.18m

Rest of UK \_\_\_\_\_ £23.36m

The total output benefit to the UK as a whole was therefore:

£88.70m

The additional man years worked as a result of the contract were:

Scotland – JBE \_\_\_\_\_ 399 man years

The additional man years worked by JBE's sub-contractors and by other organisations as a result of the contract were:

Scotland \_\_\_\_\_ 585 man years

Rest of UK \_\_\_\_\_ 773 man years

The total employment benefit to the UK as a whole arising from the contracts was therefore:

1,757 man years

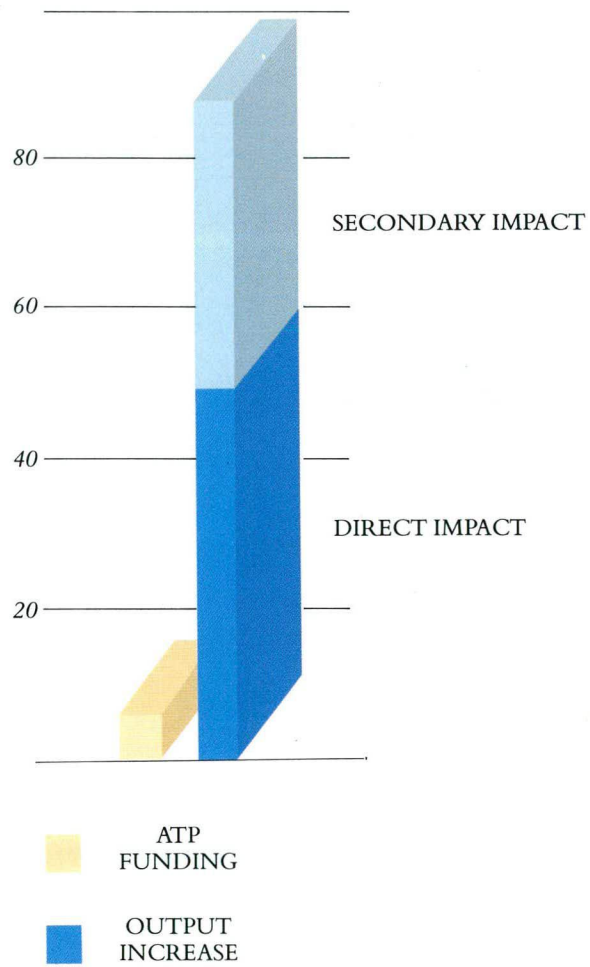
These benefits spread across a wide range of industries in addition to the engineering industry, and reached all major sectors of the UK economy.





## INCREASE IN UK OUTPUT COMPARED TO ATP FUNDING

£ million

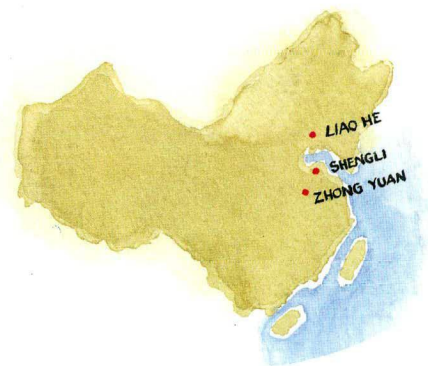


## 'VALUE FOR MONEY' IN NATIONAL TERMS

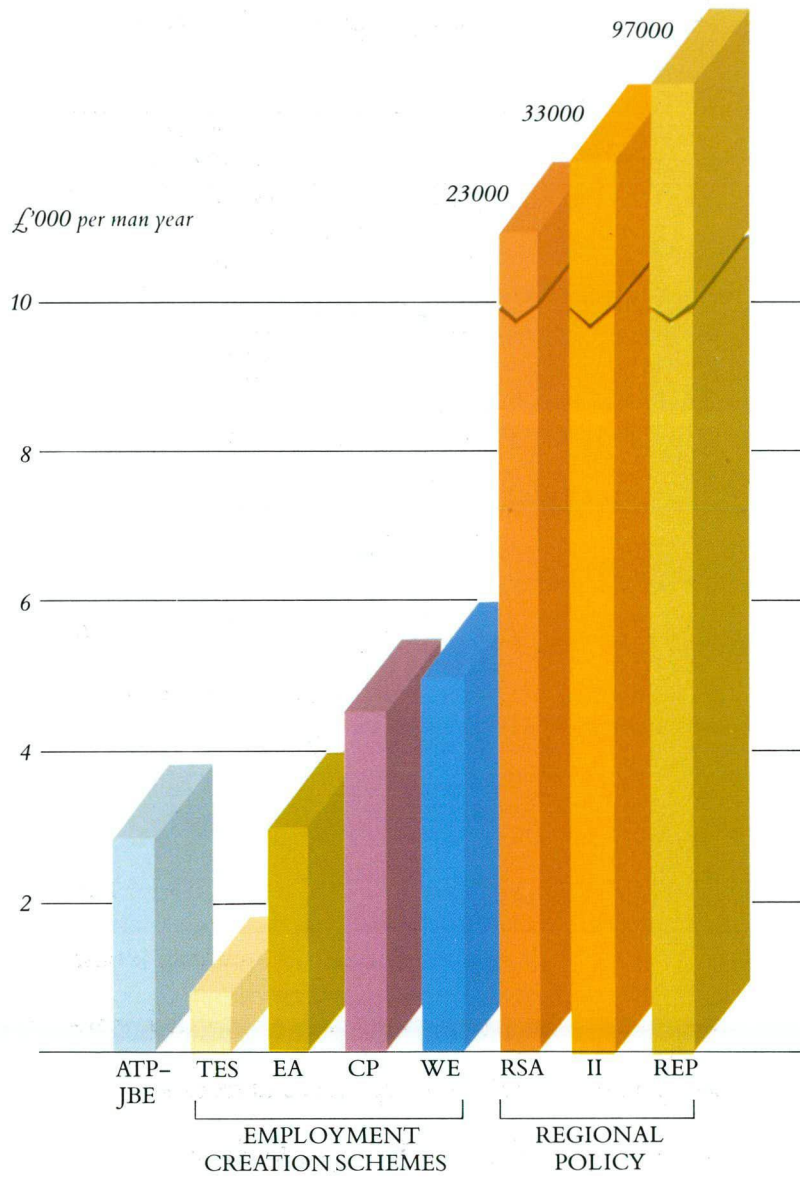
**H**MG invested £4.873m in the ATP support for the contracts.

The increase in national output was £88.70m, and all of this was additional national output that would not have been gained without the expenditure of ATP.

The augmentation of the national economic output at a ratio of 1:18.2 indicates that the expenditure of ATP was a very sound investment.



# COST OF JOB CREATION FROM GOVERNMENT FUNDING





## EMPLOYMENT BENEFITS & COST PER JOB

**P**ublished Statistics indicate the following costs of Government investment in job creation:

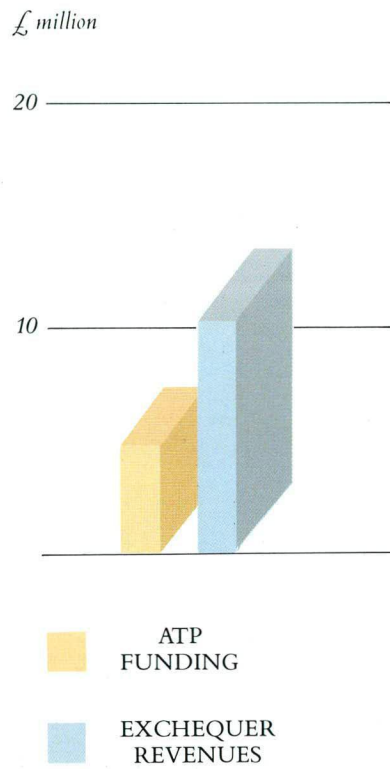
REGIONAL POLICY	COST PER MAN YEAR (£)
REGIONAL SELECTIVE ASSISTANCE	23,000
REGIONAL EMPLOYMENT PREMIUM	97,000
INVESTMENT INCENTIVES	33,000
<b>EMPLOYMENT CREATION SCHEMES</b>	
ENTERPRISE ALLOWANCE	3,000
WORK EXPERIENCE	5,000
COMMUNITY PROGRAMME	4,500
TEMPORARY EMPLOYMENT SUBSIDY	750
<b>ATP IN THE CASE OF THE JBE CHINESE POWER STATIONS</b>	2,773

It is concluded that in the case of the China projects the use of ATP in the creation and maintenance of jobs was highly cost effective.

Some 1050 other UK firms received work from JBE as a direct result of the China Contracts. These organisations ranged from large industrial conglomerates to small local suppliers and stockists. Many were in areas of high unemployment.



## COMPARISON OF ATP FUNDING AND EXCHEQUER REVENUES



## NET CASH OUTFLOW COSTS TO THE EXCHEQUER

**A**nalysis of officially published UK statistics (1986) shows that the Exchequer received tax revenues equivalent to 42.9% of UK gross domestic product.

By application of this relationship to the total impact on GDP arising from the contracts (£22.59m) a gross tax revenue of £9.691m is indicated.

Unemployment benefit payments were estimated to have been reduced by up to a maximum of £3.156m, as a result of the work generated.

Therefore the net benefit to the Exchequer was

	LOWER ESTIMATE OF EXCHEQUER REVENUE	UPPER ESTIMATE OF EXCHEQUER REVENUE
GROSS TAX REVENUE	£9.691m	£9.691m
SAVINGS IN UNEMPLOYMENT BENEFIT	-	£3.156m
LESS ATP PAYMENT	£4.873m	£4.873m
NET CASH INFLOW	£4.818m	£7.974m

Consequently on a conservative assessment, some £6m "profit" was earned by the investment of ATP finance in support of the JBE Chinese Power Station contracts.





## SUMMARY

ATP investment led to

1. UK involvement in lead technology in the Power Sector.
2. An increase in national economic output 18.2 times the value of the Government's ATP funding.
3. The creation of 1757 additional man years of work at a cost per man year of £2733 compared with other HMG schemes costing as much as £30,000.
4. The Exchequer receiving net cash inflows of approximately £6m.
5. Some 1050 UK firms benefitting directly from JBE purchases.

The benefits were not confined to a single contract. Within 15 months of signature of the three power station projects, JBE had been awarded two more contracts for power stations in the Peoples' Republic of China valued together at £35 million.



## **STOP PRESS NEWS**

On 24th July, 1988, John Brown Engineering was awarded a further cash contract for a 25MW power station at Liuzhou PRC valued at just under £4m.

**JOHN BROWN ENGINEERING LIMITED**  
CLYDEBANK, DUNBARTONSHIRE G81 1YA, SCOTLAND  
TELEPHONE: 041-952 2030 TELEX: 778395  
TELEGRAMS: JAYBENG CLYDEBANK





7/10  
*[Handwritten signature]*

*Propose a draft acknowledgment  
Ch. content to write as proposed?  
21/10*

FROM: B G MARR  
DATE: 21 October 1988

- 1. MR P G F DAVIS
- 2. CHANCELLOR

CC: Mr Kilpatrick IF1  
Mr Corry EI

**LETTER FROM MR A G GORMLY (TRAFALGAR HOUSE PLC): ATP ON EXPORTS**

Mr A G Gormly, a director of Trafalgar House plc wrote to you on 19 September enclosing a brochure describing the experience of John Brown Engineering Ltd. with the Aid and Trade Provision (ATP) in China on power station construction projects.

2. The project finance included ATP of £4.873<sup>million</sup>. The brochure summarises an evaluation by the Fraser of Allander Institute, of Strathclyde University, of the benefits of that ATP support.

3. Normally we would recommend a short acknowledgement of a brochure of this type extolling the benefits of an ATP assisted project. However, you may not wish to let pass without comment the comparisons on pages 12 & 13 of the costs of various Government schemes which create jobs.

4. Those cost-per-jobs estimates, attempt to show that ATP is good value for money. EI Division have advised that they have reservations about the way those calculations appear to have been made because they ignore the impact of macroeconomic crowding out.

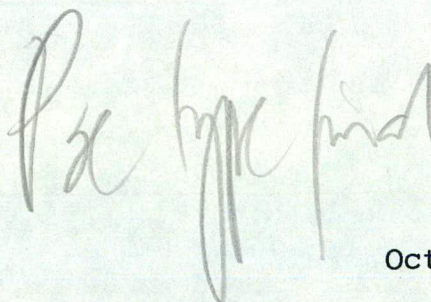
5. The second part of the attached draft reply incorporates advice from EI on the cost-per-job estimates.

*[Handwritten signature]*  
B G MARR  
AEF1



**DRAFT LETTER FROM THE CHANCELLOR OF THE EXCHEQUER TO:**

A G Gormly Esq  
Director  
Trafalgar House  
1 Berkely Street  
LONDON W1A 1BY



October 1988

**ATP ON EXPORTS**

Thank you for your letter of 19 September and its enclosure about the John Brown Engineering Ltd. Chinese Power Station contracts.

2. I am glad that John Brown Engineering Ltd. was able to secure this business and I was interested to see the report. It is particularly interesting to see how large projects impact on so many smaller firms through sub-contracting and purchasing.

3. I have noted the cost per job estimates in the report. Cost-per-job calculations raise many complex issues (many of which are discussed in a recent Government Economic Service working paper by Jon Stern entitled "Methods of Analysis of Public Expenditure Programmes with Employment Objectives"). In particular we must take account of macroeconomic as well as industrial effects.



4. Of course, the key question is what would have happened in the absence of the ATP support. This includes whether there would be offsetting increases in other elements of public expenditure and/or reductions in taxation, and whether interest rates, exchange rates, wages and prices would have been the same. I am not sure that the report you sent has treated these issues fully. It is also necessary to consider how the lasting supply side benefits of ATP would compare with the supply side benefits of other uses of public expenditure such as roads, education and training R&D support, and indeed lower rates of taxation etc\*.

5. Material of the type in this report is a useful contribution to the decisions we <sup>take</sup> gave about supporting such projects with public funds, and I am grateful for the copy you sent.

NIGEL LAWSON





Handwritten initials, possibly 'PM', in the top right corner.

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

24 October 1988

A G Gormly Esq  
Director  
Trafalgar House  
1 Berkeley Street  
LONDON W1A 1BY

Mr P G F Davis  
Mr B G Marr  
Mr Kilpatrick  
Mr Corry

Handwritten signature of A G Gormly.

**ATP ON EXPORTS**

Thank you for your letter of 19 September and its enclosure about the John Brown Engineering Limited Chinese Power Station contracts. I read this with interest.

Handwritten signature of Nigel Lawson, with the name 'Nigel Lawson' written in ink over the signature.

**NIGEL LAWSON**