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Industrial Support.

INDUSTRIAL POLICY.

August 1980.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~4.9.80~~							
~~12.9.80~~							
~~18.9.80~~							
~~26.9.80~~							
~~2.10.80~~							
~~13.10.80~~							
15.10.80							

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TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (80) 36th Meeting, Minute 3	15.10.80
E (80) 116	13.10.80
E (80) 109	8.10.80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed CWayland Date 27 April 2010

PREM Records Team

Ref: A03214

Ind Pol

PRIME MINISTER

Industrial Support Measures
(E(80) 109 and 116)

BACKGROUND

The Chancellor of the Exchequer was invited by Cabinet on 10th July to circulate in due course, and in consultation with the Ministers concerned, a paper on the options for further measures of industrial support (CC(80) 28th Meeting, Item 2, Conclusion 2). You will recall that this was in response to a request by the Secretary of State for the Environment.

2. In E(80) 109 the Chancellor confines his proposals to the possibility of additional expenditure, within the overall public expenditure ceiling, in support of research and development. He envisages that these measures should cost no more than £60 million a year and warns that it may be necessary to go for less. He recommends that, if the Committee gives a fair wind to these proposals, the Chief Secretary should be invited to consider the prospects for accommodating them by adjusting public expenditure priorities, and to make proposals in the paper on the public expenditure exercise which he will be putting to Cabinet for discussion on 30th October.

3. The measures, which are described in paragraphs 6 to 9 and 11 of the paper, are designed primarily to meet the Secretary of State for Industry's argument that the Government should help to protect 'seed corn' expenditure which firms might otherwise cut back in the face of short-term cash flow pressures and at the expense of their future competitive position. The Chancellor suggests that these measures might include some improvement in the Secretary of State for Trade's market entry guarantee scheme which helps firms breaking into export markets; and that there might be some increase in funding of the energy conservation demonstration project. His proposals would allow for some further selective assistance in the regions.

4. These proposals apart, the Chancellor rules out at this stage further measures to ease liquidity pressures, though he will be ready to discuss any tax proposals with colleagues nearer to the Budget. In particular he rules out as too

costly the possibility of removing the four month deferment of payment of regional development grants (his paragraph 5).

5. The CPRS, in paragraph 7 of E(80) 116, support the proposed package, provided that it can be accommodated within the public expenditure ceiling. They point out however that, if it is to go ahead more work, will be needed on the criteria for selection - though this should not be too difficult since it will largely be a matter of developing existing schemes of assistance.

HANDLING

6. After the Chancellor of the Exchequer has introduced his paper it is likely that most members of the Committee will wish to comment and in particular the

Energy Gen.

Secretaries of State for Industry, the &3 Environment, ~~Trade,~~ Scotland, Wales and Northern Ireland (who would expect a further £1.5 million if Great Britain were to get £60 million extra).

7. If it is accepted that public expenditure constraints rule out the possibility of anything more ambitious, the main question will be whether it is right to give priority from whatever funds may be available to 'seed corn' measures. The Secretary of State for the Environment proposed in his letter of 26th September to the Chancellor that some of the expenditure should be directed towards environmental improvement, pollution control and the recycling of waste. He put the annual cost of such measures very provisionally at £25 million. The Chancellor proposes, in his paragraph 10, that if these ideas are to be pursued they should be financed by re-ordering of priorities within the environmental programme. This apart it may well be that Ministers will not want to press for further expenditure, since this would be at the expense of their own programmes - as indeed will be the proposed £60 million - and possibly to some extent of the employment measures proposed in E(80) 110.

8. Some Ministers may nevertheless be reluctant to accept that nothing more can be done at this stage to help with liquidity measures. In particular they might refer to:-

(i) the National Insurance surcharge - but reductions would be very expensive, and almost two-thirds of the relief would be to oil, banking and commerce;

(ii) the four month delay in RDG payments - the Chancellor points out that the benefits would be widely diffused and the public expenditure cost of £140 million extremely difficult to accommodate (his paragraph 5);

(iii) the increase in the redundancy rebate from 41 per cent to 50 per cent - an increase to 60 per cent has been ruled out for the time being as too expensive, and the Chief Secretary will shortly be proposing in E(EA) that the increase to 50 per cent should be deferred from November to April to offset the cost of extra loans to the National Docks Labour Board.

CONCLUSIONS

9. In the light of the discussion you will wish to record conclusions:-

(i) on whether the Committee provisionally agrees with the 'seed corn' measures discussed in paragraphs 6 to 9 of E(80) 109, and, if so

(ii) inviting the Chief Secretary to consider, in the public expenditure proposals which he will be putting to Cabinet for discussion on 30th October, the prospects for adjusting public expenditure priorities to accommodate these measures.

RTA

(Robert Armstrong)

13th October 1980

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Top Copy: Manpower, Jan 80, Special Employment Measures

CONFIDENTIAL

From the Secretary of State

Tim Lankester Esq
Private Secretary
10 Downing Street
Whitehall
SW1

13 October 1980

Dear Tim

E COMMITTEE - WEDNESDAY 15 OCTOBER

You are aware that my Secretary of State is currently on an official visit overseas and will not be present at the meeting of E Committee on Wednesday. Before departing he asked me to pass on the following comments on the three papers for discussion.

SPECIAL EMPLOYMENT MEASURES AND INDUSTRIAL TRAINING

My Secretary of State endorses the approach in E(80)111 on Industrial Training, especially as it cuts out some of the bureaucracy of the existing Training Boards. He particularly is in favour of more vocational training, but he feels this must mean a widening of training in genuine skills - i.e. apprenticeships - and not job release to study sociology for two days a week at the local technical college.

On the paper E(80)110, Special Employment Measures, my Secretary of State accepts that some measures may be politically and socially necessary, but he is concerned that Mr Prior's proposals to mop up youth unemployment require finance on a scale out of all proportion to those contained in the paper on Industrial Support. The proposals will inhibit the creation of real jobs by adding large sums to public expenditure - money which will once more have to come out of the pockets of growing firms and which will therefore create the unemployment of tomorrow.

INDUSTRIAL SUPPORT

My Secretary of State has noted that amongst the seed-corn measures which the Chancellor has described would be an improvement in our export arrangements and assistance towards development contracts for new products or processes which might strengthen a firm's capacity to gain overseas contracts.

Already the objectives of this Department and the Department of Industry coincide, as growth in exports will obviously bring considerable benefits and much needed relief to British industry during the recession. The industrialists of the British Overseas Trade Board effectively decide on the Secretary of State's behalf on the allocation of his overall export promotion budget. Moreover, organisational changes have been made to cement the link between the two Departments through the new Projects and Export Policy Division which reports to both Secretaries of State. The new EX Committee which has been created is a further practical step - with no direct financial cost - towards making sure that the needs of exporting industry are given due prominence.

The machinery in EX, BOTB and PEP must ensure that export considerations are fully reflected in decisions on using this new industrial support money.

In addition to export promotion my Secretary of State wonders whether sufficient help is being given towards import substitution; he therefore welcomes the scope provided within the other seed-corn measures for protecting the future competitiveness of new firms. In our efforts to help our companies sell their goods overseas, we should not overlook the need for them to sell their goods at home against foreign competition.

I am copying this letter to the Private Secretaries to other members of E Committee, to Godfrey Robson (Scottish Office), Martin Rolph (Welsh Office), Michael Hopkins (Northern Ireland Office), Don Brereton (Health and Social Security) and Peter Shaw (Education and Science) and to David Wright (Cabinet Office).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

Ind Pol.
ORIGINAL COPY 1
ON: ECON. POL.
EXCHANGE RATE.
May 1979

Qa 05145

To: PRIME MINISTER

From: J R IBBS

Sterling Exchange Rate

1. In my minute to you on industrial support dated 10 September I suggested that in considering ways in which industry can be helped high priority should be given to finding methods of reducing the exchange rate. I suggested in particular that some system of inflow controls might provide the necessary relief, at least for the period until more permanent improvements could be achieved by a reduction in interest rates.

2. Since then I have attended a meeting in the Treasury on inflow controls and also your meeting on this subject on 18 September. It emerged from these meetings that there was little belief that any system of inflow controls could be relied on to be effective because there would quickly be 'leakage' and there was also anxiety that the effect on the exchange rate might in practice be perverse. I have also made enquiries about the possibility of 'talking' or 'nudging' down the rate but find there is great fear after the experiences in 1976 that if such steps were successful it might be impossible to prevent the rate falling much too far.

3. The process of squeezing inflation out of the economy is bound to be painful for industry and inevitably there will be some casualties. Strong nerves are needed if the policy is to have a fair chance to succeed. However, it is important to prevent excessive damage. Recent contacts I have had with industry have increased my concern that the exchange rate is now doing serious harm to businesses which are basically sound and which the country cannot afford to lose. It is businesses whose prices in export or home markets are set by international competition that are being excessively strained. The loss of competitiveness from the high exchange rate added to the many other pressures that affect industry generally is more than they can reasonably be expected to adjust to. In some of the worst hit sectors businesses are likely to be abandoned entirely. Even where companies persist and trade at a loss the cash flow will be

insufficient to permit investment and proper development of the business. The beneficiaries will be competitors in other countries who are better able to develop and invest and so improve their relative long term competitiveness. I am not referring to marginal businesses that might be regarded as bound to dwindle in due course and therefore as expendable but to ones that but for the strength of the exchange rate would be looked on as efficient and viable by international standards. At present these companies are often holding on to overseas business at little or no profit in the hope of a downturn in the exchange rate. That hope needs to be sustained by significant progress in the desired direction if we are to avoid decisions to pull out of the overseas business and even the abandonment of sectors of industry which are important for the country's long term well-being and whose early demise would create severe social problems in the shorter term.

4. My considered opinion is that some easing of the exchange rate is now not only desirable but essential if excessive damage is to be avoided. You have already asked the Chancellor and the Governor for a further meeting at which control of inward flows or any option for bringing the rate down can be considered. I believe that any further assessment of the options needs to be against the background that by one means or another the rate must be brought down - in my judgement by about 10 per cent.

5. In my previous minute my view was that the time was not ripe for major liquidity easements for industry that would undermine basic economic policy. Provided that some easing of the exchange rate can be achieved this is still my view even though the situation now appears more serious and needs to be monitored very sensitively. There is evidence that stringency is leading to improved attitudes in industry and I would be sorry to see this trend broken.

6. The objection made against proposals for two-tier interest rates is that they cannot be made even partly effective as a means of bringing the exchange rate down without a system of inflow controls or perhaps without a readiness on the part of the monetary authorities to sell sterling (and thus increase the money supply) if necessary in order to hold the rate

down. If they have for these reasons to be regarded as impracticable or unacceptable, it would appear that it is only by means of a significant reduction in the level of interest rates that the exchange rate can be brought down. How large such a reduction would need to be in order to bring about, say, a 10 per cent drop in the exchange rate is hard to say: it would depend on levels of interest rates internationally, and on the psychological effect in the exchange markets of the Government being seen to have decided to take action to reduce the exchange rate. The problem would be to achieve the reduction of interest rates without impairing the monetary strategy or losing the beneficial effects of monetary stringency.

7. Apart from the effects of dismantling the corset, the main factor keeping the increase in money supply at its recent high rate - thus preventing the possibility of a reduction in the level of interest rates - has been the public sector's (and in particular the central Government's) borrowing requirement. It may be that the Treasury's analysis of the figures for the next six months will forecast a reduction of the PSBR which would be consistent with getting back at or near the money supply targets by the end of the financial year. In that case the problem would be primarily a technical one of market management. But even if that were the case, it might not be enough to bring about the change in expectations necessary to bring the exchange rate down.

8. If further action is required to reduce the borrowing requirement, so as to make possible a reduction of interest rates within the monetary strategy, the first choice should clearly be to reduce expenditure. But we face increasing demands for nationalised industry financing, and increasing expenditure on unemployment benefit: it seems unlikely that a significant reduction of public expenditure could be achieved in the necessary timescale. The second choice would be to raise additional revenue by increasing taxation, either direct or indirect. The likely outcome of such moves, both on the exchange rate and in other respects, would obviously need further examination to explore, for example, the effect on the retail price index or possible further depressing of the economy. But this may be the price of achieving a significant reduction of interest rates, and thus a fall in the exchange rate, without compromising the basic strategy.

9. Another possibility that should be examined is whether some additional relief of the pressure on interest rates could be achieved by the temporary introduction of direct controls on bank credit to non-industrial borrowers (mainly the personal sector). I believe this could not be more than a temporary measure since its tendency would be to drive disappointed would-be borrowers away from the banking system to more expensive secondary sources and perhaps directly or indirectly to borrowing overseas. It could also add to the problems of small businesses. Nonetheless, it could provide a measure of temporary relief of the pressure upon interest rates at the centre of the financial system.

10. Once the exchange rate had by some suitable means been brought down sufficiently a decision to enter the European Monetary System might help to assure industry that it was the intention to try to keep the rate at that level - and indeed might actually make it easier to do so. But a move to enter the EMS before the exchange rate had reached an appropriate level would be more likely to be unhelpful than helpful.

11. I realise that if no other way of easing the exchange rate can be found, my belief that the situation in industry will force moves to be made that are in conflict with present strategies is not one that will be welcomed. However, I believe I must draw attention to the situation so that as much time as possible is available for considering ways of overcoming the problem.

12. In brief, the points I am making are:

(a) That the high exchange rate is doing serious damage to sections of industry which the country cannot afford to lose or gravely weaken and which but for the strength of sterling should have considerable ability to survive the general liquidity squeeze which industry is undergoing. This damage should not be allowed to continue for long.

(b) That it is therefore essential (rather than merely desirable) to find a way of bringing the rate down - I suggest by about 10 per cent.

(c) That it is desirable to find a way of doing this that does not undermine basic economic strategy. Possibilities such as inward controls, 'talking' or 'nudging' down need therefore to be looked at against the background that if one of them cannot be made to work then it will be necessary to face more unattractive alternatives.

(d) That if the only way of bringing down the rate is by a significant reduction in interest rates (and if the course of events does not permit this to occur as a normal move within present policies) then again it is desirable to look for a way of achieving this which does minimum damage to the basic strategy. In this context, if significant reduction in public expenditure is not possible within the necessary timescale, additional taxation may be the least damaging course to follow.

(e) That in the extreme the need to avoid massive damage to important otherwise viable businesses may mean that some adjustment of basic policy becomes unavoidable.

13. I am sending a copy of this minute to Sir Robert Armstrong.

2 October 1980

SECRETARY OF STATE FOR THE ENVIRONMENT

cc. Andrew Duguid

2 MARSHAM STREET
LONDON SW1P 3EB

Ind Pol

My ref:

Your ref:

26 September 1980

Dear Chancellor of the Exchequer

R 29/9

INDUSTRIAL SUPPORT

In my letter of 14 August I confined myself to general comments on the ideas put forward in Keith Joseph's letter of 8 August.

In paragraph 16 of his letter he turned to measures designed to encourage companies to maintain discretionary expenditure which would be distinct from any general or discriminatory relief from pressures on liquidity. Their aim would be to counteract the undesirable effects of the liquidity squeeze, by maintaining "seed corn" expenditure on which future prosperity demands: and they would be taken under existing powers.

I feel strongly that such measures should include - indeed ought to have included in the past - assistance specifically directed towards environmental improvement, including the recycling of waste materials where I believe new initiatives are required. Such a move would have wide public appeal and it would recognise the need for industry to put itself on a more competitive footing, in terms of technical progress and "clean" technologies generally, with other EC member states where the political and governmental pressures have on the whole been stronger than in this country.

I therefore asked my officials to prepare a paper setting out some initial suggestions. A copy of this is enclosed. I should be grateful, if after such further discussions as may be required between officials, you will take them into account in the preparation of your paper for E Committee.

I am copying this letter to the other recipients of Keith Joseph's letter of 8 August.

Yours sincerely

J. P. Channing

for MICHAEL HESELTINE
(approved by the Secretary of State and signed in his absence)

The Rt Hon Sir Geoffrey Howe QC MP

CONFIDENTIAL

FINANCIAL ASSISTANCE TO INDUSTRY FOR ENVIRONMENTAL PURPOSES

1. This paper considers the scope for introducing measures for financial assistance to industry, related to the achievement of environmental objectives.

PRESENT POSITION AND BACKGROUND

2. At present the UK has no system of grants to industry specifically related to the achievement of pollution control objectives. Limited assistance may be available where grants are being paid for other purposes (eg industrial improvement), and grants are paid for research and development in some fields (in particular waste recovery equipment).

3. The UK has been a strong advocate of the "polluter pays principle", on grounds of equity and efficiency in a domestic context, and because of its contribution to the reduction of trade distortion. Ppp is also generally supported by other countries, and there are recommendations relating to it both in the EC and the OECD. However, most other EC countries take a more flexible view than we do of ppp, and provide assistance to industry in various ways for pollution control purposes.

4. A note on the EC recommendation on ppp is at Annex A. Any proposals for new schemes of financial assistance would need to be cleared with the EC Commission, which has the power to keep under review all systems of aid, and to find whether aids are compatible with the Treaty.

OBJECTIVES OF GRANT SCHEMES

5. In terms of environmental policies, the possible objectives of introducing a system of financial assistance to industry might include:

a. to help industry to maintain the rate of progress of environmental improvement;

b. to avoid putting UK industry at a disadvantage vis-a-vis their competitors in other EC countries;

c. to encourage the saving of scarce resources;

d. to encourage technological innovation in the pollution control field, and thereby increase the competitiveness of British industry at home and abroad.

6. Proposals for financial assistance would need also to be looked at in relation to the development of industrial support measures generally. Measures would need to be framed, and implemented, in close co-operation between the Environment departments and DOI, so that their operation should strike the best balance in achieving both environmental and industrial objectives.

POSSIBLE METHODS OF INTRODUCING ASSISTANCE

7. Four possible methods for providing assistance have so far been identified. All of these could be operated on the basis of existing statutory powers (principally Section 8 of the Industry Act 1972, and Section 5 of the Science and Technology Act 1965). The four methods are:

a. Modification of general grant schemes, so as to remove the limit on financial assistance for pollution control measures forming part of a larger project.

b. Specific grants for plant designed to recover or re-use waste materials.

c. Grants to assist the development and application of environmentally clean products and processes.

d. A scheme of specific grants towards the cost of pollution control measures.

Modification of existing grant schemes

8. Industrial projects frequently involve the installation of pollution control equipment etc. The pollution control element

of the scheme will usually represent a small part of the total cost; but in some cases it may be a substantial element. However, the present practice is to limit the pollution control element of any scheme which is eligible for grant to 15-20% of the total cost.

9. Removal of this (administratviely imposed) limitation would help to meet both environmental and industrial objectives. There is, in any case, a case for saying that such measures ought to be regarded as an integral part of industrial projects. Removal of the limitation would not conflict with the EC recommendation on the ppp.

Grants for plant designed to recover or re-use waste materials

10. Grants could be paid (under the Industry Act) to firms which install plant for the recovery or further use of waste material. This would be, to some extent, an extension of existing practice. There has been a scheme, for example, for the paper industry, to encourage the production of recycled paper. Further ways in which such grants might be used include:

a. encouraging the setting up (perhaps on a co-operative basis) of schemes for the sorting and recycling of solid waste where the combined economic benefit, to the local authority and to industry, justifies this.

b. encouragement of measures within industry to increase the recovery of materials which are at present dispersed into the environment. This might cover not only solid wastes, but materials which are at present emitted to air or discharged to water.

11. Measures of this kind would help to meet the general objective of conserving scarce resources, and would also bring environmental benefits - for example, reduction in solid (and possibly toxic) wastes, improvements in air and water quality, and avoidance of problems which arise from the accumulation of heavy metals in sewage sludge. There would be no clash with EC requirements.

Clean Technologies

12. The Product and Process Development Scheme, under Section 5 of the Science and Technology Act 1965, enables assistance to be given in order to promote the design, development, and launching of a new or improved product or process. Consideration might be given to the introduction of environmental criteria into the operation of this scheme, and grants might be given specifically to promote the development and application of environmentally clean products and processes, including quiet machinery (this would bring environmental benefits, but the immediate beneficiaries might be workers in factories, and HSE would therefore need to be involved).

13. In addition to the specific assistance available under the Product and Process Development Scheme, firms producing pollution control equipment are eligible, like other firms, for assistance under the Industry Act. The industry has considerable surplus capacity; and although 50% of output is exported, profit margins are understood to be low. Again, a specific environmental dimension might be introduced into the operation of general schemes of assistance so as to help the pollution control equipment industry.

14. Measures to encourage the development and application of clean products and processes, and to help the pollution control equipment industry generally, would bring environmental benefits. There should also be advantagesin terms of industrial support. In particular such assistance would help UK industry to compete when there is a growing overseas market as environmental standards are raised in other countries. This change in the implementation of existing schemes of assistance would not present any problem in the EC context.

Specific grants for pollution control measures

15. In addition to the above measures for introducing environmental considerations into existing schemes of financial assistance, there is scope for a new scheme of specific grants towards the cost of pollution control measures, within the limits (15% of the cost)

laid down in the EC interpretation of the polluter pays principle. Such specific grants would need to be administered by the Environment departments, in close consultation with DOI.

16. Grants might be payable towards the costs of air pollution control measures in industrial premises which come under the control of the Alkali Inspectorate. Capital expenditure in this field in 1978 is thought to have been running at about £100 million a year, and the Alkali Inspectorate, which takes account of economic considerations in determining the "best practicable means" to be adopted at individual plants, is finding that firms are having increasing difficulty in meeting their requirements. If a grant were available, this could be taken into account by the Inspectorate in judging what would be "practicable" in any particular case.

17. A further possibility in relation to air pollution would be to provide grants for new plant needed to enable existing works to achieve the reduction in emissions required to meet the standards laid down in the recent EC directive on air quality limit values for sulphur dioxide and suspended particulates. Such grants might be available for non-registered processes (ie those controlled by local authorities rather than the Alkali Inspectorate). Availability of grants would need to be limited so as to concentrate funds on the few areas where industrial emissions of sulphur dioxide present particular problems.

18. Grants might be made available also towards tackling problems of water pollution. Here, discharges by industrial firms are generally of less significance than sewage discharges, whose improvement is a matter of increased expenditure by water authorities. However, it should be possible to develop criteria in relation to industrial discharges to encourage early achievement of river quality objectives (on a selective basis in view of the greater significance of sewage discharges), including compliance with the proposed EC directive on mercury discharges from the chloralkali industry.

19. A rough draft outline of a possible scheme of grants is at Annex B. Although such a scheme could operate within the limits accepted by the EC, as conforming with ppp, careful presentation would be necessary to meet possible objections from industry that financial assistance might be used as a lever for imposing more stringent environmental standards and that grant limited to 15% would not compensate for this.

20. In fact, the statutory basis of "best practicable means" for processes controlled by the Alkali Inspectorate, and the general acceptance of the philosophy of bpm in other fields, should ensure that the existence of a grant was not used as a means of justifying the tightening of standards in such a way as to put unacceptable burdens on industry. New standards would still be set with regard to the ability of industry to meet them - taking into account the new grant where it was available. It would also be important to emphasise that the scheme was based on the need to maintain the present rate of progress of environmental improvement.

FINANCIAL IMPLICATIONS

21. No detailed assessment of financial implications can be made until the ideas have been the subject of further inter-departmental discussion. In particular, the implications of the first three options need to be considered with DOI, in the light of their experience of operating the existing schemes. So far as specific pollution grants are concerned, a worthwhile scheme might be mounted on the basis of annual expenditure of the order of £10 million.

22. For present purposes a working assumption might be that the total annual cost of all the measures outlined above might be up to £25 million.

STAFFING IMPLICATIONS

23. A detailed assessment of staffing implications must also depend on further consultation. For pollution control grants, such consultation would need to involve regional water authorities and local authorities, as well as Government departments.

24. In principle, adoption of the first 3 options should not have significant staffing implications. A scheme of specific pollution grants would, however, call for some extra staff (perhaps 4) in DOE, and would also put some extra burden on DOI, and on the Alkali Inspectorate, regional water authorities, and local authorities.

ANNEX A

EC RESTRICTIONS ON AID TO INDUSTRY

1. Financial assistance to industry in EC Member States has to conform to Community rules. The Commission, as guardian of the Treaty, has to be informed of any plans for new aids, in time for it to comment before such plans are implemented.

2. The general presumption is against aid to industry, which could produce trade distortions. However, Article 92 of the Treaty provides that aid may be given where there would otherwise be serious economic disturbance or high social cost.

3. In the pollution field, the Community subscribes to the "polluter pays principle" (ppp). The EC Environmental Action Programme states that the cost of preventing and eliminating nuisances must, as a matter of principle, be borne by the polluter.

4. The interpretation of ppp is set out in a Commission memorandum of 1974. In this the Commission stated its willingness to approve schemes for payments up to 31 December 1980 to finance investment needed to enable plants in operation on 1 January 1975 to meet new major environmental protection obligations. The memorandum also provided for a progressive reduction in the percentage grant payable; the maximum proportion of new investment (excluding any investment that would also increase production capacity) which could be covered by aid was set at 45% in 1975/76, 30% in 1977/78, and 15% in 1979/80.

5. Under the 1974 Memorandum, schemes for financial assistance would have to end by 31 December 1980. However, a further memorandum of July 1980 extends the period during which assistance may be given to 31 December 1986. The rate of assistance continues to be limited to 15%; and the plant concerned must have been in operation for at least two years before the new environmental protection obligations came into force (in place of the 1975 cut-off date).

DRAFT OUTLINE

ANNEX B.

INVESTMENT IN ENVIRONMENTAL QUALITY

1. The object of the scheme is to accelerate improvements in environmental quality.

2. Assistance will be given under section 8 of the Industry Act 1972.

Criteria

3. To qualify for assistance the project must lead to an earlier achievement than would otherwise be possible /by plants not less than two years old/ of standards set for environmental improvement. The scheme would be selective and applicable to activities in any sector of pollution. Possibilities are:-

(i) projects at plants registered under the Alkali Acts to accelerate the introduction of better pollution control equipment;

(ii) projects which will assist in complying with EC directives; and

(iii) projects which help to bring forward achievement of river quality objectives.

Scale of Project

4. The project costs (i.e. fixed capital and working capital) are not less than /appropriate de minimis level to be inserted/

Support of pollution control authority

5. The application for assistance must be supported by confirmation from the relevant pollution control authority that the project accords with the criteria in paragraph 3 (i) (ii) or (iii) above.

Technical feasibility

6. An application must be supported by an independent assessment of the technical feasibility of the project, except where confirmation can be provided from the relevant pollution control authority that in their view the project is technically feasible.

Rate of grant

7. Grants of 15% will be paid towards the project costs.

8. Where a consultant is engaged in drawing up a proposal, grant will be paid at the rate of /50%/ of agreed consultancy fees for inspections and advice required in preparing a proposal and for supervising and inspecting work after a proposal has been accepted.

Applications

9. Applications are to made to, and will be processed by DOE.

10. DOI's Industrial Development Unit will make an appraisal of commercial viability where project costs total [......] or more. These cases will be referred to DOI's Industrial Development Advisory Board. Where the project costs are less than this, the cases will be considered by a Departmental Projects Management Committee which will include DOI. (This Committee will also exercise a general oversight of the scheme).

11. Grants in excess of £2m need clearance with EC; this would be negotiated by DOI/DOE.

Payment of grant and monitoring

12. Final payment of grant will be subject to confirmation that the project is operating satisfactorily. Any necessary monitoring will be undertaken by DOE, or by the pollution control authority on its behalf. In the event of the project being suspended with [years] of completion, payment of grant may be recoverable.

Financial responsibility

13. The Accounting Officer DOE will be accountable for monies paid out by DOE under the scheme.

Scotland, Wales, Northern Ireland

14. The scheme will extend to these countries, where Departmental responsibilities will be with SDD, Welsh Office and DOE Northern Ireland.

26 SEP 1980

1 and PS1.

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

18 September 1980

The Rt. Hon. Sir Keith Joseph, Bt., MP,
Secretary of State for Industry

Dear Secretary of State,

INDUSTRIAL SUPPORT

I was grateful for your letter of 8 August and the comments from colleagues which it stimulated. Your letter is pretty wide ranging, as are the tax and spending proposals which you suggest might be considered as possible means of helping industry. Cabinet, on 10 July, gave me a remit to prepare a paper on industrial support measures, but many of the ideas touched upon in your letter go well beyond what I envisage to be the scope of such a paper. I intend to put something round to colleagues by the middle of October so that we can have a first run over the ground before the public expenditure discussions at the end of the month.

In the meantime, a few points which I think are worth bearing in mind in connection with this exercise are as follows.

First, we must consider proposals in this or any other field against the extremely difficult fiscal and monetary prospects we are facing. There is no need to elaborate on the latter. You are aware of the latest monetary figures which to a large extent reflect the high level of Government borrowing. This poses immediate problems for the current year, and for next year also. We clearly need to ensure that a satisfactory fiscal position is achieved, and this is likely to rule out any net additions to public spending.

Second, the public expenditure prospect is particularly disquieting. You have had a copy of my minute of today to the Prime Minister which shows how difficult it will be to achieve our target and make room for any additional spending measures. We need to bear in mind also Jim Prior's proposals on training and employment. It is essential that we should reach conclusions on any such proposals for additional spending only in the context of our discussions on public expenditure as a whole at the end of next month.

/Your letter

Your letter was helpful in emphasising the distinction between measures designed to improve corporate liquidity and more limited measures aimed at helping individual firms to protect "seed corn" expenditure, which because of current difficulties they may decide to sacrifice for the time being.

The measures directed at corporate liquidity which have been mentioned in the correspondence would all involve large sums of money, namely in the form of reduced tax revenue. As far as tax measures are concerned these must be a matter for next year's Budget, and I will be considering them in that context.

My paper on industrial support will focus therefore on "seed corn" measures of the kind mentioned in paragraph 16 of your letter, though I am bound to say that, against the current fiscal and monetary background, the effective possibilities look like being very limited.

I am sending copies of this letter to the Prime Minister and to the recipients of your letter.

R.I. Tolkien (Private Secretary)

, on behalf of ,

GEOFFREY HOWE

CONFIDENTIAL

10 DOWNING STREET

Mr. Wolfson

Ind Policy

From the Private Secretary

BF

12 September 1980

Dear John,

Industrial Support

As you know, the Prime Minister held a preliminary discussion this morning with the Chancellor of the Exchequer and Sir Keith Joseph on the question of possible industrial support measures. Robin Ibbs, John Hoskyns and David Wolfson were also present. They had before them Sir Keith's letter of 8 August and the various comments which other Ministers had made subsequently.

Mr. Ibbs, drawing on a note which he had prepared for the Prime Minister (copy enclosed), outlined the industrial situation as he saw it and some steps which might be taken. He was opposed to any general measure of relief which would simply weaken the pressure on industry to improve efficiency and reduce their pay settlements ; but there were still some initiatives which the Government could pursue. In particular, it was crucial to get the exchange rate down to a more modest level. This should not be done by prematurely reducing interest rates, but rather by seriously considering the possibility of imposing inflow controls.

The Chancellor said that he too was worried about the exchange rate, and he had asked for an urgent review of the possibility of imposing inflow controls. Although there were some strong arguments against, he would certainly be looking again very seriously at the pros and cons. As regards other measures to ease industry's position, the Government had very little room for manoeuvre. However, he was considering the various options which had been put forward both on the tax and expenditure side. Any tax changes would have to wait until the next budget. One possibility which he had in mind was to shift additional resources out of the oil sector into manufacturing, but the scope for this was likely to be quite limited. Of the tax options put forward, the proposal to reduce the National Insurance Surcharge was the worst possible: not only would it be very expensive, but almost

/two-thirds

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two-thirds of the relief would go to oil, banking and commerce. As regards the public expenditure options, there was very little money to spare; and they would have to be considered against the background of large additional bids from the nationalised industries and also from the Employment Secretary for new employment measures. It seemed unlikely that it would be possible to divert more than a very small amount of extra public spending to private industry. There was in any case a strong argument against the Government announcing a package of industrial measures and thus appearing to be responding to political pressures: if there were to be any additional spending, it might be better to announce new measures on an individual basis. He had a remit from Cabinet to bring forward a paper on industrial support, and this would set out his considered views. He intended to do this towards the end of October so as to fit in with the decisions on public expenditure generally.

Sir Keith said that insofar as there was scope, he hoped the Chancellor would do what he could to shift the balance of resources back in industry's favour. But he agreed with the Chancellor that the best way of achieving this was to get interest rates down and that, for example, a reduction in the National Insurance Surcharge would not be the best approach. For the moment he would be content if the Chancellor could agree to some quite modest extra spending; but if the pressures on industry got worse, it might be necessary to do more, and it was therefore important that the situation should be kept under careful review.

The Prime Minister said that she agreed with the Chancellor's general approach on the spending and tax options. She was also extremely concerned about the exchange rate, and she was far from convinced that the case for and against inward controls had been properly looked at. The experience of Switzerland surely showed that such controls could work, albeit for a short time, and a temporary relief was what industry was looking for. Even if the imposition of controls did not work, we would surely be no worse off. She hoped that the Treasury review could be completed with the utmost speed and that all the arguments should be examined afresh. She would like Mr. Ibbs to be involved in the review, and she would then like to hold a meeting on this subject next week (now fixed for next Thursday morning before Cabinet).

I am sending a copy of this letter to Ian Ellison (Department of Industry) and to Sir Robert Armstrong.

Yours ever,

Tim Lankester.

John Wiggins, Esq.,
HM Treasury.

CONFIDENTIAL

cc Mr Hoskyns

PRIME MINISTER

INDUSTRIAL SUPPORT

I have been following the correspondence arising from Keith Joseph's letter to Geoffrey Howe of 8 August. In my view we would be in error to contemplate the kind of industrial support package envisaged by Keith and my other colleagues who have written in support. From many sides I hear of the basic change in attitude within British industry as a result of the belief in the Government's determination to pursue its expressed policies. An industrial package, involving selective support, would seem like a retreat from a non-selective industrial policy which concentrates on the reduction of the PSBR. From all sides industrialists claim that they can now achieve changes in working practices which would have been unthinkable a few months ago. We would suffer politically by a policy switch to selective support and the gain to industrial liquidity would be purely marginal.

2. On the other hand, I believe that a step by step reduction in interest rates would do more for industrial morale and performance than a host of selective measures. A reduction in interest rates will not be achieved by increasing the PSBR through more Government spending. It is for the Chancellor to judge whether bank advances would grow if interest rates fell. I do not believe they would do so. If interest rates are held high to sell debt in order to offset the adverse impact on M3 of high bank advances, we will be placing more faith in a statistical measure of money with acknowledged deficiencies (M3) than in our own perception of the real industrial position today - and the inevitable impact of the recession on M3 within the next few months.

3. Nevertheless if colleagues are determined to go for specific industrial measures, I would like to make the partisan plea for any assistance to be devoted to exports rather than elsewhere. A relatively small amount of export assistance can have a major gearing benefit for jobs and investment at home - and it will normally benefit our more efficient industries rather than those in decline. Moreoever help in this field - as touched on at (iii) of paragraph 16 of Keith Joseph's letter - will go towards mitigating the greatest immediate problem of exporting industries - namely the high exchange rate.

4. I am copying this minute only to Keith Joseph and Geoffrey Howe.

JN

J. N.

Department of Trade
11 September 1980

cc Mr Hoskyns

Prime Minister

The main paper for discussion is Flag A. You have seen other Ministers' comments (also in this folder), but not Mr Nott's at Flag B – he is against any kind kind of support package, preferring a drop in interest rates.

T.L.

11/9

CONFIDENTIAL

Qa 05118

To: PRIME MINISTER

From: J R IBBS

Industrial Support

I understand that you are to have a meeting later this week with some of your colleagues to discuss industrial support. The following observations may be of some help on this -

The Difficulties which Industry is Facing

It is important to start any considerations of industrial support with an analysis of the nature of the present difficulties. The main problems are low levels of sales, of profits and of cash flow; these lead to liquidity problems and in the extreme to bankruptcy. The impact of the difficulties varies enormously from company to company and exceptions can therefore be found to many generalised statements which are nevertheless broadly valid. Some of the main reasons for the present difficulties are -

a. Weak world demand.

b. Low United Kingdom demand, especially for manufactured goods.

c. United Kingdom unit costs are too high because -

i. Wage increases have been too high and without regard for the need for productivity improvements to justify them.

ii. Methods of manufacture have not been sufficiently improved (the responsibility of management) and working practices have been hidebound (the responsibility of both management and workers).

iii. Some investment has been poorly selected and inefficiently used, and insufficient has been concentrated on better products and better processes.

iv. Some overheads have become too high and inefficiently utilised.

v. production runs are often too small - there has been failure to recognise the volume of production necessary to remain world competitive and some of British industry is still too fragmented.

d. Profit margins have for a long time been too narrow, which leaves companies very vulnerable to a downturn. In particular, lack of inflation adjusted accounting has prevented this from being properly appreciated. Management, the accountancy profession and Government have all been at fault here.

e. In some instances standards of design and service have been uncompetitive, which means that companies are hit particularly severely by loss of customers in a recession when alternative supplies become available.

f. The exchange rate has risen to levels which have seriously diminished competitiveness for exports and made the country unduly attractive for imports. There has been an offsetting advantage from reduced cost of imported materials and hence less inflation, and the strong exchange rate can also be represented as a useful spur to increased efficiency. Although the volume of exports has held up well, much of the business is now done at inadequate profit or at a loss, and the strength of the exchange rate has become a serious problem for some companies that would otherwise be fully viable by international standards.

g. Interest rates have been at high levels compared with those in competitor countries. This imposes a direct burden on costs but probably its more serious effect is as a cause of the high exchange rate.

h. Some competitor countries have provided their industries with important cost advantages - an obvious example is energy in the United States.

The Fundamental Problem Facing the Government

The fundamental problem is that some of these difficulties arise from steps which have been taken by the Government as part of a strategy designed to reduce inflation and increase efficiency. It is important that now that the policies are beginning to bite they should not be prematurely weakened, particularly as there is now evidence that wage expectations are moderating, and that managements are pressing harder to increase efficiency. On the other hand, although considerable pain for industry is inevitable, there is obviously some point at which damage to potentially sound businesses might become so extensive that the cure was worse than the disease. In my judgment that point has not yet been reached and the time is not ripe for major fiscal easements. But the hardest hit are bound by now to be making impassioned pleas to Ministers (even if they are reluctant to do so in public because of loyalty to the Government's basic objectives). I believe it is important to stand firm, but to show understanding and sympathy by taking selective action to help where this can be done without undermining the fundamental strategies.

Steps Which Should be Taken at this Stage

A difficulty facing industry, which is not in the least of its own making and which is greater than expected and a serious advantage to international competitors, is the strength of the exchange rate. I believe that action to ease this should have a high priority. I appreciate the difficulties. The quickest way to bring it down would be a substantial reduction in interest rates but this would not be consistent with the important basic financial strategy. I believe that some of the present strength derives from inflows of "hot" money. I appreciate that measures to control such flows would be difficult to apply and might only be temporary in their effect but I believe they deserve further immediate consideration. Other countries have had the same problem, for example, the Germans and the Swiss, and have devised various arrangements to discourage inflows; for example, two-tier interest rates or specified proportions of incoming money having to be banked at no interest. I know that it is said that because of the central position of the City in the world's financial network and the vast range and volume of dealings that are done here that comparable arrangements would not work and ways for getting round them would soon be invented. However, some easing of limited duration would be valuable. I believe that the seriousness of the exchange rate effect on industry has not yet been fully appreciated and that more could be done to try and find an arrangement, which however imperfectly, could provide some relief. It might have the secondary benefit that if it inhibited the inflow of "hot" money it would also mean that in due course when interest rates come down, the outflow and consequent fall in the exchange rate should be smaller. Clearly any study would be primarily a matter for the Treasury and the Bank of England but it might be useful if the Department of Industry (and possibly the CPRS) were associated with it to avoid it being no more than a restatement of past objections.

There are other weaknesses for which industry, though there are notable exceptions, itself carries the major responsibility - for example poor marketing, and the need for better management. In both of these areas the CBI should be encouraged to do a great deal more: indeed, this is a proper way to respond to some of its complaints. At present both management and marketing skills are distributed very unevenly, and, if the need and mutual advantage were more clearly appreciated, there is no doubt that the stronger companies (which are not necessarily the large ones) could do a great deal more to help some of the weaker companies. But there are also ways in which Government can help encourage wider use of good management practices and improved marketing. The Department of Industry needs to press on with initiatives already in hand and to consider what more could be done.

Flag A

This leads on to the question of Government assistance on lines discussed by the Secretary of State for Industry in his letter of 8 August. It is important to distinguish here measures which give generalised (and expensive) assistance to mitigate the liquidity squeeze, from those selective measures which are designed to protect activities of strategic importance which may otherwise be seriously damaged or fall altogether. For the reasons already given, I do not think that this is the time to consider wide ranging measures to ease liquidity problems across the board. I think however there is a good case for a modest and highly selective package of industrial support on the lines set out in paragraph 16 of Sir K Joseph's letter. There are however certain points to be made -

a. It is desirable that the emphasis should be placed on encouraging good development (where the UK has a very chequered record), rather than simply on more research (where we have a good record).

b. Even a modest support package (Sir K Joseph is proposing £50 million in 1981/1982 rising to £90 million in 1983/1984) requires considered criteria for selection. It is not clear that these have yet been adequately developed, and on past experience there are of course considerable difficulties in doing so. It is proper that Government should be reluctant to make such judgments, but if selective aid is the measure chosen it has to. DOI should be asked to put work in hand now on how the quality of selection could be improved, including possibly making more use of advisers from industry. What is required is a more systematic assessment of market based technological priorities than is yet available. Funds allocated over the next two or three years are likely to be used much more cost effectively if work on how to select is done at an early stage and not left for ad hoc or last minute decisions.

c. While it ought to be possible to accommodate the cost of a modest package, it should be borne in mind that (apart from other expenditure claims to be reconciled in PES discussions in October) a separate 'employment' package is being prepared by the Secretary of State for Employment. These packages - and their total cost - need to be looked at together, rather than separately, before final decisions are made. The timing of any announcement of such measures needs to be chosen so that they have been properly thought out, and so that if harsh measures on other aspects of public expenditure become necessary, these modest concessions can be presented at the same time as a realistic attempt to ease the most serious problems.

<u>Summary</u>

The main points arising from this paper are -

a. This is not the time for general measures to ease liquidity.

b. Measures to procure a temporary easement of the exchange rate should be urgently considered.

c. The CBI should be asked to give priority to improved management and marketing, and Government should do what it can to assist.

d. A modest selective package for industrial support should be considered, provided it concentrates on development (rather than research), and subject to further clarification by DOI of the technological and market criteria for application of additional funds.

10 September 1980

Ray Pennock

– N.I. surcharge cut. £750 per yr. – half to services.

– Wages.

– N. Ind. Overheads Costs

Ind. Rels – [illegible] [illegible] rights.

– Borrow more [illegible].

2

Prime Minister

Further views on possible industrial support measures. Mr Howell favours help with energy conservation measures – instead of lower energy prices.

T.

cc Mr Hoskyns

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

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

10 September 1980 10/9

Dear Geoffrey

INDUSTRIAL SUPPORT

Keith Joseph wrote to you on 8 August about the need to consider additional measures to help industry to get into competitive shape to take advantage of recovery, both here and overseas, from the current recession. I have also seen the contributions from George Younger, Michael Heseltine, Nicholas Edwards and Jim Prior.

We too are concerned about the impact of the recession. One major dimension to this is the considerable effect that it is having on the willingness of industrialists to undertake investment in energy conservation despite the contribution it could make to increasing industrial efficiency and productivity.

Like Michael Heseltine I recognise that you have already done a great deal to improve conditions for entrepreneurs once expansion gets under way. But if we should decide, in the meantime, to encourage industry to undertake the necessary investment in R & D, and capital renewal that is necessary to maintain competitiveness, a special emphasis on the more efficient use of energy could make a major contribution to these objectives.

As you know, we are already urgently re-examining our energy pricing policies in the light of criticism of their effect on industrial competitiveness. Whilst this review is not yet complete, it is clear that any general relief to industry through reduced energy prices could have a very heavy impact on the PSBR. A much lesser expenditure on help with energy conservation projects could have an important psychological affect. Greater efficiency of energy use is the only practical response to a world in which energy is likely to become increasingly scarce and dear. I hope that you will bear this aspect in mind in the preparation of your paper on the industrial support options. I should be grateful if officials could be associated with any interdepartmental examination of the possibilities.

I am copying this letter to the Prime Minister, the Secretaries of State for Industry, Employment, the Environment, Scotland, Wales, Northern Ireland, and Trade, the Chief Secretary and Sir Robert Armstrong.

Yours ever

David

D A R Howell

Minister of State

NORTHERN IRELAND OFFICE
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The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3HE

R
9/9

5 September 1980

Dear Geoffrey,

INDUSTRIAL SUPPORT

I have seen Keith Joseph's letter of 8 August and subsequent comments from Nicholas Edwards, George Younger and Jim Prior. I am writing in Humphrey Atkins' absence on leave.

We in Northern Ireland are of course deeply interested in the issues which have been raised. With unemployment now at 15.3%, there is alarm in Northern Ireland at the implications of the short-term difficulties facing industry, on top of structural problems which have led to a more marked diminution of the manufacturing base over the last two years than in the rest of the United Kingdom. The problem of energy costs is worse than in parts of the country less dependent on oil, and some of the worst hit industrial sectors nationally, like textiles and man-made fibres, form a particularly large proportion of Northern Ireland manufacturing industry.

Against this background, I am writing at this stage simply to say that I am sure it is right at least carefully to consider the various options that have been suggested, and to ask that my officials be closely associated with the work which is being set in hand.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Industry, Employment, the Environment, Scotland, Wales, Trade and Energy, the Chief Secretary and Sir Robert Armstrong.

Yours ever
Michael Alison

MICHAEL ALISON

PD

ps

CONFIDENTIAL

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400
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Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON SW1P 3AG

27 August 1980

Dear Geoffrey

INDUSTRIAL SUPPORT

Keith Joseph sent me a copy of his letter to you on 8 August.

I strongly support Keith's view that further measures are needed to ensure that the corporate sector retains the ability to take advantage of the improved business climate which is the objective of economic policy. It will become increasingly difficult to defend our general approach if companies and whole sectors with a basic capacity for success go under as a result of a particularly severe liquidity crisis.

I shall be bringing forward shortly my own complementary proposals on training and other employment measures.

Keith's letter contained many ideas which need looking at. Among those to which I attach particular importance are better use of public purchasing policy and reducing the delay in the payment of Regional Development Grants. On the former I think it is crucial that our purchasing procedures are reviewed to ensure that potential UK suppliers are brought in at an early stage - not just in areas of new technology but in all areas of purchasing. On the second I see a strong case for subsuming the 4 month deferment into the processing time.

I have noted the suggestion that redundancy fund rebates might be increased to 60%. As you know I was pressing for this some months ago when industry was drawing attention to the size of the reserves in the fund. Since then there has been a steep rise in calls on the fund and to go beyond the increase to 50% already planned for introduction in November could lead to a deficit. We shall therefore need to consider this suggestion carefully in relation to other proposals, as a potential additional call on resources.

SECRETARY OF STATE FOR EMPLOYMENT

It is obviously important to consider the overall employment effect in both the short and medium term of any package we put forward. It would therefore be helpful if an indication could be given in your paper of the employment effects of particular proposals, alongside their call on resources.

I am sending copies of this letter to those who received yours.

I believe that the manufacturing sector is now in an even worse state than Keith reports. If on action we are going to need some of the measures he suggests.

Yours

Tom

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister
To see comments from Mr Younger (A) and Mr Edwards (B) on Sir K Joseph's proposals (C) which you saw earlier.
You will be discussing this with Chancellor & Sir Keith on 12 September. MAP 27/8.
Also Mr Prior at D.

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3HE

MT.

26 August 1980

Dear Chancellor

INDUSTRIAL SUPPORT

Keith Joseph wrote to you on 8 August about the need to consider further measures of industrial support and I have seen Nicholas Edward's letter of 19 August. I am in general agreement with what Keith says although I would favour a slightly different order of priorities.

The problems facing industry in Scotland, in common with other parts of the UK, are likely to become more severe in the coming months. Even some of our most efficient and forward looking companies face contraction and possible closure because of falling markets and shrinking profit margins. I gave some specific examples in my letter of 13 June. What concerns me is that if we allow these losses to go unchecked we shall lose companies which we badly need to retain and which should be a source of strength to the economy in the future. The ground thus lost will take a very long time to recover. I therefore believe that we must consider early and decisive action to secure some improvement.

On the fiscal options, I particularly favour the abolition of the national insurance surcharge and some reduction in the employer's contribution to redundancy payments. On the other options mentioned, I strongly support the need to look urgently at the whole area of energy costs but feel most strongly of all about the proposals which are emerging on regional development grants. But like Nicholas Edwards, I think we have to link with this our proposed review of selective assistance under Section 7 of the Industry Act.

The abolition of the NI surcharge would have the most immediate and positive effect on liquidity and I recommended this course in my letter of 13 June in response to a strong feeling within industry in Scotland that it would provide the most effective relief.

There is increasing evidence that the operation of the redundancy payments scheme is inhibiting programmes of rationalisation which could lead to the safeguarding of jobs in more efficient and profitable companies. The financial burden of declaring redundancies is, in some cases, more than

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companies can face with the result that second-best solutions which store up trouble for the future are being adopted.

On the question of energy costs we now have evidence that British industry is disadvantaged by comparison with competitors in some European countries and of course the United States. You are aware of the special problems of the chemical, paper and board and steel industries. Since we are well placed in indigenous energy resources compared with our competitors it does not seem sensible to handicap our industry in this way. I therefore think there is an urgent case for looking carefully at our energy pricing policies to see how changes could be made which could best help industry and at least put it on an equal footing with competitors elsewhere.

I feel most strongly on the subject of regional development grants. The situation in Scotland, where there is an administrative delay of 4 to 5 months in addition to the 4 months deferment imposed in your 1979 Budget, is demonstrably worse than in the rest of the UK. This means a total delay of 9 months on money due from Government, a serious matter for firms in a time of liquidity shortage. I do not think we should consider the deferment period in isolation but should look at the overall time taken to pay RDGs and I would be strongly in favour of getting this reduced. Needless to say, like Nicholas Edwards and Humphrey Atkins, I would be wholly opposed to the contrary suggestion in Keith's letter of 7 August that the period might be lengthened.

Keith Joseph's letter lists a number of measures for a modest increase in support under the Science and Technology and Industry Acts. I support these but I am surprised by the omission of Section 7 of the Industry Act. Section 7 is, in fact, the main instrument for selective industrial support in Scotland. It has been of great value to us in the past but there has been a sharp drop in applications over the past year. The new, more restrictive, guidelines which we introduced in July last year on a trial basis are now due for review. I think that the broad principles which we laid down were right and I will not be proposing any substantial changes. I find, however, that there is a widespread impression in industry that selective assistance was terminated last year. I am initiating a modest programme of promotion to make it known that selective assistance remains available for new investment, although subject to tighter rules than before. But beyond that I would, as I think Nicholas Edwards would, like to have a little more flexibility to deal with situations which merit support but which are hard to accommodate on the new guidelines. We have a number of examples in Scotland of flourishing businesses which have been set up with Section 7 assistance to take over the assets and employees of companies which had failed. I think it is important that we should be able to use discretion in order to be able to deal with marginal cases.

In conclusion may I say that, like Nicholas Edwards, I would want my officials to be associated with the examination of the options.

I am copying this letter to the Prime Minister, the Secretaries of State for Industry, Employment, Environment, Wales, Northern Ireland, Trade and Energy, the Chief Secretary and Sir Robert Armstrong.

Yours sincerely,

John S. Wilson

(Approved by the Secretary of State and signed in his absence.)

CONFIDENTIAL

Y SWYDDFA GYMREIG
GWYDYR HOUSE
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WELSH OFFICE
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01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP From The Secretary of State for Wales

19 August 1980

Dear Geoffrey.

INDUSTRIAL SUPPORT

Keith Joseph wrote to you on 8 August setting down his views on the options for further measures of industrial support.

My own close contacts with the manufacturing sector in Wales confirm Keith's assessment of the prospects for companies. But to make matters worse we are faced with the massive structural changes affecting steel, with coal nor far behind.

I therefore welcome the options listed by Keith as possible ways of easing the difficulties facing industry. So far as Investment Incentives are concerned the option which is listed would appear to be limited to assistance under Section 8 of the Industry Act. I should like to suggest that consideration should also be given to the possibility of modifying the criteria for regional selective assistance under Section 7.

Furthermore, there are some recommendations in the Report of the Select Committee on Welsh Affairs which could usefully be considered as part of the Industrial Support exercise. And no doubt the parallel Scottish Select Committee Report will be suggesting other lines of action.

But my immediate purpose in commenting on the correspondence at this stage is to ask that my officials should be associated with the examinations of the options. I have a direct interest in several of them, and all of them have a bearing on my general role vis-a-vis industry in Wales.

/ I am copying this letter to the Prime Minister, the Secretaries of State for Industry, Employment, the Environment, Scotland, Northern Ireland, Trade, and Energy, the Chief Secretary and Sir Robert Armstrong

Yours ever

Nick

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON SW1

LH

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

14 August 1980

Pm seen

12

9/9 10/9

Dear Chancellor

It was agreed at Cabinet on 10 July that after consultation with colleagues you would circulate a paper setting out options for further measures of industrial support. I have been giving some thought to what we might do to give support to the construction industry. All the forecasts are pointing to a drop in construction industry output over the next two years. Anything which we can do to provide a boost which is compatible with our overall approach to economic and industrial issues would help to maintain a healthy industry and to ease unemployment. I see three main possibilities.

INDUSTRIAL BUILDING ALLOWANCES

We could raise allowances for industrial buildings from 50% to 100% in the initial year, giving parity of treatment with plant and machinery. This is an issue on which, as you know, the industry has campaigned for a long time. We are now making 100% initial allowances available for both industrial and commercial buildings in enterprise zones, and there is a good case for extending this, at least for industrial buildings, to the country generally. The attraction of the measure seems to me that it would have a positive effect early on, without any loss of revenue in the long-term. I believe that officials have estimated the take up of such a scheme as costing virtually nothing in the first year of operation, £140 million in the second year, reaching a peak of £250 million in the fourth year and then tapering back to nothing in the mid-90s. Such a step would assist manufacturing industry by providing an added inducement to improved efficiency through investment in new buildings. (This was well demonstrated in the report "Construction for Industrial Recovery" by the Building and Civil Engineering EDCs). And it would assist the construction industry, who would welcome this as a major opportunity to sell their services to the manufacturing sector.

VAT ON REPAIR AND MAINTENANCE

New building work is zero-rated, but repair and maintenance is liable to the standard rate of VAT. This has produced endless anomalies in tax treatment and has encouraged evasion. It has created resentment and a heavy burden of paperwork, particularly amongst the smaller firms at the lower end of the market, not to mention a thriving commerce in methods of avoidance. To zero-rate repair and maintenance work, though not materials, would have an annual revenue cost of about £120m. This is less than 1% of the net take of VAT, and it seems to me that we would have a good case for arguing in the context of European Community obligations, that this is not a significant extension of the existing situation. Such a step would also give a welcome boost to our policies of encouraging responsible homeownership and promoting the rehabilitation of old housing. It would also directly assist manufacturing industry, as well as helping the very small firms in the construction industry (around 90% have less than 14 employees) and relieving them of unnecessary paperwork.

STOCK RELIEF

Perhaps we could also consider again the stock relief provisions. I realise that these arrangements have been revised in the last two Budgets, and have implications beyond the construction industry itself. But a reduction in the clawback period from six years to four years would directly assist building material producers and suppliers, especially small firms and would involve a tax cost of no more than £25-50 million.

I am copying this to members of the Cabinet and Sir Robert Armstrong.

Yours sincerely
Paul Bristol
(Private Secretary)

MICHAEL HESELTINE
(agreed by the Secretary of State and signed in his absence)

The Rt Hon Sir Geoffrey Howe MP

LH

2 PAMS

PRIME MINISTER

To see both letters: further suggestions for softening the impact of the squeeze

MS 15/8

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

14 AUG 80

MS.

Dear Chancellor

I have sent to you today a letter about help for the construction industry in connection with the exercise you are doing on industrial support about which you wrote to me on 22 July. It says sensible things that come from my departmental standpoint.

I have also read Keith Joseph's letter of 8 August, which contains many ideas that are designed to help.

I felt however that I must come back to the basic starting point which I have pursued now for 2½ years. Profits of business are bearing the brunt of our monetary policies - and no early relief is in prospect. In that climate, retrenchment is bound to be the order of the day. Only exceptional measures have any chance of persuading business to do what all the economic conditions make extremely difficult.

The general palliatives now being considered will in the main go to bolster cash flows and prevent even further retrenchment. They will be spread too thinly fundamentally to alter the business outlook. The more specific may help lop the peak off unemployment, but only by the direct use of more public expenditure.

I have come to the conclusion that the only way to secure the kind of long-term profitable investment we want in advance of the market's improvement is to devise schemes that are quite precisely directed at the target - the risk-takers in society who are in a position to make that kind of investment. So I continue to attach overriding priority to the ideas now being worked out by FASE which effectively rebate taxation to those that will undertake investment.

I do recognise that you have already in your two budgets done much that will improve conditions for enterpreneurs once the economy is moving again. I hope that you will apply whatever resources we decide to commit to this area to schemes involving direct tax rebate with time limits to ensure that they operate in advance of the upturn.

Copies go to the recipients of Keith's letter.

Yours sincerely
Paul Bristol
(Private Secretary)

MICHAEL HESELTINE
(dictated by the Secretary of State and signed in his absence)

The Rt Hon Sir Geoffrey Howe MP

15 AUG 1980

CONFIDENTIAL

2

PRIME MINISTER

This letter is very important: it suggests a number of different measures, some expensive, to assist industry over the next difficult stage. It will come to Ministers collectively after further discussion, and no doubt much changed; but you ought to see it now

MS 4/8

Perhaps S of S, the Chancellor, & I can have an early discussion (i.e. very early Sept.)

DEPARTMENT OF INDUSTRY
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Secretary of State for Industry

August 1980

cc Press Office
Mr Wolfson
Mr Hoskyns

The Rt Hon Sir Geoffrey Howe QC, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3HE

cc: Ministers	Mr Leeming
Secretary	Mr Wright
Miss Mueller	Mr Chapman
Mr Bullock	Mr Worman
Mr Ridley	Mr D W F Johnson
Mr Manzie	Mr Hilton
Mr Liesner	Mr Owen
Dr Davies	Mr Cochlin
Mr I Lightman	Mr Stanley
Mr L Lightman	Mr Charik
Mr Treadgold	Mr Michell (file)

Dear Geoffrey,

INDUSTRIAL SUPPORT

1. At Cabinet on 10 July you were asked in consultation with those of us concerned to circulate a paper in due course on the options for further measures of industrial support. I should like to give you my initial views on this question before the summer break, although I hope there will be an opportunity to review the position again and to discuss your paper before you circulate it more widely to colleagues.

The Prospects for Companies

2. It is now clear that in the last few months industry has moved sharply into recession. The one point reduction in MLR, though helpful, has not had a significant effect on companies' finances. The corporate sector's financial deficit may well be very high this year. The cumulative effect of deficits in 1979 and over this year and next will be that many companies become highly geared. Dependence on bank borrowing will increase, while liquidity declines. Company liquidations are now at a higher level than previous peaks, and rising.

3. Within the corporate sector, manufacturing companies are expected to be hit particularly hard. They face intense competition and weak demand in both home and overseas markets. The destocking that appears to be taking place is helpful to liquidity, but damages output and suppliers (though it may also reduce imports). The profitability of manufacturing companies may be even worse than in 1974/75, itself the culmination of years of declining profitability, and it is certain that large areas of manufacturing industry will be operating at a loss in real terms this year.

4. Our policy of squeezing inflation out of the economy of course requires a period of pressure on the corporate sector,

in/....

in order to lay the basis for the sound sustainable growth described in our Medium Term Financial Strategy. I do not in any sense advocate a change in that policy. Indeed one possible way forward would be to identify further public expenditure cuts to reduce the PSBR and bring interest rates down more rapidly. Unfortunately it may be very difficult to achieve quick results through this route. But while in the medium term companies' prospects will be much improved by a reduction in inflation and (I assume) in interest rates, I believe in the shorter term we need to keep a careful watch on the speed at which pressure develops and the possible consequences for certain sectors and activities. Companies inevitably require time to adjust. To the extent that a reduction in inflation reflects an inability by firms to raise prices, even this may initially intensify the liquidity squeeze and reduce profitability in the short term.

5. The evidence so far available suggests the possibility of a severe liquidity shortage developing, leading to loss of productive potential in several hitherto viable sectors. Where productive potential is maintained, discretionary expenditure of all kinds (including capital investment, R & D, product improvement and marketing) is likely to be cut back, jeopardising companies' ability to respond to the improving environment ahead.

6. We also have to bear in mind the likelihood that, even after interest rates have come down, North Sea oil will keep the exchange rate higher than it would otherwise be. This will increase the pressure on those sectors (typically in manufacturing industry) exposed to international competition.

... you saw this gloomy catalogue earlier MS

7. I attach a paper setting out in summary form our latest assessment of the position and prospects of the main sectors of manufacturing industry. Assessments of this kind must be treated cautiously and I do not place too much weight on this one. Nevertheless, even taking account of prospective reductions in inflation and interest rates, it indicates serious cause for concern about the future of large parts of industries such as vehicles and components, construction equipment, domestic electrical appliances, batteries, consumer electronics, clothing, knitwear, footwear, leather, paper and board and furniture. This list excludes public sector steel and shipbuilding, which have their own difficulties, and a number of other industries which undoubtedly face a tough period ahead.

Work Already in Hand

8. The reduction of inflation will in the medium term be our greatest single contribution to laying the foundation for the prosperity of the corporate sector. But we have also given companies a great deal of help through your Budgets and by other measures, and we have a programme of continuing work in hand.

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9. I attach particular importance to the work of the FASE Group. The issues under consideration there are central to the restoration of vitality to the corporate sector and I am sure you will agree that we should press on with this part of our work with all possible speed.

Need for Further Measures

10. Nevertheless I am convinced that the situation has reached a point where we must now consider yet further measures which, without departing from our basic strategy, will seek to ensure that the corporate sector retains the ability to take advantage of the improved business climate that will surely come. I believe we must contemplate a change in the balance of allocation of our scarce resources in favour of the corporate sector. I realise of course that the public sector of industry has claimed - and may continue to claim - a greater share of resources than we envisaged. This is a matter of profound regret to me, although it must be remembered that much of the extra assistance going to the public sector is finding its way through to suppliers and support industries in the private sector and to that extent may be more beneficial than may immediately appear. However, I believe we should now exercise some of the options for giving further support to the private sector.

11. With some exceptions, most of the possible measures we could take would take several months to become effective. This means that to some extent any decisions we take must be based on a judgment about future developments. It also means, I believe, that we must review all the possibilities at this stage, even though the real squeeze has only just begun, so that we can be in a position to take decisions quickly if it becomes necessary. Even where measures take time to become fully effective, an early announcement can give a considerable psychological boost to the confidence which is often a vital factor in business decisions.

12. For these reasons I very much hope you will agree to include in your paper for colleagues the fiscal options open to us as well as the expenditure options. Many (though perhaps not necessarily all) of the fiscal options could no doubt only be implemented in a Budget context, but to be effective from the date of the next Budget many of them would have to be considered, and in some cases announced, some months beforehand. I do not think it would be helpful to restrict the next Cabinet discussion to expenditure measures alone. In general, fiscal measures will tend to benefit corporate liquidity, and expenditure measures will help preserve some parts of productive potential and maintain "seed corn". I believe we need to consider both these approaches. Within them I see distinctions more in terms of the relative objectives, size and speed of possible measures, and whether they are likely to be indiscriminate or selective in the benefits they confer.

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13. I set out below the list of possibilities I should like to see considered. I should stress that I regard these as options. I shall not necessarily be proposing that they should all be implemented at this stage : clearly there are significant PSBR implications. Nevertheless within the list (which you will notice already omits a number of possibilities I have decided not even to offer for consideration) there are some items which I would regard as having a certain priority, and as worth doing in their own right independent of the present economic conjuncture. These are:

(a) the increase in support for science and technology (which I have already discussed in detail with John Biffen);

(b) more effective use of public purchasing;

(c) ? assistance related to large overseas projects; and

(d) further assistance for small firms.

I deal with each of these in more detail below.

14. Concentrating first on measures aimed at easing liquidity pressures, I believe we should consider the following options:-

i) The National Insurance Surcharge

This was imposed by the previous Government in response to a crisis largely of their own making, and we should get rid of it as soon as circumstances permit. At Cabinet on 3 July there was general agreement not to modify the NIS at this stage and I am not now in favour of this form of help because it can so easily leak into pay. I believe, however, that we should give serious study to the NIS for the future in case the liquidity crisis became really severe and a reduction became necessary. I understand that, in order to implement a reduction by the time of the 1981 Budget, you would need to announce the change in about November of this year. I believe we should consider that option seriously, though of course I know there would be difficult PSBR implications.

Very

ii) The "Lord" Proposal

This is much smaller-scale but could be useful in directing assistance of perhaps £0.3bn a year to tax-exhausted but viable companies (although I recognise that the scheme could encourage bank borrowing). I know you are already studying this proposal, and I hope you will consider including it in your paper for colleagues.

Reduction/....

iii) Reduction of Employers' Contribution to Redundancy Payments

I believe we should consider giving further relief to companies through a larger increase in the rebates payable from the Redundancy Fund. We have already agreed (but not yet announced) that rebates should be increased this November from 41% to 50% of the statutory minimum payments. I believe we should consider a further increase to 60%. This would be of direct assistance to companies which are forced through financial difficulties into declaring redundancies.

iv) Heavy Fuel Oil Duty

UK excise duty on heavy fuel oil is the highest in the European Community. It currently yields £170m in a full year. Abolition would initially help the oil companies, but the corporate sector as a whole should be able to secure a share in the benefit in the form of reduced costs. To the extent that heavy fuel oil is used in electricity generation, there should also be a marginal benefit on electricity prices. You may wish to consider replacing the duty by VAT, thus bringing the UK into line with our principal Community partners.

v) Extension of Deferral of Stock Relief Clawback

The present Finance Bill contains a useful deferral of the stock relief clawback for businesses that reduce their stock levels for one year only. Since the current period of destocking seems likely to continue for several months, I believe there is a case for extending the relief to dips that last for two years. In addition, to help those businesses forced to make large reductions in stocks, we may need to consider writing off stock relief after 3 years instead of the present 6 years.

15. In addition to these possibilities, I know your officials and the Revenue are already looking at the implications of offering improvements in the tax relief on R & D expenditure. I shall be interested to see the result of this work, and I hope we can consider this possibility alongside the others I have listed.

16. I turn now to measures designed to encourage companies to maintain discretionary expenditure or to help our firms win important contracts overseas. Such measures would be distinct from any general or discriminatory relief from pressures on liquidity. They need not be expensive, and in relation to the economy as a whole their effect may seem small. But their aim would be to counteract the undesirable effects of the liquidity squeeze in certain cases, by maintaining "seed corn"

expenditure/....

expenditure on which future prosperity relies. I do not envisage that any new instruments would be required : the Science and Technology Act 1965 and the Industry Act 1972 provide sufficient powers. Within these existing instruments, it is difficult at this stage to be precise about where further resources could most effectively be spent. This will depend on what possibilities emerge and on the overall situation as it develops. Nor is it easy to quantify precisely how much extra money would be needed, but I envisage additional expenditure of the order of £50m in 1981/2, £70m in 1982/3 and £90m in 1983/4, inclusive of the additional science and technology funds for which I have already bid. I would envisage allocating such extra resources under the following broad headings:

i) R & D and Product and Process Development

In addition to the additional funds for which I have already bid, I believe the allocation of further resources to the Product and Process Development Scheme could be helpful. Improvement of the scheme might usefully take the form of an increase in the percentage (currently 25%) of Government assistance, or of some simplification of the administrative procedures.

ii) Public Purchasing

Better use of public purchasing policy could bring considerable help to industry. There are several ways in which this could be done, including development contracts for new products or processes and purchases of prototypes for demonstration or testing in the public sector.

iii) Overseas Projects

A relatively small amount of Government assistance - for example with the development of a product or process - can sometimes enable British companies to win large overseas contracts which can provide a firm basis for future expansion and development. I believe an increase in expenditure in this area could bring considerable help to certain sectors.

iv) Investment Incentives

I believe there may be scope for giving effective assistance to companies, in terms of maintaining investment levels for a relatively low Government outlay, via stimulation of the demand for assistance under Section 8 of the Industry Act. Again, we may need to look at the possibility of some modification of the present criteria.

v) Private Sector Exchange Risk Guarantee Scheme

The exchange risk guarantee scheme for EIB and ECSC loans has proved a useful way of stimulating private investment.

There/.....

There is no immediate cost to the PSBR and I believe we should consider a further increase in the limit on this scheme. We may also need to consider an extension of its period of operation beyond the present limit of the end of 1981.

Energy Costs

17. I have already listed (paragraph 14(iv))one relatively minor way in which industry's energy costs might be reduced. But I believe we need to look urgently at the whole area of energy costs. There is increasing evidence that we are now out of line with our main competitors and that this is putting our industry at a disadvantage. I am writing separately to the Secretary of State for Energy on this issue and I may well need to come back to it with you in due course.

Small Firms

18. Many of the measures I have listed would help small firms as well as large. But I believe that in addition we should keep up the momentum of improvements in the assistance offered specifically to small firms. I believe that fiscal measures are the most effective means of stimulating the small firms sector and I attach particular importance to the results of the FASE exercise. But there are also various possible measures involving expenditure. I am considering in particular an initiative which would increase the resources available for helping small firms in the urban areas, ie those parts of England not covered by COSIRA.

Regional Development Grants

19. Many of the possibilities I have listed could only take effect in 1981/2. If the liquidity pressures sharpen quickly in the coming weeks, I believe we may need to consider more immediate and quicker-acting measures. Principal among these would be the removal of the 4-month deferment of Regional Development Grants introduced in your 1979 Budget. I realise this option is unpalatable on public expenditure grounds, and indeed goes against our current thinking that the period of deferment might even be lengthened, which I am exploring with colleagues concerned as I undertook to do. Nevertheless, I believe that we should bear in mind the possibility of cancelling the deferment in response to what might become a rapidly changing set of circumstances facing the corporate sector. This option is one of the few capable of bringing immediate relief to a considerable section of industry.

20. I hope that during the Recess our officials can go through all these options in detail, and I look forward to discussing

the/....

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the terms of your paper to colleagues when we return.

21. I am copying this letter to the Prime Minister, the Secretaries of State for Employment, the Environment, Scotland, Wales and Northern Ireland and Trade, Energy, the Chief Secretary, and Sir Robert Armstrong.

Yours ever

Keith

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THE POSITION AND PROSPECTS OF MANUFACTURING INDUSTRY

The attached papers (Annex A) give an up to date assessment of the position and prospects of UK manufacturing industry (excluding the British Steel Corporation and British Shipbuilders). They are based on the assessments of Department of Industry divisions and regional offices. Where trade associations and individual companies have been consulted, judgment has been applied to the information. The assessment is therefore essentially subjective, and individual figures should be treated with caution.

Section One of Annex A gives a narrative description of the position of each sector. Section Two attempts a more precise assessment of four particular issues:-

i) The percentage of each industry currently losing money

ii) The percentage of the loss-makers owned by multinationals

iii) The percentage of the Industry likely to survive the next 12 months.

iv) The unemployment consequences.

Where loss-making has been assessed on a historic cost basis, it may not be a reliable guide to the likelihood of survival (see, in particular, the assessments for domestic electrical appliances and batteries). The potential for survival has been assumed on the basis of present conditions and pressures broadly continuing. As explained in the Secretary of State's letter, a reduction in inflation and interest rates in unlikely to bring substantial relief to industry in the short term.

Department of Industry
7 August 1980

ANNEX A
SECTION ONE

SITUATION AND PROSPECTS OF INDUSTRIAL SECTORS

INTRODUCTION

Some UK industrial sectors are in grave difficulty, but some of these have been in decline for years, while others have hitherto been regarded as successful and viable. In considering sectoral prospects it has therefore seemed sensible to attempt the difficult task of distinguishing various categories, recognising at the same time that the borders between categories are blurred and that the variability between firms _within_ an individual sector may well be as great as that _between_ sectors.

2 The categories used in this note are as follows:

a sectors already suffering a long-term decline, the progress of which is likely to be greatly accelerated by the combination of factors we now face: depressed demand, high relative level of inflation, high interest rates and a strong pound: in such sectors, Government intervention could do little more than delay or ease the inevitable, or at best, preserve a remnant of the sector in viability;

b sectors which are essentially viable and which should get through the recession at some cost in terms of delayed investment, R and D, etc, which will not badly impair long-term success;

c sectors which likewise can survive the recession but which would gradually succumb to the effect of a strong pound, even though the other adverse factors already mentioned had by then been mitigated;

d sectors which have always been considered viable hitherto, but which either cannot survive the combined adversities of this recession or will emerge from it so debilitated that they will continue to fall behind in the race for competitiveness; here, Government assistance could help companies to maintain investment and emerge from the recession in a better state than would otherwise be the case.

3 Besides setting out in as brief a way as possible the position of most of the industrial sectors and sub-sectors, this note also offers information on products the manufacture of which the UK has abandoned or is abandoning; on company closures, recent and expected and on the measures being taken by company managements to alleviate the worst effects of the recession.

4 To a great extent this exercise has required officials to attempt to pick out which of many straws is the last one. Conclusions as to which camels will suffer broken backs and when, must be tentative at best. A number of those who have contributed to this exercise have warned that our knowledge of certain sectors is not sufficiently intimate to enable the questions posed to be answered with any guarantee of accuracy.

SUMMARY

5 Industries in long-term decline include low technology consumer electronics, numerous parts of the textile and clothing sectors and much of the cutlery industry and of the paper and board industry. Vehicle assembly and certain metal goods used mainly in vehicle assembly are also in decline but can probably be stabilised at a reduced level of output, in some cases with Government support.

6 Viable sectors which should not suffer too badly are quite numerous. They include aerospace, mechanical handling, industrial electrical equipment, some machine tools, mining machinery, computers, telecommunications, broadcasting equipment, most electronic components tobacco, many chemical sectors, private steelmaking, foundries, furniture, toys, quality pottery and glass containers. In several important cases, however, public sector purchasing will be crucial to the realisation of this favourable estimate.

7 Sectors which could survive the recession but cannot withstand a sustained period of high exchange rates include parts of the vehicle sector and vehicle components, diesel engines and tractors. Depending on the level and rate of appreciation of sterling over the longer term it may be that some of the sectors listed in paragraph 6 above would join this category.

8 Sectors expected to be damaged by the particularly adverse conditions now arising, despite a basic capacity for success, include boat-building, construction equipment, fluid power, domestic electrical appliances, agricultural machinery, various kinds of specialised manufacturing machinery, much office equipment, various engineered consumer goods, scientific and industrial instruments, colour television, specialist hi-fi, leather, wool, carpets and non-ferrous metal semi-manufactures.

9 A brief description of each sector follows.

AEROSPACE

10 This sector is viable and should not be badly damaged by the recession. It has full order books but is highly dependent upon Government purchasing, which is possibly a more important factor than the short-term economic climate. Measures taken: no measures are needed, there is no short-time working, no lay-offs or closures are in prospect.

BOATBUILDING AND ACCESSORY EQUIPMENT

11 This sector has been considered viable but will be damaged by the recession. There has been a very sharp decline in demand since April leading to a build-up of stocks. Imported products are improvin their market position. The industry estimates that half of the sector may disappear over the next six months but the official view is less pessimistic. Consumption may only have been postponed and may improve in the autumn. No large firms have been forced to close as yet. Company closures: there may well be some closures but a clearer pictu will emerge in a couple of months. Measures taken: there has been extensive price cutting, 20 per cent redundancies at a number of firms and pay settlements so far have been zero or very low percentage increases (though most settlements for this year are still to come).

SHIPBUILDING AND ACCESSORY EQUIPMENT

12 Ministers are aware of continuing developments at British Shipbuilders and their position is not pursued here. Products abandoned: the UK will soon no longer be self-sufficient in certain types of propeller housing castings. Company closures: Stone Manganese will probably close its propeller foundry.

CONSTRUCTION EQUIPMENT

13 This sector has been considered viable but is likely to be damage by the recession. However, the larger firms, which tend to be more efficient, and specialist companies will be less affected. Company closures: the UK operations of Massey Ferguson and International Harvester are open to question. BL's Aveling Barford is likely to continue to be in serious difficulties. Measures taken: investment is being postponed, production cut back, manpower shed, or put on short-time working.

FLUID POWER

14 This sector has been considered viable but will be damaged by the recession. It is badly affected by the reduced demand for the products of its customers. Production units are often a small part of a larger group which has main interests elsewhere. Company closures: prospects for the hydraulics operations of Vickers are bleak. A major company is considering manufacture abroad. Measures

taken: de-manning has occurred but parent company management may often regard closure as the most attractive option.

MECHANICAL HANDLING EQUIPMENT

15 This sector is mostly viable and will not be seriously damaged by the recession. There has, however, been a sharp decline in orders. Products abandoned: heavy fixed crane production may be on the way to discontinuation. Company closures: Stothert & Pitt and Herbert Morris (Davy Group) are at risk. Measures taken: there have been redundancies and short-time working is common.

INDUSTRIAL ELECTRICAL EQUIPMENT

16 This is a mixed sector but on the whole it is viable and should not be seriously damaged by the recession. There has been a sharp decline in orders. Electric motors are especially affected by the strength of sterling. In contrast, STC looks set to capture 60 per cent of the world market for submarine telephone cables. Measures taken: investment programmes are being delayed.

DOMESTIC ELECTRICAL APPLIANCES

17 This sector has been considered viable but has suffered a decline in international competitiveness and may well be seriously damaged by this recession. Demand is greatly reduced. Measures taken: These include short-time working and redundancies.

VEHICLE ASSEMBLY

18 On top of a long secular decline, car production is expected to fall 13 per cent in 1980 to 930,000 units, which is only 55 per cent of the number produced in the peak year of 1972. The commercial vehicles situation is similar but less marked. The fall in demand is world-wide and severe by historical standards. To production inadequacy, model obselescence and lower productivity than competitors must now be added the strength of sterling as a reason for growing import penetration. The sector is especially vulnerable to the combination of adverse circumstances it now faces, but even those parts which can emerge in a reasonable position from recession may still find it very difficult to compete so long as the pound remains so strong. Company closures: there is a danger that Ford, Peugeot and GM may shift the balance of their production and investment away from the UK to other European centres. Talbot is especially vulnerable because of the Iranian connection. BL's 1980 and 1981 cash flow will be sharply cut by the recession. Depending on Government action, it could change from a potentially viable to a permanently debilitated company. In trucks, Fodens have gone into receivership and other independents are under great pressure. Measures taken: short-time working and lay-offs

are extensive: BL cut stocks sharply in March and April and other assemblers will have to do the same soon. Companies are likely to make great efforts to contain pay settlements. Talbot have declared this publicly. Michael Edwardes has spoken of the need to hold down settlements at his suppliers as well as at BL. Apart from these measures to cope with the liquidity squeeze, companies are also attempting to improve their productivity by redundancies, natural wastage and investment in new plant.

VEHICLE COMPONENTS

19 This sector has been thought viable but is likely to be severely damaged by the recession and those parts which emerge in relatively good condition will still find it extremely hard to compete successfully so long as the exchange rate remains strong. The sector is naturally dependent on the fortunes of the assemblers and demand has fallen although efforts have been made to reduce reliance on UK assemblers. The sector has established several areas of technical excellence which are now threatened by a cutback in spending. The smaller companies are the most at risk. Measures taken: there have been 10,000 redundancies since January. Lay-offs have occurred on a substantial scale and spending on product development has been reduced. Lucas have said publicly that they will press for low wage settlements.

DIESEL ENGINES

20 This is a viable sector which would have been expected to escape serious damage during the recession were it not for the threat of the continued strength of sterling. The sector is made up of efficient companies which are mostly foreign owned. There has been a very sharp fall in output mainly because of a decline in the tractor market. Company closures: one foreign parent company is itself in severe difficulties and may find it hard to sustain the problems of its UK subsidiary. Other foreign parents may well shift the emphasis of production and investment away from the UK. Measures taken: short-time working and lay-offs have occurred.

TRACTORS

21 The overall assessment is similar to that for diesel engines. There is a severe international recession and sales in some countries have been nearly halved. The UK industry exports 70 per cent of its output, and production has been sharply cut. Company closures: BL is aiming to cease making tractors. Measures taken: substantial redundancies and lay-offs have occurred.

AGRICULTURAL MACHINERY

22 This sector has been thought viable but is likely to be damaged by the recession although there will be exceptions. It is suffering

from a similar recession to tractors, the firms are mostly small and highly export dependent and only a few are likely to emerge unscathed from the recession. Company closures: Bamfords have gone into liquidation. Measures taken: substantial redundancies and lay-offs have occurred.

MECHANICAL ENGINEERING - MACHINE TOOLS

23 This sector is thought to be viable and on the whole will not be seriously damaged by the recession. The advanced sectors eg numerical control, robots, show good signs of an improved technological position which can be exploited when the upturn comes. But there is heavy reliance on the motor industry for demand and the traditional sectors, such as heavy power presses, have a poorer outlook. The situation is very mixed: Jones & Shipman, for example, are working overtime. Products abandoned: gear grinding and jig grinding machine tools production is at risk. Company closures: Herberts have collapsed; some parts of large groups are closing, eg Stirk (Elliott Group) and Staveley's Asquith plant. KTM is being starved of funds by its parent Vickers. Measures taken: the following measures are being taken across a broad band of the mechanical engineering industry. These remarks therefore apply also to the following five industrial sectors of the mechanical engineering industry. De-manning and stock reductions have occurred. Efforts are being made to preserve product development programmes. There is a determination to contain pay settlements to 12 per cent compared to the 16 per cent conceded last pay round. There is still a great deal of confidence both in Government policies and in the business outlook throughout a broad swathe of the mechanical engineering industry.

MECHANICAL ENGINEERING - SPECIALISED MANUFACTURING MACHINERY

24 This miscellaneous sector has been thought viable but is likely to be damaged by the recession. These are industries where it is essential to preserve a technological lead. The ability to do this is being seriously weakened by pressure on liquidity. Products abandoned: injection moulding machinery is at risk but management action at the main UK company is now being taken. Company closures: Vickers heavy engineering interests are in decline.

MECHANICAL ENGINEERING - MINING MACHINERY

25 This sector is viable and should not be seriously damaged by the recession. A history of successful exporting and the prospect of greater worldwide emphasis on coal are favourable factors.

MECHANICAL ENGINEERING - OFFICE EQUIPMENT

26 This sector has been thought viable but is now likely to be damaged by the recession, though there will be exceptions. Major

firms with advanced products eg Rank Xerox should have little difficulty but smaller, technology-based firms as well as firms with mechanical products are at risk. Products abandoned: we no longer make office typewriters. Chubb is likely soon to cease production of cash registers.

MECHANICAL ENGINEERING - METAL PRODUCTS

27 In this sector are included products like industrial fasteners and bearings which are heavily dependent on the declining UK automotive industry and such sectors will tend to survive only on a reduced scale. Bearings are still performing surprisingly well. It is difficult to generalise about so diverse a sector. Company closures: the closure of GKN's remaining industrial fastener companies is possible though those which GKN has already sold off are doing quite well.

MECHANICAL ENGINEERING - MISCELLANEOUS CONSUMER GOODS

28 This sector has been considered viable but is likely to be damaged by the recession. Some sectors such as gas appliances, clocks and watches and hand tools are faced with individual problems on top of the downturn in demand. But these sectors are so diverse that an overall judgment is almost meaningless. Products abandoned: domestic sewing machines are no longer made here.

SCIENTIFIC AND INDUSTRIAL INSTRUMENTS

29 This sector has been thought viable but is likely to be badly damaged by the recession. The industry has delayed investment in capital plant at a time when competition from the USA, Japan and Western Europe has intensified and the home market, which is heavily dependent on the public sector, has declined. To keep up with competition this sector needs to spend 10 per cent of its turnover on R and D. Current pressure on company finances is likely to result in inadequate expenditure on product development and production equipment.

COMPUTERS

30 This sector is viable and should not be much harmed by the recession. Growth is reduced from the 20 per cent which firms might have expected, to a level of 10 per cent which many other sectors would find more than satisfactory. But profits are being squeezed and there is a shortage of resources for market and product development in this sector, which requires to spend substantial sums. The smaller firms are the worst affected. Government procurement is an important factor in demand. Company closures: one small company has gone into liquidation and another is in difficulties. Measures taken: ICL will have to reduce its R and D spending unless the situation improves.

TELECOMMUNICATIONS

31 This sector is generally viable and not likely to suffer severely from the recession although there are exceptions. It is in the process of changing from analogue to digital technology. An example of this is the development of System X, for which British Telecommunications' investment programme is crucial. The export potential of System X, which will not be ready for delivery until 1982/83, is threatened by Western European and Japanese competition. The end of the Post Office monopoly poses both a challenge and a threat to UK makers of terminal equipment.

BROADCASTING EQUIPMENT

32 This sector is viable and is unlikely to be seriously damaged by the recession. However, the industry depends on the public sector and on exports. So far our competitiveness has been adequate but further deterioration could make the overall assessment above optimistic. The industry will be buoyed up by work for the fourth television channel and by public sector orders for short-wave radio transmitters. Considerable investment will be needed for the change to digital technology.

LOW TECHNOLOGY CONSUMER ELECTRONICS

33 This sector is in long-term decline which will be accelerated by the recession. Far East producers have captured the market by low cost mass production and import penetration is over 80 per cent. Products abandoned: we have virtually withdrawn from portable radios and cassette recorders. In-car entertainment is little better off. We are rapidly being driven out of monochrome televisions and music centres. Company closures: Rank Radio International (Music Centres) has closed. So have Thorn Consumer Electronics' monochrome TV factory and Grundig's Belfast factory. There have been redundancies and lay-offs throughout the sector. Measures taken: there seems relatively little scope for remedial action by management.

COLOUR TELEVISION

34 This sector has been thought to be viable but is likely to be severely damaged by the recession. It has invested heavily to restore its competitiveness but is now threatened by market conditions. The proposed increase of taxation on TV rental companies will exacerbate the problem. The industry believes that import protection is essential to tide it over until it is re-established.

SPECIALIST HI-FI

35 This sector has been thought viable but is likely to be damaged by the recession. It is a sector of low volume, export dependent

business with many small firms. We have been competitive in the past but present conditions put the sector at risk. Measures taken: there have been redundancies and lay-offs, for example, at KEF and Celestion, two manufacturers of high quality loud-speakers, an area where the UK has been a leader.

ELECTRONIC COMPONENTS

36 With one exception, this sector is viable and should not be seriously damaged by the recession, but prospects will be weakened if new developments are not exploited. Products abandoned: we are likely to be driven out of discrete passive components by high volume producers like Japan.

VARIOUS CHEMICAL, PLASTIC, RUBBER AND OTHER GOODS

37 Covered in this paragraph are tobacco, man-made fibres, rubber goods, asbestos, industrial gases, bulk organics, plastics, paints, toiletries, soap and detergents. These sectors are regarded as viable and should emerge from recession in a reasonable state. Certain areas are being badly affected by low US feedstock prices. Company closures several firms are at risk eg Nypro (Nylon 6 Monomer), Turner & Newall, Steetley, Ilford. Measures taken: lay-offs, short-time working, redundancies, cut-backs in stocks, R and D and capital investment have all occurred in order to minimise the effect of the recession.

TEXTILES, CLOTHING AND OTHER GOODS

38 Covered in this paragraph are cotton and allied spinning and weaving, household textiles, textile finishing, tyres, clothing and knitwear, gloves, footwear, jute, cordage and brushes. These sectors are suffering a long-term secular decline. Ministers will be quite familiar with the problems of the clothing and textile sectors. Company closures: the future of numerous companies is at risk: Norvic (footwear), Dunlop and Avon (tyres), and many firms in the "textile belt". Measures taken: as in paragraph 37 above.

LEATHER, WOOL, CARPETS, TEXTILE CHEMICALS

39 The outlook for these sectors, previously thought viable, is now gloomy. Such sectors may not even survive in a weakened state but may actually collapse, with the closure of many firms. Company closures: too many to list. Measures taken: as in paragraph 3[illegible] above.

PRIVATE SECTOR STEEL

40 This sector is thought to be viable and will survive the recessio[illegible] without serious damage, although it is likely to contract and some

companies will disappear. There are falls in demand for some products of as much as 20 per cent. Company closures: Patent Shaft, a Laird subsidiary, has closed. It is possible that Tube Investments and GKN will reduce their steel activities. But no leading private sector steel company seems to be in serious financial difficulty. Measures taken: there have been rationalisation and plant closures (Aurora, Tube Investments), some firms have moved up-market, (JFB, Aurora, Sheerness), and energy-saving programmes are being carried out (JFB). The sector would like import controls to be imposed.

IRON FOUNDRIES

41 This sector is thought to be viable and should not be seriously damaged by the recession provided it does not last too long. The sector is relatively well-equipped, partly as a result of the Ferrous Foundry Scheme, but some firms which invested heavily are now in financial difficulties. There is 25 per cent excess capacity. Company closures: foundries are closing at a rate of 40 a year. Measures taken: there has been a severe cut-back in new capital investment.

STEEL FOUNDRIES

42 This sector is thought to be viable and should not be seriously damaged by the recession. The industry claims to be in grave difficul- but the official view is less gloomy. The sector will probably contra- but what remains will be viable. There is over-capacity in some parts, but in others there are long order books, such as at BSC's railway castings' foundry in Sheffield.

BRITISH STEEL CORPORATION

43 The situation of public sector steel-making is already well-known to Ministers and will not be pursued here.

FURNITURE

44 This sector is thought to be viable and should not be seriously harmed by the recession. Demand is down 20 per cent on last year and there has been a build-up of stocks. Upholstery and kitchen furniture are the worst affected activities. Cheap imports from Easte- Europe are exacerbating the situation. Measures taken: short-time working is widespread eg Gomme G-Plan and Christie-Tyler. There have been substantial redundancies at Schreiber, Grovewood and Parker-Knoll.

TOYS

45 This sector is thought to be viable and should not be badly damaged by the recession. Despite the gravity of the situation, the

industry is vigorous and entrepreneurial. In the past it has proved its ability to overcome setbacks. Company closures: Dunbee-Combex-Marx has gone into receivership. Measures taken: redundancies are widespread; there have been 2,000 at Lesney.

QUALITY POTTERY

46 This sector is well placed to cope with cost increases and import competition. Firms wholly or entirely dependent on such products should survive through the recession although the pressures are very severe. Wedgwood are continuing to invest in bone china production.

EARTHENWARE

47 This sector has been thought of as viable but there is a serious risk that many firms will not survive the combination of rising labour and energy costs, unsold stocks financed by high interest money and cheap imports from Taiwan. Company closures: Royal Stafford has gone into liquidation. Biltons will close down soon. Several other closures are expected. Measures taken: there are 10,000 workers on short-time. 3,000 redundancies are expected.

GLASS CONTAINERS

48 This sector is viable and should not be severely damaged by the recession. It is continuing to do well despite competition from other kinds of containers. There is little international trade in empty containers. Measures taken: capital investment is being delayed.

CUTLERY

49 With some exceptions, this industry is suffering long-term decline which will be accelerated by the recession. Viable parts include kitchen knives and the more expensive silver plated table cutlery.

PAPER AND BOARD

50 With a few exceptions such as tissues, this is a sector in long-term decline which will be accelerated by the recession. We are at a severe disadvantage to competitors with large timber supplies and hydro-electricity. Products abandoned: we are being driven out of newsprint production. Company closures: Bowaters, Ellesmere Port, may well close down. There have already been several other closures. Measures taken: short-time working is widespread.

NON-FERROUS METALS

51 This sector has been considered viable but is likely to be damaged by the recession. Aluminium will do better than copper,

although the expected change from steel to aluminium castings in cars has been delayed by the problems of that industry. Uncompetitive copper plants are being closed but investment under the Non-Ferrous Foundry Scheme is being maintained. Products abandoned: we seem to be gradually withdrawing from production of rolled copper semi-manufacture. Company closures: Delta has closed plants including Enfield Rolling Mills. IMI is also closing plants. Measures taken: discretionary expenditure has been cut and the industry is negotiating very toughly with its unions.

S I CHARIK
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21 July 1980

ANNEX A
SECTION TWO

PROSPECTS FOR PROFITABILITY, SURVIVAL AND EMPLOYMENT

SUMMARY TABLE

	Percentage losing money	Percentage of loss-makers owned by Multinationals	Percentage likely to Survive next 12 months	Unemployment Consequences
Aerospace	Rolls-Royce	-	100% provided Govt funding maintained	Little or none in short term
Shipbuilding/ Boatbuilding/ Shiprepairing	30-50%	20% in shipbuilding	50-80%	5000 (35%)
Construction Equipment	20%	75%	Up to 50% at risk. Probably more will survive	4000 (10%)
Fluid Power	30%	One or two loss-makers	95%	5%
Mechanical Handling Equipment	10%	One company	100%	5%
Industrial Electrical Equipment	Not known 60% report falling profits	Probably none	All except some small firms	Reductions or short time working expected
Cables	None	None	All except some small firms	? 10% (4% drop in 1980 Q1)
Process Plant Contractors	None	n/a	90-100%	10%
Process Plant Fabricators	5% or less	negligible	90% or more	4000 (10%)
Heavy Fabricators	5% or less	negligible	75-80%	5000 (20%)
Metallurgical Plant	5% or less	negligible	65-70%	5000 (30%)

Pumps and Valves	None	n/a	85-90%	3000 (7%)
Compressors	None	n/a	90%	1700 (5%)
Domestic Electrical Appliances	5% or less	None	55-60%	27000 (45%)
Batteries	5% or less	None	60-65%	17500 (35%)
Vehicle Assembly	60% (by production volume	Vauxhall and Talbot	Depends on major decisions by Govt. (BL) or multinationals	Possible up to 150,000 (including indirect) for Vehicle Assembl and Components
Vehicle Components	Probably 75%	50% (including UK multinationals)	65%	"
Diesel Engines	Probably 100%	100%	All companies likely to retain some capacity but ? how much	Included in 150,000 figure above.
Agricultural Machinery	Probably over 75%	Tractors 75%	Tractors as for diesel engines; machinery not more than 67%	6000 (10%)
Machine Tools	10%	None	90%	6000
Mining Machinery, Robots, Welding	None	None	100%	None
Specialised Manufacturing Machinery	10% (food and drink) to 55% (textile machinery)	Small (in printing machinery)	Around 90% average (85% textile machinery)	5500
Mechanical Engineering General	Nil (office machinery and other sectors) to 50% (drop forging and fasteners)	Very small	100% (office machinery) to 60% (drop forgings, fasteners, taps)	22,000

Instrumentation, Control and Automation	Less than 5%	None	100%	No general problem
Computers	None (hardware); 10% (computing services)	None	100% (hardware); 90-95% (software and services)	Isolated lay-offs only. Employment opportunities
Capital Electronics	None	None	100%	None
Telecommunications	None	None	100%	No large scale redundancies
Electronic Components	Perhaps 5%	None	Possibly some bankruptcies	Not expected to be large scale
Consumer Electronics	Nearly 100%	Substantial	Major closures possible	Substantial lay-offs and redundancies expected.
Chemicals, Plastics, Rubber etc	Between 30% and 100% (tyres)	Substantial	Most companies expected to survive. Some smaller collapses possible.	Cut-backs expected.
Textiles and Carpets	Up to 95% (carpets)	Small % age owned by foreign multinationals	Possibly 85% (assuming short-time working compensation continues)	55,000
Clothing	50%	-	60%	104,000
Knitwear	85%	-	50-60%	50,000
Footwear	50%	-	65%	24,000
Leather	100%	-	A handful	11,000
Private Sector Steel	Substantial	Majority part of larger groups	Possibly all; but ? at what level	Possibly 25%

Steel and Iron Foundries	High Proportion	Majority part of larger groups	Possibly 75% of capacity	25-30%
Paper and Board	Probably 50-60%	Substantial (including UK multi-nationals)	Possibly 90%	5000
Sports Goods	80%	Small	60%	1000 (15%)
Paper Conversion	20%	75%	90%	2000
Toys	90%	Two companies	65%	10% (on top of 20-25% contraction already taken place)
Furniture	75%	None	50%	Up to 45,000 (50%)
Glass Containers	85%	One company	80%	3000
Domestic Pottery	30%	None	80%	3000 redundancies already notified
Cutlery	60%	None	70%	1000
Non-ferrous Metals	Under 20%	Very small	Possibly 95%	10% or more
Private Mining	None	None	100%	Nothing substantial