

CONFIDENTIAL FILING

Aid Trade Provision: Indonesia:
Hawker Siddeley Isolated Diesels

OVERSEAS AID

FEBRUARY 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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From the Minister for Trade

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5144
GTN 215
(Switchboard) 01-215 7877

CSP

18 February 1987

T W B Sallitt Esq
Chairman
Hawker Siddeley Power Engineering Ltd
Burton on the Woods
LOUGHBOROUGH
Leicestershire, LE12 5TT

Copies to:

- PS/SOS
- PS/Sir B H
- PS/ Mr Shaw
- PS/Lord Lucas
- Mr C W Roberts
- Mr Liesner
- Mr Benjamin
- Mr Goate

PS/PM

- PS/SOS DTp
- PS/SOS DEh
- PS/SOS DEm
- PS/MOS ODA

Ten Mr Sallitt

OVERSEAS PROJECT EXPORT SUPPORT

Thank you for your letter of 29 January enclosing a summary of your report "A Harvest for Britain". I am also replying on behalf of Paul Channon, Giles Shaw and Michael Lucas to whom you sent separate copies.

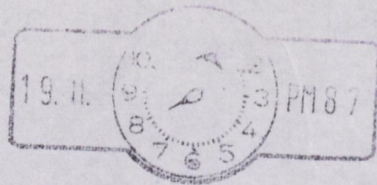
It is always heartening to learn of cases where the Aid and Trade Provision has been instrumental in helping companies with contracts in the face of strong international competition offering concessional finance. Clearly, there is a good story to be told here and I am grateful to you for taking the trouble to commission this report and point out the extensive benefits to Hawker Siddeley and many other companies which have accrued from the Scattered Diesels Programme. I understand that you have also sent copies of the report itself to appropriate officials in this Department. Their reaction is one of great interest and I know that they are keen to meet your representatives to discuss the report and its conclusions further. Could I suggest that you contact Mr Chris Benjamin (tel: 01-215 5462) the Head of my Department's Projects and Export Policy Division. Chris would be very happy to arrange a meeting and I look forward to hearing the outcome of your discussions.

Yours sincerely

Alan Clark

ALAN CLARK

L02AUR



19. II. 1987

CF PPS

BM



CPC
DTI
FCO
ODA

10 DOWNING STREET

THE PRIME MINISTER

3 February 1987

Dear Sir Peter

Thank you for your letter of 23 January. I was delighted to hear about your success in winning and completing the electrification contract in Indonesia with support from the Aid and Trade Provision (ATP).

It would indeed be helpful if you would copy your report to appropriate Whitehall departments as you have offered to do. I note its conclusion that our performance in the 'aid stakes' compares unfavourably with other donors. In fact we maintain a very substantial aid programme, the sixth largest among Western donors. And British industry benefits substantially from orders generated by it. Our bilateral aid is tied to British goods and services; and overall the value of procurement from Britain by the international aid agencies exceeds annually our contributions to them. Since 1979, ATP has helped secure export contracts for Britain of more than £2 billion. The new soft loan facility which was introduced last year (under which substantial commitments of £300 million for China and £140 million for Indonesia have already been made) should by 1988/89 double the amount of business supported annually by ATP.

In the last resort, it is in no-one's interest that the credit race should continue to accelerate. We are currently seeking to negotiate within the OECD a package

SPW

of measures which would keep it within bounds, at the same time as modifying the rules so as to be fairer to Britain.

With best wishes,

Yours sincerely
Margaret Thatcher

Sir Peter Baxendell, C.B.E.



cc/c

OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

2 February 1987

From the Minister

Charles Powell Esq
10 Downing Street
LONDON SW1A 2AA

Dear Charles

Thank you for your letter of 26 January enclosing a copy of a letter and short paper from Sir Peter Baxendell, Chairman of Hawker Siddeley Group plc.

... I attach a draft reply for the Prime Minister's signature. It takes into account comments from the DTI and the Diplomatic Wing of the FCO.

I am sending copies of this letter and draft reply to Michael Gilbertson (DTI) and Robert Culshaw (FCO).

Yours sincerely
Monty Dinham

(M J Dinham)
Private Secretary

BRC(75)

DSR 11 (Revised)

DRAFT: minute/letter/teletype/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Sir Peter Baxendell CBE F.Eng
 Chairman
 Hawker Siddeley Group PLC
 18 St James's Square
 LONDON SW1Y 4LJ

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your letter of 23 January. I was delighted to hear about your success in winning and completing the electrification contract in Indonesia with support from the Aid and Trade Provision (ATP).

CAVEAT.....

It would indeed be helpful if you would copy your report to appropriate Whitehall departments as you have offered to do. I note its conclusion that our performance in the 'aid stakes' compares unfavourably with other donors. In fact, ~~of course~~, we maintain a very substantial aid programme, the sixth largest among Western donors. ^{and} British industry benefits substantially from orders generated by ^{it} aid. Our bilateral aid is tied to British goods and services; and overall the value of procurement from Britain by the international aid agencies exceeds annually our contributions to them. Since 1979, ATP has helped secure export contracts for Britain of more than £2 billion. The new soft loan facility which was introduced last year (under which substantial commitments of £300 million for China and £140 million for Indonesia have already been made) should by 1988/89 double the amount of business supported annually by ATP.

Enclosures—flag(s).....

In the last resort, it is in no one's interest that the credit race should continue to accelerate. We are currently seeking to negotiate within the OECD a package of measures which would keep it within bounds, at the same time as modifying the rules so as to be fairer to Britain.

*with her wish
 on*

Sir Peter Baxendell, C.B.E., F.Eng.

Chairman

(cc. DTI & FCO)
Hawker Siddeley Group PLC

18 St. James's Square, CDV
London, SW1Y 4LJ 23/i

Tel: 01-930 6177

23rd January, 1987.

The Rt. Hon. Margaret Thatcher, F.R.S.,
Prime Minister,
10, Downing Street,
LONDON. S.W.1.

R24

AP

Dear Prime Minister,

Early in 1984 my predecessor, Sir Arnold Hall, wrote to you to request your assistance in achieving improved support from the Aid & Trade Provision (ATP) for an electrification contract that one of our companies was pursuing in Indonesia. We are grateful that HMG were able to help. I am glad to report that the order was obtained, and that the contract has been expeditiously and competently handled.

In Hawker Siddeley, we feel that inadequate evidence has been assembled by British industry to justify the money that is spent in support of project work of this nature. In an attempt to correct this, we, together with the Economics Department of Loughborough University, have undertaken a thorough investigation of the economic effects of this particular project, and a comprehensive report is now available.

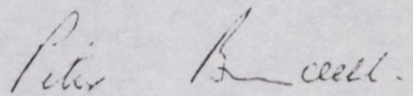
I have attached a summary document as I believe that you will be interested to know that three clear conclusions emerge :-

1. that ATP enables British industry to make a valuable contribution to the developing world,
2. that ATP stimulates employment over a wide range of the most competitive British manufacturing and service industries, and
3. that ATP gives good returns on the investment to the Exchequer.

We shall be distributing the report at the appropriate levels in HMG but, in view of your personal involvement in the early days, I felt you would like to learn of the successful outcome.

The Hawker Siddeley Group is most grateful for your support.

Yours sincerely,

A handwritten signature in cursive script that reads "Peter Baxendell". The signature is written in dark ink and is positioned above a horizontal line.

Peter Baxendell.



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

Adel/ 26 January 1987

I enclose a copy of a letter and its enclosure which the Prime Minister has received from Sir Peter Baxendell, Chairman of Hawker Siddeley Group plc.

I should be grateful if you would let me have an **early** draft reply for the Prime Minister's signature.

I am copying this letter to Michael Gilbertson (Department of Trade and Industry) and Robert Culshaw (Foreign and Commonwealth Office).

Charles Powell

Martin Dinham, Esq.,
Overseas Development Administration.

file

DSG



10 DOWNING STREET

LONDON SW1A 2AA

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Charles Powell

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Overseas Development Administration.

sv

Sir Peter Baxendell, C.B.E., F.Eng.

Chairman

ODA for Leah draw
copy (cc. DTI & FCO)
Hawker Siddeley Group PLC
18 St. James's Square, CDP
London, SW1Y 4LJ 23/ji
Tel: 01-930 6177

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Prime Minister,
10, Downing Street,
LONDON. S.W.1.

R24

PPS

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Yours sincerely,

Peter Baxendell.

Peter Baxendell.

OVERSEAS AID - Maurice Siddoley
Feb '84

A HARVEST FOR BRITAIN

Government Aid For The Scattered Diesel Programme
In Indonesia, Turnkey Completed By Hawker Siddeley
Power Engineering Limited - An Examination Of The
Economic Effects On The UK

REPORTING SUMMARY

Loughborough University of Technology
- Department of Economics
Hawker Siddeley Power Engineering Ltd



In 1985, Hawker Siddeley Power Engineering (HSPE) won the contract for the Indonesian Scattered Diesel Programme, worth £36,200,292 plus rupiahs 15,244,739,000.

HSPE beat off stiff competition from Japan, Korea, the Netherlands, Italy, the United States and France, and for the first time in its history used an ATP grant (£11,775,954) to countervail similar concessions from other governments.

In the light of the prolonged controversy over the use of government support for exports, HSPE has taken this opportunity to produce a report on the effects on economic aid on the UK economy.

Based on this concrete example and using a methodology endorsed by Professor M C Fleming of Loughborough University, the report comes down firmly in favour of government export aid.

Taking the contract apart, HSPE examined the pyramid of subcontractors and then the industries supporting these subcontractors to reveal the total value of orders placed with British companies (see figure 1).

Employment creation was believed to be a major economic benefit and using a series of fixed coefficients assigned by standard industrial classification it was calculated that 952 man years of employment were directly generated within HSPE and its suppliers. The major effects were in the machinery and mechanical equipment, the basic electrical equipment, and, to a lesser extent, the boilers and process plant fabrications and sea transport sectors.

The regional impact of the contract was concentrated in the North West, with an average unemployment rate of 16.3% in 1985, one of the highest in the country, and in the East Midlands, a region particularly dependent in manufacturing employment.

The employment effect however is not limited to the original impact on HSPE and its subcontractors; jobs are created as companies buy their components and raw materials down the production chain. Taking imports into account, the report illustrates how at least another 445 man years of employment will have arisen from this effect.

Still further employment is generated as the income from those working on the contract is spent on the economy's goods and services. This additional consumption will in turn constitute incomes to other workers creating even further demand ie. the multiplier effect.

Using a multiplier of just over 1.3 (compared to published values of 1.5 for the London Business School or 1.4 for the National Institute) the report gives a conservative employment figure of 958 man years from the multiplier effect, giving a complete total of 2355 man years (see figure 2).

Of all likely follow on business, orders for spares for the Mirrlees diesel engines used in the contract are the most guaranteed of all. Based on Mirrlees' standard spares list, but allowing for items likely to be purchased abroad, it is estimated that when the first orders for spares begin to come through in 1988 they will generate, on average, further employment at the rate of 121 man years per year. A total of 2420 man years over the twenty year life span of the Mirrlees diesel engines (see figure 3).

In a rare attempt to reveal the net cost to the Exchequer, the report estimates tax and national insurance returns from companies and employees. The original ATP cost of £11,775,954 resolves to a net gain of almost £6M (see figure 4) after due consideration of income tax, corporation tax, national insurance and indirect taxes (see figure 5); a return on investment of almost 50%. A similar analysis based on Mirrlees diesel sales indicates returns to the Exchequer of over £900,000 a year - £18½M over the twenty year demand forecast, at no extra cost to the government whatsoever (see fig 6).

The report examines the cost effectiveness of government export support by comparison with former regional aid packages and certain special employment measures (SEMs).

The ATP figure of £11,775,954 directly generated 952 man years of employment - a gross cost per job of £12,370. This compares remarkably well with published figures indicating that a regional aid total policy package would have a gross cost of £52,000 per job at 1985 prices (see figure 7).

The net cost per person off the register of SEMs falls at roundabout the £2000 mark but as shown above the net cost of export aid is in fact a net gain, in this case of £2,400 per job year (see figure 8).

Therefore, on both counts, export aid clearly provides a highly cost effective method of employment creation.

The report discusses the beneficial effects on industrial innovation that the contract will have stimulated in terms of a better understanding of customer needs and a reduction of the market risk elements.

Having established a successful track record in the Indonesian power generation market, with the Scattered Diesel Programme progressing on time and to budget, HSPE are confident of repeated successes in this exciting market. Indonesia is a highly attractive country for UK power projects; it is a major recipient of foreign aid, a major oil producer and has a powerful developmental orientation. As such, it has the means and the motivation for investment in the desperately needed increase in its electricity generating capacity. Its resources and geography dictate that much of this increase be satisfied by diesel and gas turbine power stations - by far HSPE's strongest suit.

Conclusions are drawn in the report that the UK government's performance in the "aid stakes" compares unfavourably with our major competitors placing a burden on many exporters.

The report finally expresses the hope that as HSPE has established notable benefits to the UK, together with positive gains to the Exchequer, more government aid can be made available to allow efficient firms to compete on a fair and equal basis to win export contracts.

Ian Roberts

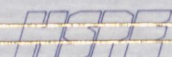
The logo for HSPE, consisting of the letters 'HSPE' in a stylized, outlined font.

FIGURE 1

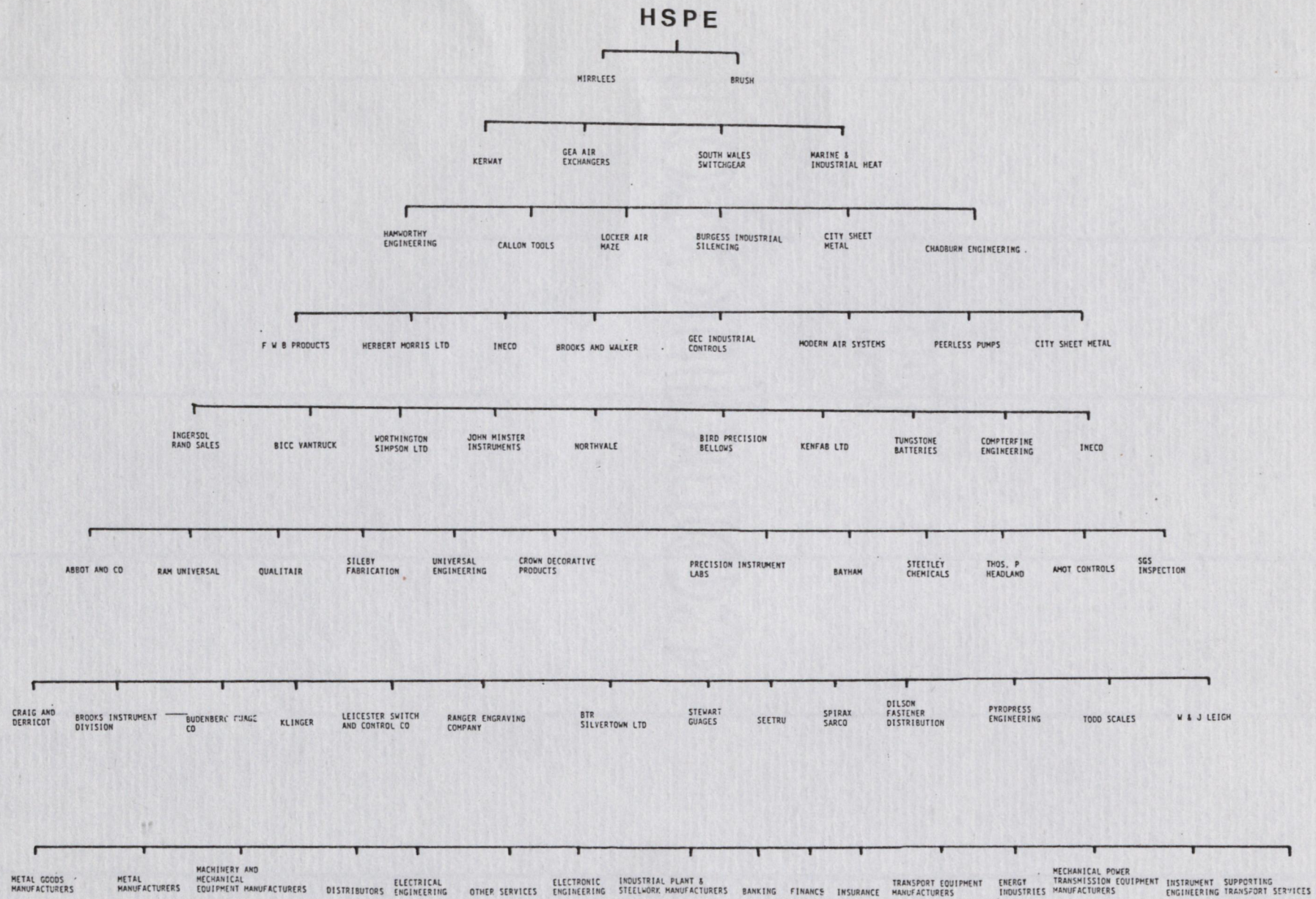


FIGURE 2

PROJECT EMPLOYMENT

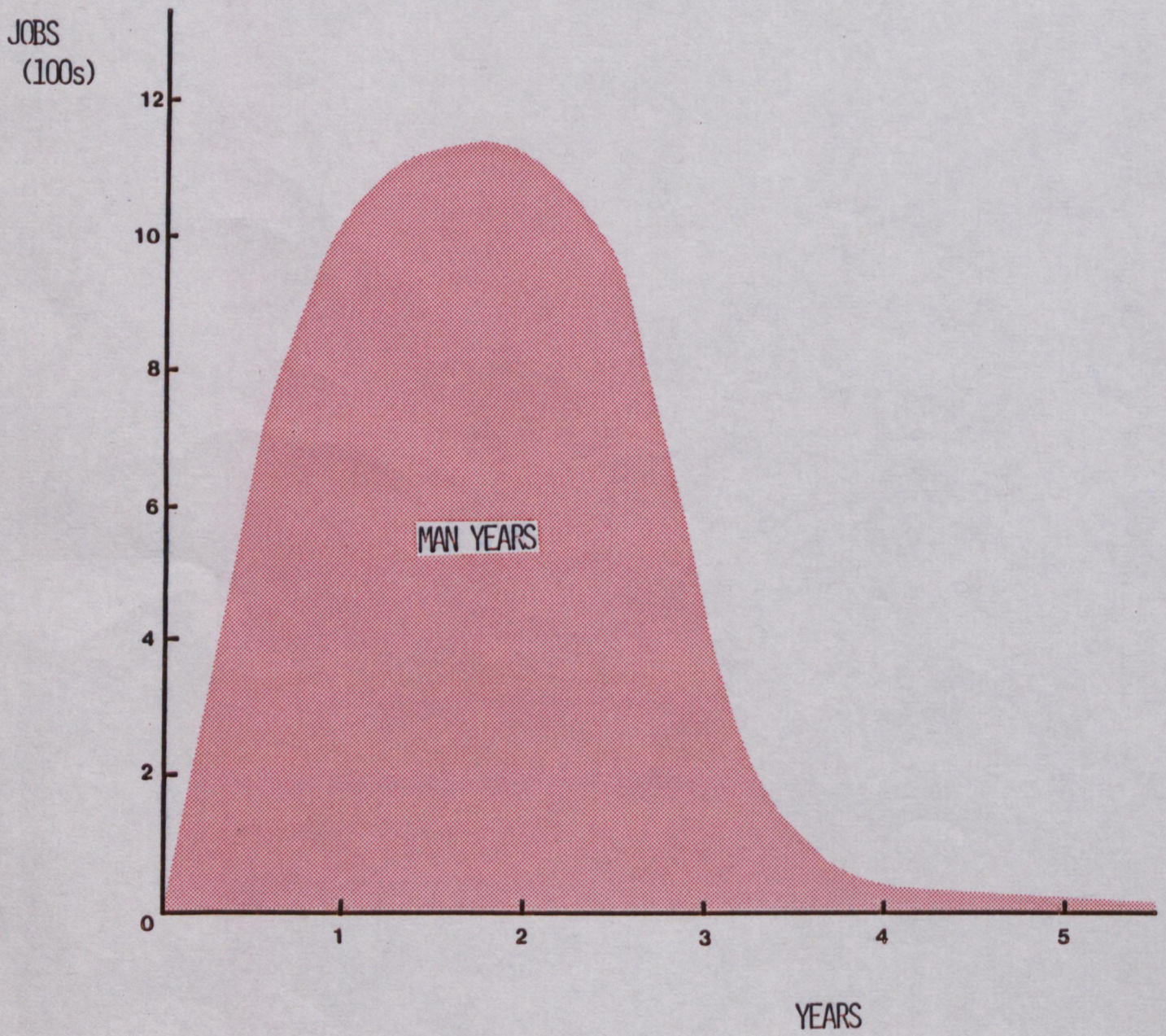


FIGURE 3

EMPLOYMENT
- FROM PROJECT AND FOLLOW ON ORDERS

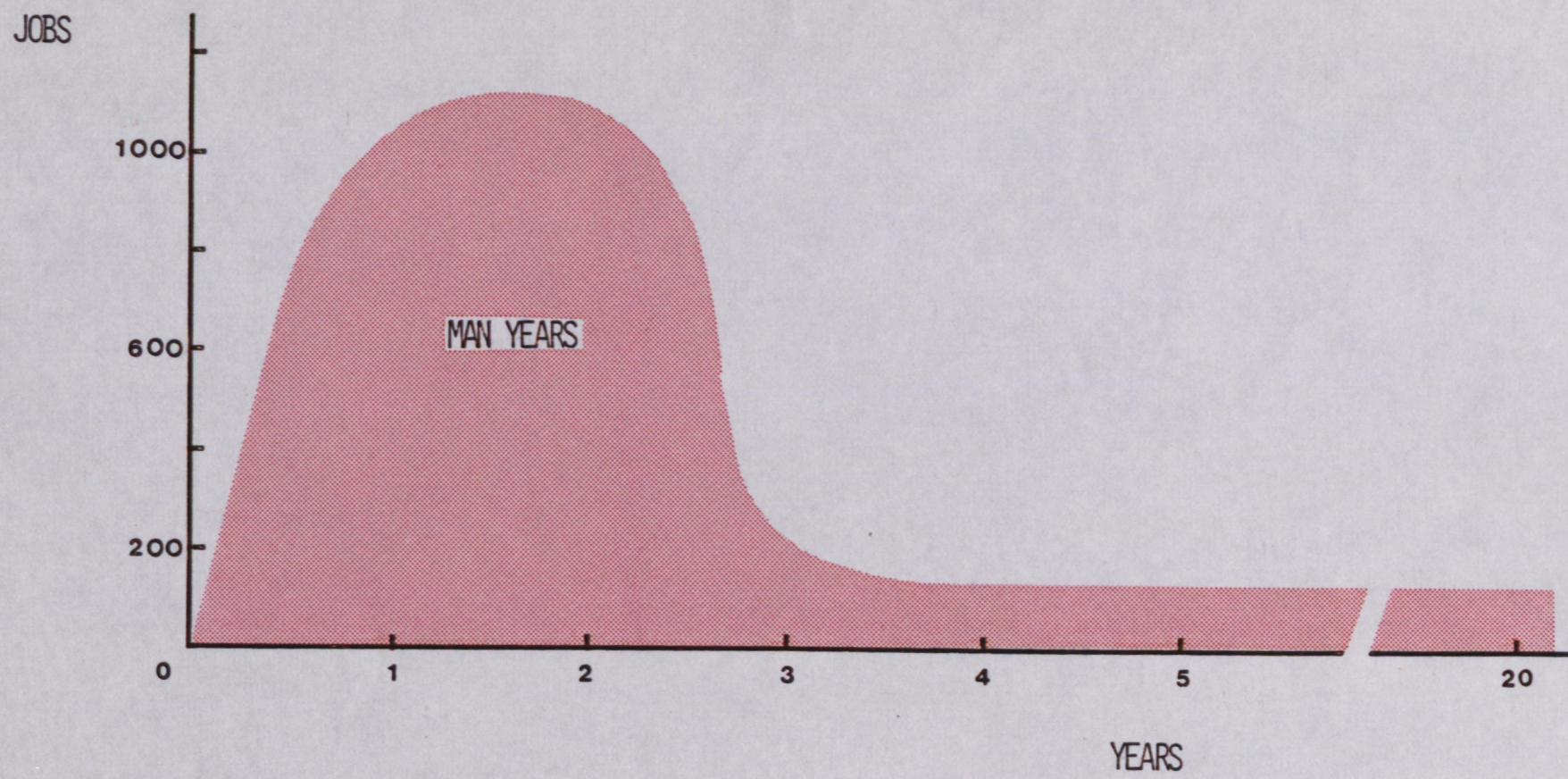


FIGURE 4

UK PROJECT RETURN

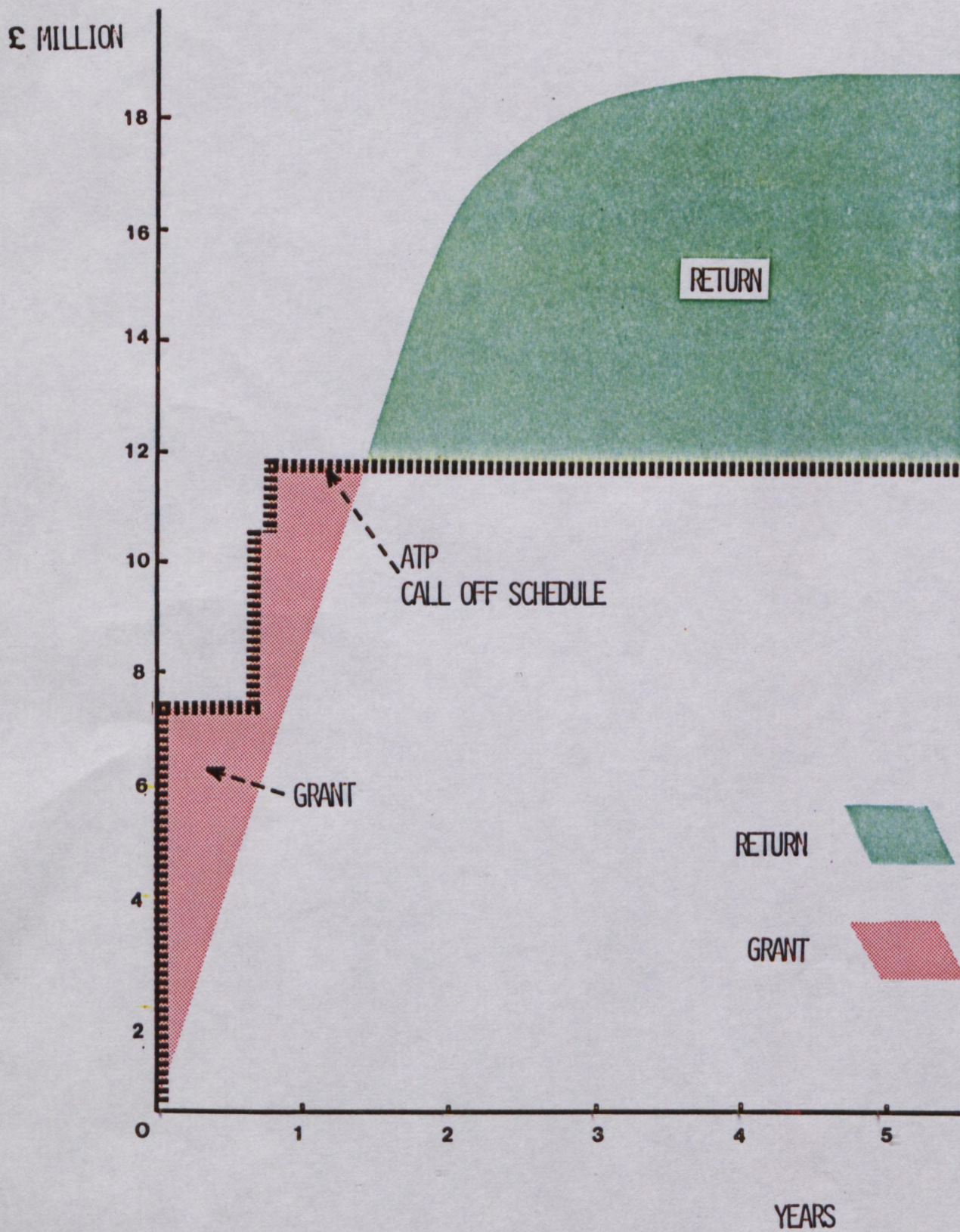


FIGURE 5

EXCHEQUER'S REVENUE

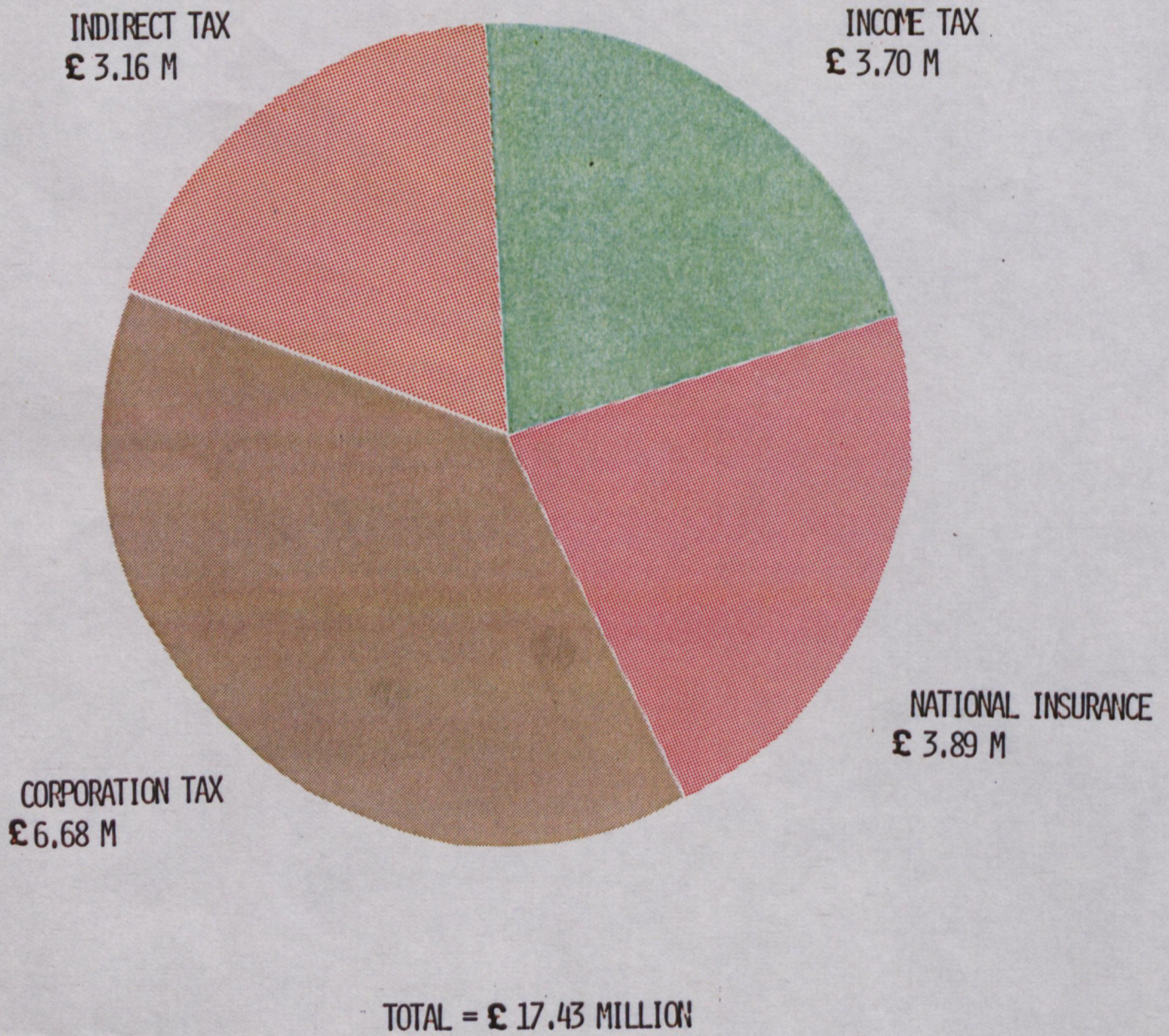


FIGURE 6

TOTAL UK GOVERNMENT RETURN
(FROM PROJECT AND FOLLOW ON ORDERS)

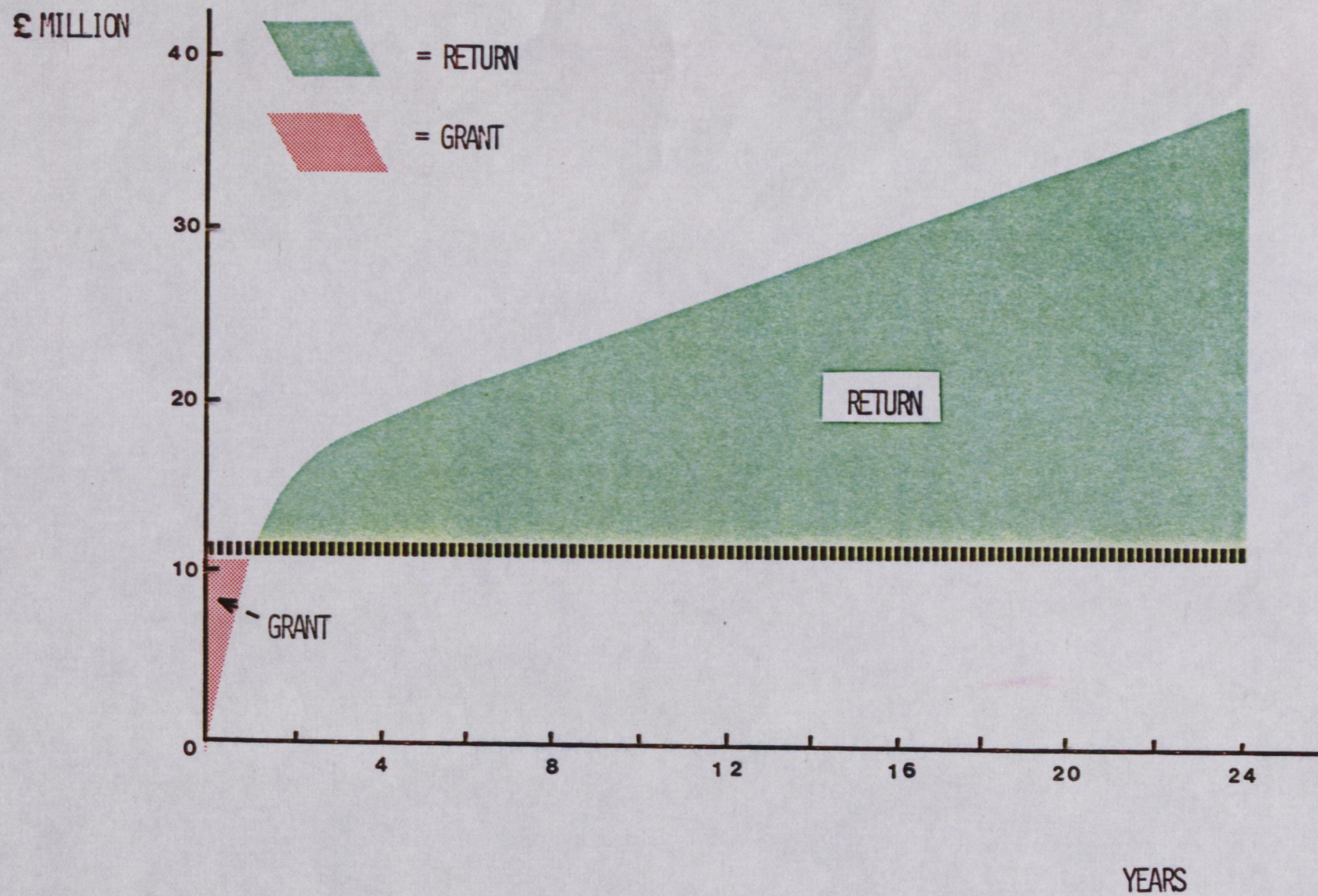


FIGURE 7


JOBS - VALUE FOR MONEY

£ 11.8 M ON
EXPORT AID



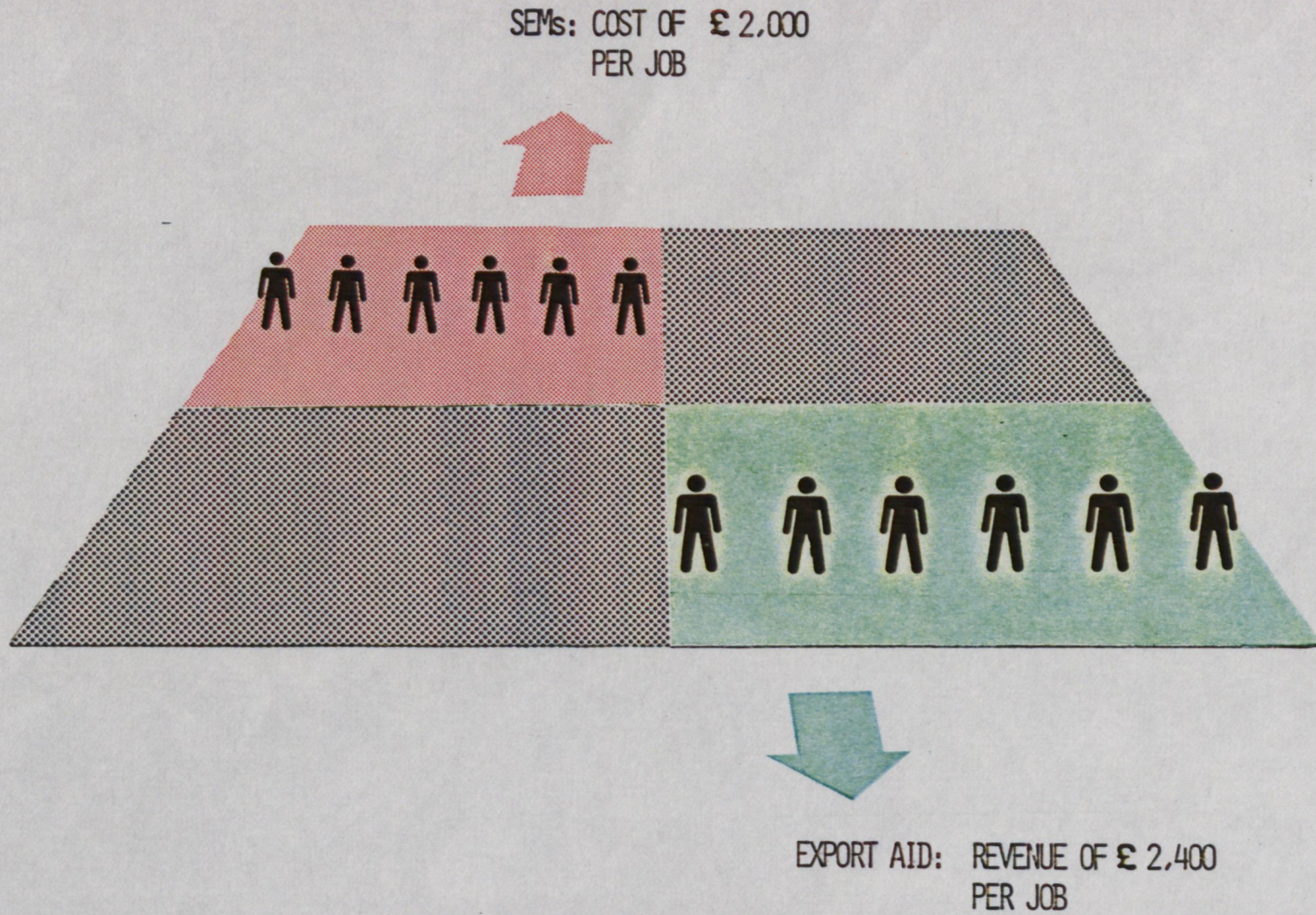
£ 11.8 M ON
REGIONAL AID



 = 50 JOBS

EXPORT AID - COST ADVANTAGE

FIGURE 8





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10 DOWNING STREET

From the Private Secretary

1 April 1985

The Prime Minister has asked me to thank you for your letter of 28 March, and to arrange for your letter and enclosures to be passed to the Foreign and Commonwealth Office, so that the points can be covered in the briefing for the visit.

MARK ADDISON

Sir Arnold Hall, FRS.

ls

Sir Arnold Hall F.R.S., F.Eng.

Chairman

Hawker Siddeley Group PLC
18 St. James's Square,
London, SW1Y 4LJ
Tel: 01-930 6177

28th March, 1985.

R29

The Rt. Hon. Margaret Thatcher, F.R.S.,
Prime Minister,
10 Downing Street,
London. SW1

Dear Prime Minister.

Thank you for your letter dated 19th March about Indonesia. I have passed a brief to the Department of Trade and Industry on that situation, as well as on another major project there in which we are interested. A copy of the note on this is attached.

Having in mind that, as I understand it, you are visiting Malaysia and Singapore, I am also attaching a note on a major railway locomotive project in Malaysia, about which I hear that it is possible that you may be asked. As you will see, the problem is one that has become almost usual - our price is lower than the Japanese competition, but the Japanese Government are offering finance terms which are sufficiently easier than the British to more than offset our competitive price advantage.

I also enclose a brief note on the Singapore Metro, about which I am sure you will hear while there.

Yours sincerely,

Arnold Hall

A.A. HALL.

Encs.

THE JAMBU AYE PROJECT, INDONESIA

Jambu Aye is a multi-purpose hydro electric irrigation and water supply scheme in Northern Sumatra.

Hawker Siddeley, Tarmac and a small group of U.K. consultants led by Rendel, Palmer & Tritton formed an association to promote the scheme in conjunction with HMG.

OPF support was granted for the feasibility study which was generally to be conducted by the consultants with financial and technical support from Hawker Siddeley and Tarmac.

The first phase of the study was completed in January 1984 and has been enthusiastically received by the Indonesian authorities. The final phase of the study is now near completion and will be ready for presentation in Indonesia in early April 1985.

Hawker Siddeley involvement comprises the turnkey provision of 160MW of hydro generation plant in four units together with associated gates, valves, switchgear, transformers and control equipment. In addition, there is 130km of 150KV transmission line and two or more 150KV sub-stations and a number of pumping stations. Total value of the Hawker Siddeley part of the scheme amounts to about £70m.

The total value of the project is about £328m of which the U.K. element would be approximately £185m.

MALAYAN RAILWAYS

25 MAIN LINE LOCOMOTIVES

1. Technical Evaluation

4 contenders identified - see below.

2. Bid Price Comparison

1) Hawker Siddeley (Brush)	54,513,138 M\$
2) Mitsui/Toshiba (Japan)	60,206,335 M\$
3) Mitsubishi/Hitachi (Japan)	61,300,115 M\$
4) Alsthom (France)	63,147,027 M\$

British offer is : 11% cheaper than Japan
 16% cheaper than France

3. Finance Terms

Japan : 100% finance at 4.5% interest over
 25 years with 7 years grace period.

France : 100% finance consisting of 37% over
 30 years at 2.5% interest plus 63%
 credit at 10.7% interest over 10 years.

U.K. : 100% finance consisting of 25% grant aid
 plus 75% credit at 10.7% interest over
 10 years.

4. Net Present Value

Relating the above bid prices and credit terms, the net present values of the offers to the Malaysians are :

Japan :	31,497,000 M\$
U.K. :	35,588,000 M\$
France :	41,655,000 M\$

In order to match the Japanese finance terms, the British Government would be required to provide grant aid worth 41% of the contract value.

SINGAPORE MASS TRANSIT CORPORATION

In January 1984, Hawker Siddeley through its subsidiary Westinghouse Brake & Signal Co., was awarded the £42m contract for the signalling and automatic train operation for Phases I, IA and II covering 40 stations. The contract also covers automatic Platform Edge Screen Doors. Under a separate £5.4m contract, the company is also supplying the braking system for the Japanese built coaches. An extension to the Singapore Mass Transit Corporation system (Phase III) is under consideration by the Corporation.



10 DOWNING STREET

THE PRIME MINISTER

MS
afco + incoming
OTI letter
Rie
19 March 1985

Dear Sir Arnold,

Thank you very much for your letter of 14 March about Hawker Siddeley Group's success in winning such an important contract in Indonesia. I send you my warmest congratulations. I hope you will ensure that the Department of Trade and Industry are aware of any particular points which you would wish to be made to the Indonesians during my visit there at Easter.

With best wishes,

Yours sincerely

Nargansh Chatterjee

Sir Arnold Hall, FRS.

Sir Arnold Hall F.R.S., F.Eng.

Chairman

Hawker Siddeley Group PLC
18 St. James's Square,
London, SW1Y 4LJ
Tel: 01-930 6177

14th March, 1985.

The Rt. Hon. Margaret Thatcher, F.R.S.,
Prime Minister,
10 Downing Street,
London. SW1

E16

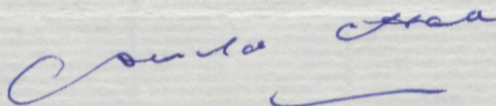
PPS CF

Dear Prime Minister

You may remember that I wrote to you a year ago about the competition that had developed between Governments in offering aid to Indonesia in connection with their major programme of electric power generation and distribution, and you arranged that this country should match these overseas Government offers. I told you at the time, that I thought we, as a company, were competitive with the commercial offers from overseas suppliers.

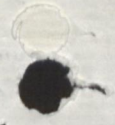
I am writing first to thank you again for arranging this help to the Indonesians, and to say that we have now won the contract, which has a value of around £50M, with excellent long term opportunities. The commercial competition from overseas suppliers was very strong, but we were able to beat it.

Yours sincerely,



A.A. HALL.

OVERSEAS AID : ATP Indonesia
Feb 84



CONFIDENTIAL



CONFIDENTIAL

Prime Minister

C.D.P.
1/2.

P.01366

PRIME MINISTER

Management of Aid and Trade Provision:

EX(84)4 to 6

BACKGROUND

The Aid and Trade Provision (ATP) is used to provide soft credit for sound development projects which are of commercial and industrial importance to UK firms, and in particular to enable UK firms to match aid-supported offers by other countries in appropriate circumstances. £66 million a year is currently allocated to the ATP within the Aid Programme.

2. There are guidelines, known as 'subsidy thresholds', which are designed to regulate the cost to Government of financing projects under the ATP. The threshold for poor markets, but still with export credit cover (known as Category III) is currently 35 per cent; for middle income developing countries (known as Category II) it is 31 per cent. The percentages derive from an estimate on a discounted cash flow basis of the relative costs to Government of financing a project, setting the best available estimate of the eventual cost to the Exchequer of support against the likely return to the UK. Projects requiring assistance above the subsidy threshold require exceptional justification.

3. At the meeting of the Committee on 29 February (EX(84)2nd Meeting, Item 2) the Chief Secretary, Treasury pointed out that since the previous October 24 cases had been put forward for ATP support; 19 of them had required subsidy above the threshold. The Committee invited the Secretary of State for Trade and Industry, in consultation

FLAGA —



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with the Chief Secretary, to undertake a review of the subsidy threshold arrangements with a view to improving their credibility and effectiveness.

FLAGB —

4. A report by a group of officials in response to this remit is annexed to the memorandum by the Secretary of State for Trade and Industry (EX(84)4). Most of its recommendations are agreed between departments, including an increase in subsidy thresholds to 36 per cent for Category III markets and 32 per cent for Category II markets. There is, however, a difference of view between Treasury and DTI officials about the proportion of ATP support which should take the form of initiations (ie. offers of mixed credits or soft finance by the UK which are volunteered, not made in order to match similar offers from other countries). DTI officials argue that the proportion is not of real relevance; and that if a guideline is necessary it should be at least 60 per cent of ATP offered. Treasury officials regard the matter as more important because of its possible implications for the UK's international stance on mixed credits, and propose a limit of 20 per cent.

5. Mr Tebbit, however, rejects the whole approach. He argues that it is too bureaucratic, and that it is necessary to be able to deal with cases quickly in order to match our competitors. He proposes that, within the existing public expenditure provisions and subject to broad criteria set out in paragraph 10 of his memorandum, his Department and the Overseas Development Administration (ODA) should have full authority to settle individual cases without reference to the Treasury.

FLAGC —

6. The Chief Secretary's memorandum (EX(84)5) goes some way towards meeting Mr Tebbit. Mr Rees offers:



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- i. full delegation to DTI and ODA of offers to match offers from competitors and not exceeding the subsidy thresholds;
- ii. delegation of initiations within a limit of 20 per cent of the ATP.

7. The memorandum by the Foreign and Commonwealth Secretary (EX(84)6) also favours delegation of initiatives within a limit, which would be less than 50 per cent of the ATP (a more precise figure is not suggested). Sir Geoffrey Howe also suggests that the use of mixed credits should be avoided in the rest of the bilateral Aid Programme: this is consistent with the UK's policy of trying to phase out mixed credits.

MAIN ISSUES

8. Since Mr Tebbit is asking for a free hand within agreed expenditure allocations and Mr Rees is prepared to offer a measure of freedom, the issues before the Committee lie in the intervening territory, that is:

i. should there be complete freedom to match offers from competitors, or should there be freedom only up to the subsidy thresholds?

ii. Should there be a limit on the proportion of the ATP which can be used for initiations? If so, what should it be?

There is also the separate proposal by the Foreign and Commonwealth Secretary that the use of mixed credits should be avoided outside the ATP.

Extent of freedom to match offers

9. Mr Tebbit wants complete freedom for the DTI and ODA to spend the ATP expenditure allocation within the broad criteria

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in paragraph 10 of his paper. The desire to avoid delay through bureaucratic haggling with the Treasury is understandable. But there is a need to control the amount of subsidy in particular cases (already around one-third). Otherwise there is the danger of subsidising the efforts of the less efficient rather than the more efficient UK exporters, and of being blackmailed by tough bargainers into giving our goods away. The Treasury is prepared to allow delegated authority to the DTI and ODA, provided that the proposed new subsidy thresholds are not exceeded. The Committee may feel that, if assistance beyond these thresholds is to be given, it is fair that the Treasury should have the opportunity to express a view.

Initiations

10. It is UK policy to reduce, and preferably to phase out, the use of mixed credits. They distort trade; and if countries such as the United States resorted to them we should find ourselves in a subsidy war which we could not hope to win. On the other hand, mixed credits are likely to continue. We should therefore be at a competitive disadvantage if we tied our own hands too tightly over initiating mixed credit offers. We need a policy on initiations which can be defended as consistent with our professed aim to get rid of mixed credits but which gives us some freedom to secure large projects.

11. There ought to be the basis for a compromise on the proportion of mixed credits to be allowed as initiations. You may find it helpful to know (for the conduct of any negotiations during the meeting and not for explicit quotation) that our soundings suggest:

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(a) that the Chief Secretary is likely to be willing to offer a limit of 30 per cent (instead of the 20 per cent in his memorandum) and is being advised to agree to settle at 35 per cent;

(b) that the Foreign and Commonwealth Secretary would also probably settle at 35 per cent.

Mixed Credits outside the ATP

12. It seems likely that the Committee will agree with the Foreign and Commonwealth Secretary that the use of mixed credits outside the ATP should be avoided.

HANDLING

13. You will wish to invite the Secretary of State for Trade and Industry, the Foreign and Commonwealth Secretary and the Chief Secretary, Treasury each to develop the arguments in his paper. It would then probably be convenient to deal separately with:

(i) the use of ATP for matching offers from competitors;

(ii) the use of ATP for initiating offers.

CONCLUSIONS

14. You will wish the Committee to reach conclusions on the following.

(i) Should officials of the DTI and the ODA be given unlimited delegated authority, within the criteria set out in paragraph 10 of EX(84)4, to match offers of mixed credits from competitor countries? Or should there be freedom only within the agreed subsidy thresholds?



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(ii) Should officials of the DTI and the ODA be given freedom (again, within the constraints set out in paragraph 10 of EX(84)4) to initiate offers of mixed credits? Or should the freedom be subject to a limit on the proportion of the ATP that may be committed for initiations? If so, what should the percentage be?

(iii) Should offers of mixed credits outside the ATP be avoided?

PLG

P L GREGSON

1 August 1984

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credible. To set it
at 50% would give
reasonable flexibility to
the JTI.

C D P 1/8.

R.R.

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PRIME MINISTER

1 August 1984

AID AND TRADE PROVISION: MANAGEMENT

DTI have a problem. They wish to give British contractors early guidance about Government support and to move quickly to clinch contracts. But there are delays because we are in the business of matching other countries' offers of aid and need to establish that these offers are real. Hence DTI's wish to initiate more.

The Chief Secretary will argue that more initiation will hot up the subsidy war which we ourselves have taken the lead in OECD to wind down. The USA has recently been encouraged by mixed credits to join the war. If most of the ATP budget is spent on initiation, DTI will use up the ATP budget more quickly, and little will be left over to match others' offers. This will lead to requests for a larger ATP budget, notwithstanding Norman Tebbit's assurances to the contrary.

A free rein on initiation will also turn more of the aid programme over to a costly form of industrial support, at the expense of development benefits. For example, the GEC-Babcock power station to supply an Indian aluminium smelter was supported partly with mixed credit, at a cost of £131 million (more than 10% of the annual aid budget). It is developmentally worthless; it merely adds to the world's

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surplus aluminium smelting capacity. If this is the best we can do for development, we should prune the aid budget.

Aid and Trade Provision can secure both developmental and commercial advantages when it is part of a line of mixed credit and a thought-out programme, which is sufficiently large to influence the recipients' priorities and policies - arguably the most significant point about aid.

The meeting will need to agree on the percentage of ATP which DTI can use for initiation. Norman Tebbit is looking for a high percentage. Treasury argue that 20% is necessary to bring down the share of initiations and to maintain our credibility as a multilateral disarmer.

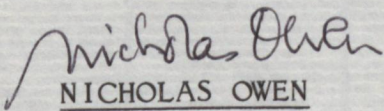
We recommend a compromise along the lines of the FCO paper: that the DTI and ODA can have a free hand to initiate with up to 50% of the ATP budget, giving priority to countries to whom we extend lines of mixed credit, provided that no mixed credits are offered elsewhere in the bilateral aid programme.

We would have to stop giving India power stations using mixed credits. This would both strengthen our hand in OECD and get better developmental value from the aid programme. DTI and ODA ought to continue to consult Treasury about "matching" support.

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Norman Tebbit will protest that this arrangement will still restrict his ability to win subsidised business, worth (it is claimed) £3 for every £1 spent on ATP. But this 3:1 "return" is just another way of saying that ATP provides a one-third subsidy. He is assuming that we would not win any of these particular orders without subsidy. This is surely too pessimistic. Our exporters of capital goods are effective competitors. In open competition for orders supported by multilateral aid, for example, we win orders worth 120% of our contribution to these programmes - a better ratio than on our bilateral programme.


NICHOLAS OWEN

CONFIDENTIAL

Sir Arnold Hall F.R.S., F.Eng.

Chairman

CF file
Hawker Siddeley Group PLC
18 St. James's Square,
London, SW1Y 4LJ
Tel: 01-930 6177

PPS
④

12th March, 1984.

The Rt. Hon. Margaret Thatcher, F.R.S.,
Prime Minister,
10 Downing Street,
London. SW1

R13
1) Copy to J.T.I.
2) Prime Minister

Dear Prime Minister,

This is to thank you for your letter of the 9th March about the Indonesian Crash Programme, and to say how grateful the Company is to be given the opportunity to fight for this business. Whether we will get it or not remains to be seen, but it will certainly be a maximum effort.

A.S.C. 3/3

M 15/3

h-a.

Once again, very many thanks indeed for the arrangements made.

Yours sincerely,

C. Arnold Hall

A. A. HALL.



huk

TRP

cc: DTJ

10 DOWNING STREET

THE PRIME MINISTER

9 March 1984

Dear Sir Arnold,

Thank you for your letter of 20 February about Hawker Siddeley's efforts to secure business under Indonesia's Crash Diesels Programme.

As you know, the Government have now agreed to increase the Aid and Trade Provision grant to 32.5% of the UK content of the proposed contract value in this case. Officials are in touch with your staff about the details.

I hope that the improved offer will help Hawker Siddeley to win this order.

Yours sincerely
Raymond Barber

Sir Arnold Hall, FRS

DTJ



JH 25

PS Secretary of State for Trade and Industry

*Pl type for Mrs
signature*

CF?

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

7 March 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andrew,

DIESELS FOR INDONESIA

Thank you for your letter of 1 March.

2 As requested, I enclose a short draft reply to Sir Arnold Hall's letter of 20 February setting out the increased ATP support for Hawker Siddeley.

*Yours ever,
Ruth*

RUTH THOMPSON
Private Secretary

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

Sir Arnold Hall FRS FEng
Chairman
Hawker Siddeley Group plc
18 St James's Square
London SW1Y 4LJ

~~Many~~ Thanks for your letter of 20 February about Hawker Siddeley's efforts to secure business under Indonesia's Crash Diesels Programme.

As you know, the Government have now agreed to increase the Aid and Trade Provision grant to 32.5 per cent of the UK content of the proposed contract value in this case. Officials are in touch with your staff about the details.

I hope that the improved offer will help Hawker Siddeley to win this ~~important~~ order.

Overseas Aid: Hawker Siddeley Feb 84

18 MAR 1984



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File 1/84

10 DOWNING STREET

From the Private Secretary

1 March 1984

DIESELS FOR INDONESIA

Bf | Sir Arnold Hall wrote to the Prime Minister - copy attached - urging an increase in the ATP support for Hawker Siddeley's efforts to sell diesels to Indonesia. We have so far acknowledged this letter and promised a fuller reply in due course. E(X) met yesterday and agreed to increase support. I assume your Department will soon be communicating this to Hawker Siddeley. I should be grateful if you could provide a draft reply for the Prime Minister to send as soon as possible which is consistent with the terms in which you have responded to the company.

ANDREW TURNBULL

Andrew Lansley, Esq.,
Department of Trade and Industry.

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Minister of State for Trade
Department of Trade & Industry
1 Victoria Street
LONDON
SW1E 6RB

28 February 1984

Dear Paul

ATP: INDONESIA: HAWKER SIDDELEY DIESELS

Thank you for your letter of 20 February, asking me to reconsider the crash diesels case.

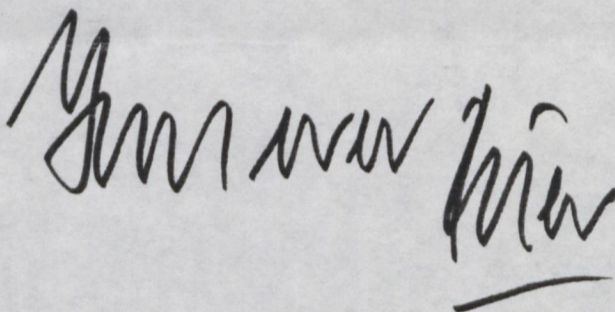
On the merits of this case, I see no reason to dissent from Barney Hayhoe's view. The prospects for follow-on business on commercial terms in the Indonesian market remain poor. Resurgent oil exports may ease the Indonesians' economic problems but, if they continue to exercise financial prudence, and if our competitors remain willing to offer concessional terms, I see little prospect that the Indonesians will accept commercial terms in the foreseeable future. In these circumstances I do not think the project merits the exceptional levels of subsidy you propose.

More widely, I am very concerned that proposals which breach our agreed thresholds and which should, by definition, be exceptional, are becoming routine. Of the 24 proposals put forward by your department since last October no fewer than 19 breached at least one of thresholds. We in the Treasury have exercised considerable flexibility in dealing with these cases; I myself have accepted 4 cases which involved breaches of agreed thresholds, while my officials have agreed a similar number. But if we are to continue to apply the agreed guidelines we must do so in a credible manner: 19 'exceptional' cases out of 24 makes a nonsense of the requirement for exceptional justification.

I am sure that the reasons that led us to set the existing thresholds, and tightly restrict the number of cases which are allowed to exceed them, are still sound. In this case we are concerned with the subsidy threshold. ATP cases always involve subsidy levels in excess of anything that would be acceptable as part of any programme of domestic assistance to industry. Moreover

most domestic schemes involve capital grants for start up costs (with particular regional or sectoral aims) rather than, as in the case of ATP, operating subsidies. It is only because of the special arguments for matching competitors, and because of potential follow-on business that even the threshold subsidy levels are acceptable for the ATP. It is simply bad economics for the UK to provide goods at over 40 per cent less than the proper price unless we can be confident that this will lead to substantial profitable business in the future.

I am sending copies of this letter to the recipients of yours.

A handwritten signature in black ink, appearing to read 'Peter Rees', written in a cursive style. The signature is positioned above the printed name.

PETER REES



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P.01236

PRIME MINISTER

Diesels for Indonesia

BACKGROUND

There has been correspondence between the Minister for Trade and Treasury Ministers about assistance from the Aid and Trade Provision (ATP) for a prospective sale by Hawker Siddeley Power Engineering (HSPE) of diesel engines to Indonesia. The total value of the order is £49.2 million, of which the UK content would be £36.2 million.

2. The Minister for Trade has proposed an ATP grant of 32.5 per cent of the UK content. The subsidy element in ECGD concessional terms would bring the total subsidy to 42 per cent of the UK content. In the case of Indonesia, the normal threshold (ie the level of assistance beyond which exceptional grounds are needed) ruling at the time of the proposal was 37 per cent. This has since been reduced to 35 per cent; but I understand that the Treasury accept that it would not be reasonable to apply the new figure to this case.

3. The Minister for Trade argued that the additional assistance was necessary on the following main grounds.

(a) It was needed to match a confirmed French offer.

(b) It was needed to maintain HSPE's position in the Indonesian market.

(c) There would be substantial follow-on business, roughly equal in value to the original contract.



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(d) It would enable capacity to be maintained at HSPE's factory in Stockport.

4. The Minister of State, Treasury (Mr Hayhoe), however, argued that the subsidy of 42 per cent was 'simply too high'. He cast doubt on the prospects for follow-up business on commercial terms and the threat to HSPE's market position from losing the order. He also questioned whether HSPE was fully competitive.

5. It has previously been agreed between departments that £18 million should be made available from the ATP to cover both the HSPE bid and a possible bid by GEC on a different but related contract. £18 million would be enough to cover assistance for the HSPE bid, even at the rate proposed by the Minister for Trade. £18 million would not be enough, in any event, to cover both the HSPE bid and the GEC bid; but it is agreed between departments that the GEC bid, if it comes forward, should be considered at the time on its merits. The argument is therefore not that there are no funds available, but that the 5 per cent subsidy over the normal threshold is excessive and unjustified. I understand that the Treasury are concerned that many ATP cases - indeed, quite a substantial majority in recent months - have gone beyond the normal thresholds; they are trying to make a stand.

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MAIN ISSUE

6. The only issue before the Committee is whether to accept or reject the bid for ATP assistance. It should be common ground in the discussion that special justification is needed for assistance beyond the normal threshold. In deciding whether that justification exists, the Committee will wish to consider the following points.

(a) The alleged need to match a bid from the French.

(b) The prospects for further business if the initial order is secured.

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(c) The threat to HSPE's position in the Indonesian market if the initial order is not secured.

(d) Whether HSPE's offer is competitive, and whether the company itself might be asked to make a further contribution, for example by reducing its price.

FLAG A

Matching the French

7. The letter of 6 February describes the French offer as 'confirmed'. This has not been disputed. But the Committee may wish to hear further details of the scale of assistance offered by the French.

Prospects for further business

8. Mr Channon's letter of 6 February also suggests that follow-on orders for spares would be roughly equal in value to the original contract. But the Committee will wish to satisfy themselves:

Would not

(a) that the follow-on orders would not require further subsidy; and

(b) that the business would not squeeze out more profitable business by absorbing too larger part of the cover that ECGD can make available for the Indonesian market.

HSPE's market position

FLAG B

9. If the contract is not won by HSPE their position in the Indonesian market is bound to be weakened. But how serious would the effects of this be? The firm has already sold over 300 diesels to Indonesia; this should give them a strong position. On the other hand, the letter of 20 February from Mr Channon says that the present contract is roughly equal in value to HSPE's engine sales in Indonesia over the past 12 years, quite apart from its potential for follow-on orders. It seems to follow that a successful competitor would, by his success, have established a position in the Indonesian market at least equal to HSPE's.



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Is HSPE's offer competitive?

FLAG C

10. It is suggested in Mr Heyhoe's letter of 14 February that at an earlier stage HSPE were assessed as not fully competitive and as needing to reduce their bid price from its present level. The Committee will wish to ask for an up-to-date assessment and to consider whether HSPE should be asked to make any further contribution themselves to winning the order. On the other hand, the firm have already accepted 30 per cent of the country-risk on the project - a higher proportion than normal.

HANDLING

11. You will wish to ask the Secretary of State for Trade and Industry to introduce the discussion and the Chancellor of the Exchequer to reply. The Foreign and Commonwealth Secretary will be able to advise on the Indonesian market and the aid merits of the project.

CONCLUSIONS

12. You will wish the Committee to reach conclusions on:

- (a) whether the bid for assistance set out in Mr Channon's letter of 6 February should be approved; and
- (b) if so, whether any conditions (relating, for example, to a contribution from HSPE towards winning the order) should be imposed.

PLG

P L GREGSON
Cabinet Office.

27 February 1984

Act'd 21/2

Gir Arnold Hall F.R.S., F.Eng.

Chairman

Hawker Siddeley Group PLC
18 St. James's Square,
London, SW1Y 4LJ
Tel: 01-930 6177

20th February 1984

The Rt. Hon. Margaret Thatcher, F.R.S.,
Prime Minister,
10 Downing Street,
LONDON. SW1

Dear Prime Minister,

This letter deals with a particular case of Government assistance in bidding for a major contract, and with the inter-Governmental competition in "aid" at present surrounding such issues. I should say that the issue has been fully discussed with the Department of Trade and Industry and, as I understand it, between that Department and the Treasury.

The case concerns what is known as the Indonesian Crash Programme. This is a very large scheme for improving electricity supply, and involves the building of a number of diesel-driven power stations with the associated distribution networks. This programme is divided into several groups of supply, and tenders have been invited for the whole or part of any or all of the groups.

The programme is of significance, because in the case of the engines and generators, a considerable amount of support and spares work will flow for many years to those who make the initial installations, and because it is likely, in a country to which diesel generation is so appropriate because of its multi-island geography, that there will be follow-on schemes over many years. Those who supply the initial equipment will certainly be well placed to take part in such further schemes, since commonality of the technical equipment will be an evident factor of importance to the customer. It is, therefore, not surprising that competition for the present programme is intense, as is also inter-Governmental competition in the provision of "aid".

In the part of the particular supply group with which this company is concerned, the position has developed as follows. We first made an offer for work

worth about £93m. and H.M.G. backed this with a grant aid element of 26% of the U.K. goods and services - about £17.3m. The customer then stated that they would not negotiate with us (and others) unless the concessionality, as seen by them, approached 40%. Following discussions with the Department, we decided to narrow the area of our bid to around £49.5m to ensure that the money involved in the aid at the higher level was lower than that in the previous offer, to which H.M.G. had agreed.

At this point I should say that we have clear evidence that our bid is the lowest price bid, leaving out consideration of aid. The bidding list is long, involving among others Japanese, French, German, Italian and Dutch offers.

Application for aid on the new basis has been turned down by H.M.G., and as a result, notwithstanding that we have offered what is clearly the best price bid, we cannot get to the negotiating table. Meanwhile, negotiations have started with firms from other countries, notably Italy and Holland, whose Governments have met what the Indonesians were looking for. These negotiations will, no doubt, now go on apace, and the contract of concern to us will soon go overseas unless we are able to take a different position.

It is evident that other countries are striving to make sure that the work comes to their industry. The reasons for this are not far to seek. Some of them are mentioned in an earlier paragraph which outlines why the consequence of winning or losing will have a very long term effect. Additionally, the heavy diesel engine business - a high technology business if ever there was one - is clearly seen as carrying national importance in the long term, which we also think it does. Our position is that we have a healthy and competitive activity, both financially and technically - which exports all over the world - and success in Indonesia carries importance to us in maintaining that position. We are already well known and respected in Indonesia, having supplied as many as 500 cylinder lines of diesel power to them in the past, and having taken considerable part in other programmes there.

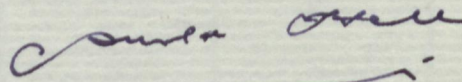
On considering why the application has been turned down, even though our action in narrowing the area of tender has brought the money involved at the higher concessionality to that already granted at the lower, we conclude as follows. First, H.M.G. is against the spread

which is taking place in inter-Governmental competition, and does not wish to encourage it. With this we are firmly agreed - the sooner things can be brought back the better - but, while other countries do it, there is no alternative to either taking part competitively, or losing the business. I am inclined to think that the quickest way to bring attitudes back is not to depart from the scene, but to show, from time to time, that if others are going to do it, they can expect to find us there too.

Next, it is argued that if this concession were given, something like 50% of the available E.C.G.D. cover for Indonesia would become involved. It is then argued that if that element of cover is used for supporting non-concessionary exports, the resulting position will be at least as good as if it were used for the Crash Programme. This view leaves out of account the desirability of supporting, on performance and long term grounds, the particular industry involved in the Crash Programme and also leaves aside the question of whether the allocation can in fact be developed fully that way. Nevertheless, one can see the argument. To see if we can help this forward, we have now said that the company will take 30% of the risk, so relieving the E.C.G.D. We can validate to you our financial ability to do this. The inevitable result, of course, is that we are placed in a worse position internally than the overseas competitors who have full support from their Governments, but this we will accept if it will enable us to secure otherwise comparable aid to that available to our competitors, and so get to the negotiating table. If we get there, it will remain to be seen whether we can win the situation, but, as I said earlier, we know that our offer is the most competitive in commercial terms.

Finally, may I apologise for troubling you with this, However, time is now vital. Other countries are already at the negotiating table, and if we cannot match in a very short time from now, the position will be lost.

Yours sincerely,



A. A. HALL.



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5144

GTN 215

(Switchboard) 215 7877

From the Minister of Trade

The Rt Hon Peter Rees WC MP
HM Treasury
Parliament Street
London SW1

20 February 1984

ATP: INDONESIA: HAWKER SIDDELEY ISOLATED DIESELS

Barney Hayhoe wrote to me on 14 February, in your absence, in response to my letter of 6 February. I am afraid I must challenge some of Barney's points.

First, I think it is unreasonable to claim that there is very little prospect of follow-up business in Indonesia on commercial terms. Indonesia's current financial difficulties are likely to be quickly alleviated when their oil exports rise as the recession lifts. And the Indonesian Government's search for maximum concessional finance, allied with their postponement of many major projects are signs of financial prudence. I believe that the Indonesians will soon be able to resume business on commercial terms.

Second, experience has taught us that competitiveness is not just a question of price - quality, technology, running costs, product support and delivery can be equally decisive factors. And of course, if HS do not win the contract, no ATP payment is involved so that the question of competition need not concern us. Third, because of Barney's concern about the effect on the ECGD country limit for Indonesia that this project would have, we have gone again to the company who have agreed to take 30% of the country-risk for this project - a major liability.



Finally, may I stress again the importance of the value of the contract to the company. The contract HS now seek is roughly equal in value to their engine sales in Indonesia over the past 12 years, quite apart from its potential in captive follow-on orders for spares.

I note what Barney has said about further support for GEC. We can return to that on its merits. But you will recall that in making the old offer last April, we undertook to look at further cover if UK companies were awarded contracts for both Groups D and E.

The case is very clear matching; it is crucial to the future of a very good British manufacturer; and time is pressing heavily - unless we can give them an indication of increased ATP support within the next week or so, HS's chance of pursuing the business will be lost.

I therefore urge you to urgently reconsider Barney's decision and in view of the time constraints I am copying this to all colleagues on EX Committee and to Sir Robert Armstrong as well as to Timothy Raison.

Paul
PAUL CHANNON

RECEIVED IN
15 FEB 1984
MINISTER FOR
TRADE'S OFFICE



MIN. FOR TRADE'S OFFICE.
TO DR DOBBIE MEE COPIES TO
FOR ADVICE (AND
DRAFT REPLY IF
APPROPRIATE)
PLEASE BY: 17/2/84
(PLEASE PHONE
EXT: 6013 IF
DEADLINE CANNOT
BE MET.)

PS/MR LAMONT
PS/SIR A. RANLINSON
PS/SIR B. HAYES
MR ROBERTS
MR MANZIE
MR BENJAMIN PEP
MR MINGAY MEE
MISS NEVILLE-ROLFE
DR GRAHAM PEP
MR DUNNING OTZ
MFT TO JEE

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade & Industry
1 Victoria Street
LONDON SW1

16 February 1984

Dear Paul,

ATP: INDONESIA, HAWKER SIDDELEY ISOLATED DIESELS

Many thanks for your letter of 6 February to Peter Rees in which you propose an exceptional level of support for Hawker Siddeley Power Engineering's (HSPE) bid for Group E of the Indonesian Isolated Diesels crash programme, to match a French offer on the same business.

When considering the Sym Chem case in Tunisia recently Peter pointed out that he was concerned about the apparently increasing tendency for subsidy levels to rise above the agreed thresholds. I can see no reason to afford this case exceptional treatment. The total subsidy of 42 per cent is simply too high. Though Indonesia has recently recommenced commercial borrowing there is very little prospect of follow up business in this market on commercial terms. Since the main argument for exceptional treatment is to establish HSPE in the Indonesian market the poor prospect of follow on business on commercial terms is critical. The fact that you envisage proposing exceptional treatment for GEC on another part of the programme emphasises the scarcity of business on commercial terms. In any case HSPE are unlikely to lose their position in the market as a result of loss of this contract, since, as you point out, they have already sold over 300 diesels in Indonesia.

It is by no means clear that HSPE are fully competitive on Group E. I understand that in earlier correspondence on this case your officials made clear that the HSPE bid (UK content £36.2m, total contract value £49.2m) was not fully competitive and would need to be reduced. In your letter you refer to the same contract value, but the need to reduce this bid has been replaced by an assertion that HSPE are fully competitive.

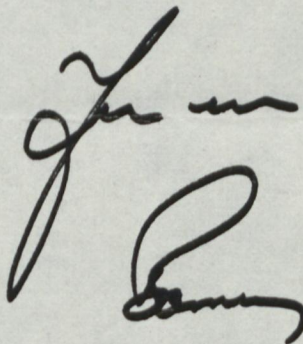
43

I am also concerned that highly subsidised business should not squeeze out more commercial business where there is a limit to the ECGD cover available, and that there should be adequate room for follow on business within the existing limit. In this case the ECGD cover required would take up over half the remaining cover, leaving little room for follow on or other commercial business.

You also raise the prospect of making exceptional support available to GEC on Group D if the Germans make a high concessionality mixed credit offer on this business. At present we have made a firm offer of up to £18m of ATP in support of either HSPE or GEC but not both, and with a grant element of 25 per cent. This offer amounts to a subsidy on almost a quarter of the total crash diesels programme; it would not be economic to increase the proportion of the programme for which we are willing to offer ATP. I would not therefore be willing to offer ATP in support of both GEC (Group D) and HSPE (Group E), and see no reason to increase above £18m the ATP available for the crash diesels programme as a whole. On present information I can also see no reason to agree exceptional treatment for GEC, even if a German offer were confirmed.

Incidentally I would be grateful if future correspondence could follow the normal practice of quoting the total subsidy involved in such cases, since as you know we need to include the subsidy arising from ECGD concessional terms in calculating the cost to the UK of securing the business.

I am sending a copy of this letter to Timothy Raison and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Barney Hayhoe', written in a cursive style.

BARNEY HAYHOE

V218



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
London SW1

6th February 1984

Dear Peter

I am writing to seek your agreement exceptionally to an offer of 32.53% ATP grant in support of Hawker Siddeley Power Engineering's bid to supply diesel generator units to Indonesia. The contract which has a value of £49.2M and a UK content of £36.2M comes under Group E of the extensive Indonesian Crash Diesels Programme.

Your officials have turned down the DTI case for increased ATP, which is needed to match a confirmed French offer, on the basis that it would be above the threshold beyond which exceptional grounds are needed.

There are, however, special factors. If Hawker Siddeley win this contract there will be very significant follow-on orders for spares to be won on normal commercial terms. These are expected to be roughly equal in value to the original contract. So this would double our exports through a given ATP outlay. Furthermore, Indonesia is one of two world markets which together provide half of the regular business won by British diesel manufacturers, and where there is a real long-term future. Given the tendency of customers to standardize their equipment in this field, Hawker Siddeley's participation at this stage in the Crash Diesels Programme would make them well placed to secure future orders. Conversely, if the French are allowed to gain the strategic position, it will be very difficult for UK firms to break back into the market.

cc PS/Mr Lamont
PS/Sir A Rawlinson
PS/Sir B Hayes
Mr Roberts
Mr Manzu
Mr Benjamin PEP
Mr Mingay MEE
Miss Neville-Rolfe
Dr Graham PEP
Mr Dunning OTR
Dr Dobbie (of)



Hawker Siddeley is highly efficient and more competitive than the opposition. There is no question of taxpayers' money being used to prop up inefficiency. The group has never before sought ATP support for Indonesia, and they have already sold over 300 diesels there on normal commercial firms. However, the Indonesians current financial difficulties have led them to postpone a number of major projects and they are seeking to maximise concessional finance for those which are to go ahead. Hawker Siddeley therefore sees no alternative but to ask us to match the French offer.

There are also sound industrial reasons for supporting Hawker Siddeley's bid for this contract. The bulk of the equipment would be provided by Hawker Siddeley's Stockport factory and this would enable capacity to be maintained with corresponding benefits in competitiveness and employment. Should the contracts go abroad, a major source of export earnings (£140M over the past 5 years) would be put at risk.

Meanwhile there is another potential case involving GEC, which is likely to encounter German competition on similar terms to the French offer in another part of the Crash Diesels Programme. I believe that GEC's case is equally strong, although we are not yet in a position to propose any more than a conditional matching offer, as we have no firm evidence of a competing German bid at a higher grant element than 25.1%.

To accommodate the increased ATP elements the Hawker Siddeley's bid will require a small increase of £2.2M in the £18.1M of ATP currently on offer to Indonesia for the Crash Diesels Programme. If I also have to come back to you on the GEC bid, some further increase may be necessary for that, but there is no problem in finding this additional ATP within the funds still available.

I am afraid that the Hawker Siddeley case is another one where urgent decisions are needed. The French are now in serious negotiation with the Indonesians and I therefore hope very much that you will be able to agree to the increased ATP needed to enable Hawker Siddeley to stand a real chance of winning this valuable contract. A measure of Hawker Siddeley's concern was Sir Arnold Hall's call on me to emphasise its importance to the company. A copy of the letter he wrote to me is attached.

I am sending a copy of this letter to Timothy Raison and to Sir Robert Armstrong.

Y
ms,
Paul

PAUL CHANNON

11 12 1
2 3 4 5 6 7 8 9
P

20 JAN 1984

Grey Scale #13



A 1 2 3 4 5 6 **M** 8 9 10 11 12 13 14 15 **B** 17 18 19



Inches 1 2 3

Centimetres 1 2 3 4 5 6 7 8

Colour Chart #13

Blue Cyan Green Yellow

