PART 5.

MT

Confidential Filing

Meetings with the CBI.

Correspondence on the

Government's Economic Strategy.

In attached folder "Trade Routes to the Future"
CBI Business Agenda for the 1990s.

INDUSTRIAL

POLICY

Part 1: May 1979

Part 5: June 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~5.6.85~~							
~~20.6.85~~							
6/8/85							
~~12.9.85~~							
~~29.11.85~~							
~~13.12.85~~							
~~17.12.85.~~							
~~13/5/86~~							
~~9.6.86~~							
~~10.6.86~~							
~~11.6.86~~							
~~27.10.86~~							
~~10.11.86~~							
~~13.3.87~~							
~~3.11.87~~							
~~1.12.87~~							
~~2.9.88~~							
~~6.11.90~~							
~~26.6.91~~							
~~4.7.91~~							
~~11.7.91~~							

S 3006

PREM 19/3395

Part ends

Dd 8398366 2M 11/83 JET

PART 5 ends:-

SH to PM 24 7 91

PART 6 begins:-

SH to PM 18 10 91

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Trade Routes to the Future: Meeting the transport infrastructure needs of the 1990s
Confederation of British Industry, November 1989
ISBN 0 85201 470 8

Signed J. Gray Date 4/3/2017

PREM Records Team

1(A-D)

SECRET AND PERSONAL

PRIME MINISTER

24 July 1991

CBI survey

I saw John Banham this morning. He:

- Ran through the upcoming industrial trends survey (to be released on 30 July);
- Talked me through industry's "shopping list"
- Gave me his Business in the Community speech
- Outlined the CBI's planned publication on manufacturing for this autumn
- Angled for another chat with you.

CBI survey

I attach the data. First, the bad news:

1. Business is MORE pessimistic than it was in April. However, it is still LESS pessimistic than it was in the preceding three quarterly surveys. You will remember there was an improbably sharp reduction in pessimism in the April survey; this has not quite been maintained. Put another way, industry's hopes for this summer were not realised. A balance of only 8 per cent in April expected orders to fall; a balance of 44 per cent now reports that orders did fall.

SECRET AND PERSONAL

2. Likewise, the balance of respondents expecting to shed jobs has risen since April, though it is still lower than it was in January. The same pattern applies to expectations for orders, though there is no change in output expectations.

However:

3. The figures for unit costs and prices show improvement: a balance of only 15 per cent expects unit costs to rise (as compared with 21 per cent in April, 44 per cent in January); a balance of only 4 per cent expects prices to rise. And a small majority reports actual decreases in prices over the past four months.

4. The majority of respondents are still expecting to INCREASE spending on training over the next 12 months.

5. The balance of respondents expecting to cut their investment on plant and machinery has fallen slightly; it appears to have bottomed out at a higher level than in the previous two recessions.

The Shopping List

First and foremost, of course, another cut in interest rates- and a full percentage point, this time. "We accept there is a floor, but we should aim to get there as soon as possible." JB stressed that a boost to confidence is needed. I made the standard remarks about success of the Bank's careful approach in narrowing gap with Germans, etc, and received some fairly caustic comments about the credibility of the Bank of England in reply.

P. M.
Most of ~~this~~ list is plain dotty — eg. 2 (wage cuts into higher wages) & 4 (wage is based on inaccurate analysis of typical UBI profiles). BHP

C

SECRET AND PERSONAL

Then a list of proposals said to be without "significant" short-term fiscal cost, as follows:

1. Temporary tax incentives for investment.

2. A cut in employers' NICs for 1992-93 to balance the budget measures on cars.

3. Bringing forward transport infrastructure projects.

4. Action to restrain utility prices, UBR and public-sector pay.

5. Measures to encourages households to bring forward repair and maintenance (eg, grants for energy conservation).

6. Accelerated decisions on building projects. EG, a decision by the Welsh Health Common Services Agency to locate in the Cardiff Bay area, along with ECGD.

7. Support for the planned £250m SCA paper mill investment in Kent.

I made no comment, except to remind him of the fiscal position. I will discover what is behind points 6 and 7.

Business in the Community

I have passed his speech on to Andrew Turnbull, in case there is anything you need to know.

SECRET AND PERSONAL

The CBI's manufacturing document

John Banham assured me this would be "helpful", and (somewhat contradictorily) that he would take care it did not clash with the Tory party conference. He promised to send me a draft by the end of August. It is planned to use this document as the theme tune for the CBI conference in early November.

A Chat with you

John Banham very much wants to repeat his visit with Brian Corby. I told him you were terribly pressed over the next couple of weeks, but that we could see whether there was a possibility after the summer, when we had seen the manufacturing document (which I hope will concentrate his mind on making that positive). He assured me - as usual - that while he will "tell it like it is" he will put the best possible gloss on the industrial trends survey. The Chequers lunch was wonderful, you're doing wonderfully, etc, etc.

If you agree, I will go back to him and say we could discuss a date after the summer break - it is too difficult to fix one now, but you would welcome a chat if a suitable occasion could be found. I think the last one paid dividends, and the possibility of another concentrates his mind a bit.

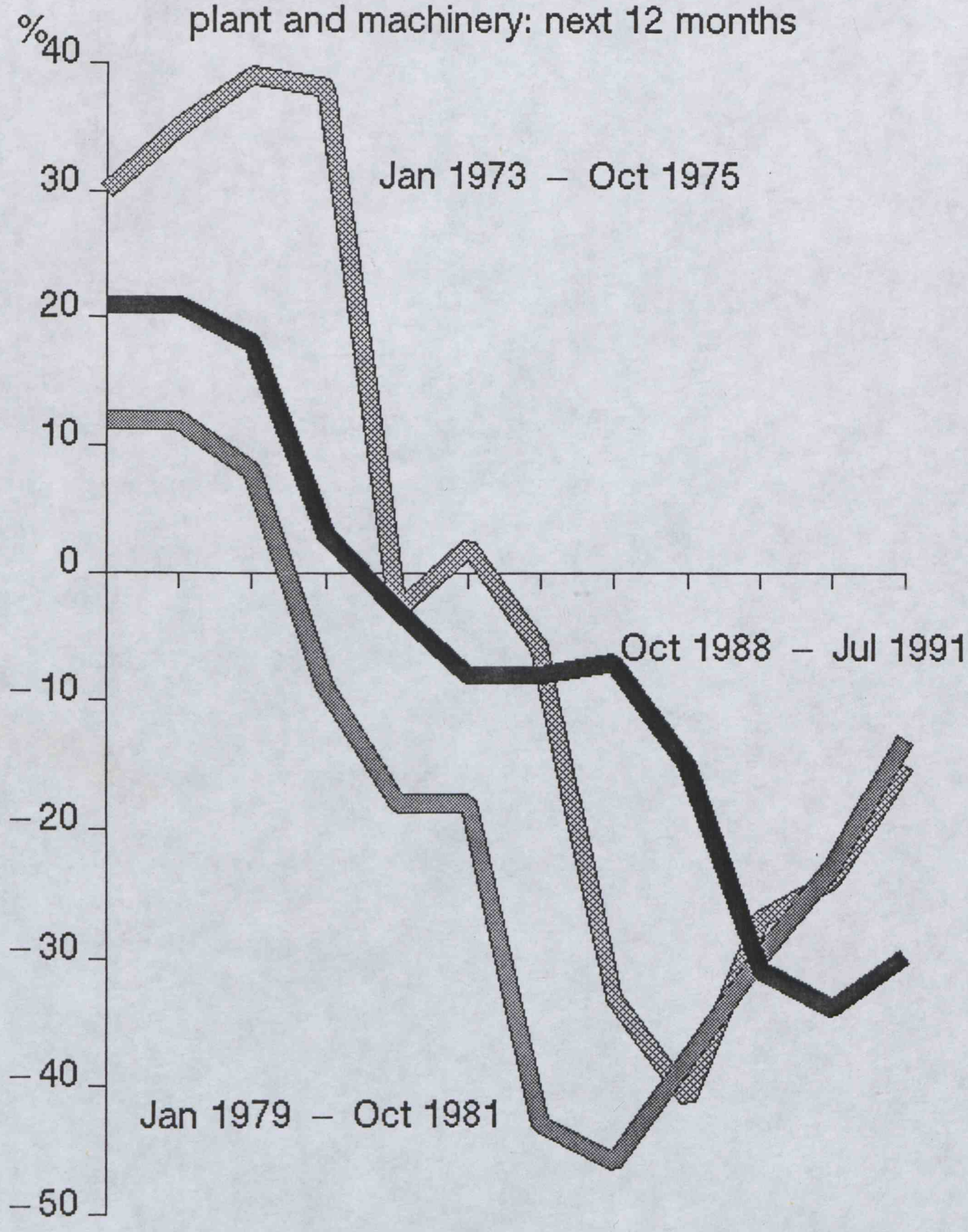
Sarah

SARAH HOGG

(111)

INVESTMENT INTENTIONS

plant and machinery: next 12 months



Source: CBI Industrial Trends Survey

Embargoed until Tuesday 30 July 11.30am.

CBI Industrial Trends Survey: Summary of results from April 1990 to July 1991

(All figures are percentage balances except where otherwise stated)*

Total trade			Apr 90	Jul 90	Oct 90	Jan 91	Apr 91	Jul 91
1	Optimism re business situation		-22	-27	-47	-51	-17	-26
3	12 month forecast of capital expenditure authorisations compared with previous 12 months on:							
	a buildings		-23	-22	-26	-33	-35	-35
	b plant and machinery		-8	-7	-15	-31	-34	-30
4	Firms working below capacity[1]		48	49	54	60	68	71
6	Numbers employed	- past 4 months	-23	-25	-26	-32	-51	-52
		- next 4 months	-23	-28	-37	-49	-39	-41
7	Volume of new orders	- past 4 months	+2	-19	-36	-33	-41	-44
		- next 4 months	+4	-8	-22	-35	-8	-15
8	Volume of output	- past 4 months	-2	-8	-20	-19	-43	-36
		- next 4 months	+5	-5	-17	-30	-8	-9
10a	Stocks of raw materials	- past 4 months	-9	-9	-14	-26	-31	-35
		- next 4 months	-18	-17	-27	-34	-24	-24
b	Stocks of work in progress	- past 4 months	-5	-7	-10	-23	-29	-29
		- next 4 months	-17	-15	-27	-32	-21	-26
c	Stocks of finished goods	- past 4 months	-10	-5	-8	-12	-10	-12
		- next 4 months	-13	-16	-21	-25	-20	-26
11	Average unit costs	- past 4 months	+46	+45	+35	+34	+32	+26
		- next 4 months	+40	+30	+46	+44	+21	+15
12a	Average domestic prices	- past 4 months	+36	+22	+14	+9	+8	-2
		- next 4 months	+32	+21	+23	+25	+10	+4
16a	Firms with present capacity at least adequate to meet expected demand[1]		90	88	92	94	96	96
b	Reasons for expected capital expenditure authorisations[1]							
	Expand capacity		34	30	26	21	16	15
	Increase efficiency		71	72	71	69	71	70
	Replacement		46	45	51	55	50	55
	Other		10	6	9	11	11	11
c	Twelve month forecast of factors likely to limit capital expenditure authorisation[1]							
	Inadequate net return		49	44	41	41	40	43
	Internal finance shortage		19	25	19	21	23	24
	Inability to raise external finance		1	2	4	4	3	4
	Cost of finance		23	24	26	26	17	15
	Uncertainty about demand		38	45	49	55	52	56
	Labour shortage		6	4	3	3	3	2
	Other		1	1	3	1	1	2
17	12 month forecast of expenditure authorisations compared with previous 12 months on:							
a	Product and process innovation		+23	+11	+7	-2	-2	-4
b	Training and retraining		+33	+21	+20	+11	+8	+5

	Four month forecast of factors likely to limit output[1]	Apr 90	Jul 90	Oct 90	Jan 91	Apr 91	Jul 91
	Orders or sales	78	78	80	83	85	88
	Skilled labour	13	15	10	6	6	5
	Other labour	2	3	2	1	1	1
	Plant capacity	19	17	15	13	12	7
	Credit or finance	2	3	5	4	3	4
	Materials/components	4	6	5	4	2	4
	Other	3	3	5	2	3	2

Export trade

2	Optimism re export prospects		+14	-1	-25	-26	-8	-7
7b	Volume of new export	- past 4 months	+5	0	-14	-22	-26	-25
	orders	- next 4 months	+10	+5	-10	-14	+1	-2
9b	Volume of export	- past 4 months	+7	+5	-7	-15	-22	-19
	deliveries	- next 4 months	+15	+8	-10	-13	0	-4
12b	Average export prices	- past 4 months	+27	+11	+3	+1	+8	-6
		- next 4 months	+22	+9	+16	+19	+7	+2

15	Four month forecast of factors likely to limit export orders[1]						
	Prices	63	64	63	66	62	56
	Delivery dates	16	13	8	8	8	6
	Credit or finance	6	6	7	7	8	7
	Quota and licence	6	6	3	4	3	3
	Political/economic conditions abroad	24	21	31	34	33	31
	Other	14	13	14	14	14	16

CBI Monthly Trends Enquiry: Time Series of results from July 1990 to July 1991

In the intervening months between the main quarterly Industrial Trends surveys the CBI carries out a much abbreviated monthly Trends Enquiry. In the latter, participants are asked only to answer five questions. These five questions are also included in the main quarterly Survey and the table below sets out the time series of results for the past year.

			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
1a	Total order book	(Q.5a†)	-30	-33	-39	-44	-44	-42	-44	-54	-52	-55	-61	-58	-61
b	Export order book	(Q.5b)	-8	-15	-21	-23	-31	-29	-31	-31	-34	-37	-37	-33	-37
2	Stocks	(Q.5c)	+14	+13	+13	+18	+17	+21	+21	+26	+26	+26	+25	+26	+26
3	Volume of output	(Q.8)	-5	-3	-10	-17	-23	-30	-30	-36	-24	-8	-18	-11	-9
4	Average prices	(Q.12a)	+21	+18	+15	+23	+20	+20	+25	+6	+4	+10	0	0	+4

† Question number in quarterly survey

1 Percentage figures

* The balance is the difference between those replying 'more', 'above normal' or 'more than adequate' and those replying 'less', 'down', 'below normal' or 'less than adequate'.

Department of Employment
Caxton House, Tothill Street, London SW1H 9NF
5802
Telephone 071-273 . . . . . .
Telex 915564 Fax 071-273 5821

Secretary of State

N.S.P.M.
BHP
18/7

Ms Christina Bienkowska
Principal Private Secretary to
Secretary of State for
Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

12th July 1991

Dear Christine

CBI TARGETS

My Secretary of State wrote to yours on 3 July setting out his proposed response to the CBI's targets, which are now to be launched on 25 July.

In the light of the responses he has received from your Secretary of State, and from the Prime Minister's Office and the Secretary of State for Scotland, my Secretary of State has now written to Sir Bryan Nicholson, Chairman of the CBI's Education and Training Affairs Committee, indicating that the Government will be able to support the targets. I am attaching a copy of my Secretary of State's letter and of his foreword to the CBI document in which he indicates the Government's response.

I am copying this letter and attachments to Barry Potter (No 10), Nicholas Holgate (HM Treasury), Jim Gallacher (Scottish Office) and Judith Simpson (Welsh Office).

Yours ever

MW

MARTYN WARING
PRINCIPAL PRIVATE SECRETARY

lms.nicholson

Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 071-273 5803...
Telex 915564 Fax 071-273 5821

Secretary of State

Sir Bryan Nicholson
Chairman and Chief Executive
The Post Office Headquarters
30 St James's Square
London
SW1Y 4PY

11th July 1991

Dear Bryan

TARGETS

Thank you for your letter of 29 May inviting me to be guest of honour at the launch of the targets. I am sure you will understand the reasons for delaying my reply.

I would be delighted to attend the launch, which I understand will now take place on 25 July, and to speak. I am pleased to be able to confirm that I can give the Government's support to the targets, including the further modifications which the CBI has now introduced.

I am happy to associate myself with the targets in the document ... you will issue at the launch. I attach my foreword to the document, to appear alongside yours.

I look forward to what I am sure will be an important occasion on 25 July.

Yours ever
Michael

MICHAEL HOWARD

Employment Department
Health and Safety Executive · ACAS

FOREWORD BY SECRETARY OF STATE FOR EMPLOYMENT

I welcome and support the targets which are published here. They are a clear sign of the growing commitment by employers to raising the skills of their employees and young recruits. The targets are undoubtedly stretching and ambitious, but it is essential that the nation should aim for them.

It is right that those representing employers, and others with responsibility for ensuring high attainment, should set the targets. Many organisations have committed themselves to action to achieve the targets.

The Government is already committed to policies which will support their actions, by:

providing a high standard of education in schools and colleges;

completing the reform of vocational qualifications substantially by the end of 1992;

giving all young school leavers an entitlement to training through the offer of a training credit;

offering independence to FE colleges and sixth form colleges, giving them financial incentives to increase recruitment;

providing for an increase in the numbers of young people taking up higher education opportunities;

setting the standard for employer investment in training - the Investors in People standard.

These actions provide a strong foundation for all concerned in meeting the targets. The major effort now has come from employers.

I am glad that the National Training Task Force has been asked to play an important role in the initiative, and that they are keen to do so. The Government is also asking Training and Enterprise Councils and the local enterprise companies in Scotland to take the lead locally in maintaining the commitment of employers and education to working towards the targets.

The targets will focus the efforts of everyone who is engaged in improving education and training in Britain. They will require a strong and continuing effort from everyone concerned. The Government supports them.

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12/7

Treasury Chambers, Parliament Street SW1P 3AG
071-270 3000
Fax 071-270 5456

The Rt Hon Michael Howard QC MP
Secretary of Sate for Employment
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NF

12 July 1991

Dear Michael

CBI TARGETS

Thank you for sending me a copy of your letter of 3 July to Kenneth Clarke listing the CBI's targets for education and training and indicating how you propose to respond. You also suggested that you and Kenneth should take part in the launch of the CBI targets toward the end of this month.

2. As you know, I have always been concerned that these targets might be used as a lever by Training and Enterprise Councils and others to increase the already considerable expenditure we devote to education and training; and I raised this concern in relation to the White Paper on 16 - 19 year olds in my letter of 2 May to you. Sharing a platform with the CBI and TUC at their launch will inevitably increase that risk. If you and Kenneth Clarke do, nonetheless, wish to attend the launch, it must be on the basis of a clear understanding that the targets are the CBI's own and that there is no financial commitment by Government to their achievement. The targets should therefore not be used or even referred to in support of any claims for public expenditure in Survey discussions in this or in future years.

3. I am copying this letter to the Prime Minister, Kenneth Clarke, Ian lang and David Hunt.

Yours ever

DAVID MELLOR

cc PO

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

n.5.P.M.
RSH
11/7

POLICY - IN CONFIDENCE

The Rt Hon Michael Howard QC MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

11 July 1991

Dear Michael,

CBI TARGETS

I strongly endorse the proposal in your letter of 3 July to Kenneth Clarke that we should support the CBI's targets on education and training, subject to the modifications which you indicate they are minded to accept. The targets offer a useful reinforcement of our focus on the responsibilities of employers and are consistent with our own emphasis on increasing the value for money which we obtain from education and training, through increased stress on the importance of attainment of qualifications. It would give misleading signals about our commitment to increased skill levels within the workforce if we were to hold ourselves aloof from the CBI's proposals.

Scottish Enterprise and Highlands and Islands Enterprise have been approached separately by the CBI for their support for the targets. Scottish Enterprise have sought my advice on their response and I shall encourage them to be positive.

It would be consistent with their separate involvement in this exercise that they should have a part to play in driving and monitoring progress. Consequently, your response to the CBI should include a reference to local enterprise companies alongside that to TECs; and I propose that Scottish Enterprise and Highlands and Islands Enterprise should monitor progress towards the targets within Scotland.

This does not, however, lead me to dissent from your proposal that the NTTF should take the lead in overseeing progress towards the targets at a GB level. I am content for Scottish Enterprise and Highlands and Islands Enterprise to feed Scottish monitoring results into NTTF.

I am copying this letter to the Prime Minister, Kenneth Clarke, David Mellor and David Hunt.

Yours ever,

Ian

IAN LANG

IND'DL : CB 1 pr 5

CCPU

A.S.P.M.

BHP

9/7

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 071-934 9000

The Rt Hon KENNETH CLARKE QC MP

POLICY IN CONFIDENCE

The Rt Hon Michael Howard QC MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

9 JUL 1991

Will request as required

Dear Michael,

CBI TARGETS

Thank you for your letter of 3 July letting me know how you intend to respond to the CBI's targets when they are launched at the end of July. I look forward to joining you for the launch.

2. Your proposed handling of the event seems fine. I understand from my officials that the quantitative targets which the CBI propose to set are very ambitious, and may not be achieved. As you say, I do not see that we have any alternative but to accept them provided that the onus is firmly on employers to bring about progress. Your outline response makes that admirably clear.

3. The draft does not include any reference to the new arrangements for FE colleges in its list of Government policies which will support action by the CBI and employers. I suggest that you include something on the following lines:

> "offering independence to FE colleges and sixth form colleges, and giving them financial incentives to increase recruitment".

4. You also drew my attention to the CBI's request that the National Training Task Force should have the job of monitoring progress against the targets. I am not convinced that all concerned will see the NTTF as an entirely independent body, but I agree that there is no better alternative.

5. I am copying this letter to the Prime Minister, David Mellor, Ian Lang and David Hunt.

Yours ever,

Ken

POLICY IN CONFIDENCE

DES

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cePU

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 July 1991

Dear Martyn,

CBI TARGETS

The Prime Minister has seen a copy of your Secretary of State's letter to the Education Secretary of 3 July, covering a draft statement on the CBI's proposed targets for educational achievement by employees and young people.

Subject to the comments from the Education Secretary and from other copy recipients, the Prime Minister would be content with the statement attached to your Secretary of State's letter.

I am copying this letter to Christina Bienkowska (Department of Education and Science), Nicholas Holgate (Office of the Chief Secretary, HM Treasury), Jim Gallagher (Scottish Office), and Judith Simpson (Welsh Office).

Yours,
Barry

BARRY H. POTTER

Martyn Waring, Esq.,
Department of Employment.

Prime Minister

I believe Mr Howard himself acts doubts about endorsing the CBI targets. But Sir Norman Fowler has already at least half-committed the Government. The wording of the statement carefully avoids endorsing the targets. It also avoids any link with the Citizens Charter rights for ~~the~~ are not public services. Content with proposed draft)

(2)

MR POTTER

5th July 1991

Content

CBI TARGETS

Mr Howard recommends that he and Mr Clarke should associate the Government with the CBI's modified targets for higher attainment by employees and by young people in the labour market, to be published at the end of the month.

RHP 5/7

As they have already indicated their basic willingness to do this, the question is really how enthusiastic we should be.

Mr Howard rightly insists that the responsibility for meeting the targets resides with the employer organisations and not with the Government. However, the CBI's immediate aim to ensure that by 1997 at least 80 per cent of all young people attain NVQ level 2 or its academic equivalent (GCSE) in their foundation education and training might be quite demanding.

The Prime Minister has identified problems and weaknesses in the education system which our policies are intended to correct. But the young people for whom this target is being set are already in the system. As things stand, about 60 per cent of them will achieve this standard and our policies should increase that figure - but how long will they take to have their full impact?

The CBI are underwriting the additional 20 per cent. As Mr Howard says, this is a 'significant addition' to the effects of our policies - but it is demanding. It may create pressure for the vocational qualifications to be watered down a bit, which we would have to resist. Alternatively, failure to hit the target by 1997 would give Labour the

opportunity to claim that compulsory training was the only answer. Our policy of changing attitudes as well as systems would be said to have 'failed'.

Mr Howard has succeeded in getting the CBI to water down its original targets but we should not go overboard about the new ones. The Prime Minister might want to emphasise that, whilst we do cordially welcome the aims and ambitions of the CBI, we recognise the difficulties which they will have in achieving them.

Howell Harris Hughes

HOWELL HARRIS HUGHES

37.hhh

POLICY IN CONFIDENCE

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Secretary of State

Thr Rt Hon Kenneth Clarke QC MP
Secretary of State for
Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

21 July 1991

Dear Ken

CBI TARGETS

The CBI are approaching the end of their exercise to set targets for higher attainment by employees and by young people within the labour market. They have completed a series of discussions with the major interests in education and training outside Government to agree the targets themselves and action to carry them forward. The CBI intend to launch the targets at the end of July, and they are looking for Government support for the targets to be announced at their launch event, to which you and I have been invited.

I attach a list of the proposed targets. The CBI are considering modifying the first two targets which my officials have pointed out to them are unrealistic. The first is pitched too high and the second proposes an entitlement for all young people which would be irrelevant and inappropriate to many of them. There are good grounds for believing that the CBI will modify them if assured of our support.

I have insisted throughout this exercise that the targets should be closely related to relevant responsibility. This condition has been met: the targets have been set by the main employer interests, with support from organisations representing education and training, who have committed themselves to action to meet the targets. The targets should, with a strong commitment to action by those interests, add significantly to the effects of our policies to raise attainment through education and training.

POLICY IN CONFIDENCE

Secretary of State
for Employment

I am therefore firmly of the view that we should associate ourselves with the modified targets when they are launched. By taking a positive position on the targets, we will be well placed to insist that those organisations which are committed to action make the required effort. If we do not offer our support to the targets, their potential benefit will be significantly weakened. We will also be put in a false position politically, as the targets will certainly be endorsed by our political opponents. The Labour Party has already endorsed specific targets in this area.

The targets approach is fully in line with the Citizens Charter in setting public standards for performance, and, indeed, these targets of course go well beyond the responsibility of the Government and the public sector. We have already acknowledged in other areas, such as health, the strengths of the target-setting approach.

I propose therefore that we should attend the launch, and welcome the targets. I attach an outline of what I would say. We should make clear that Government is already committed to policies which will make a substantial impact, and that the major extra effort must be by employers.

We have an interest in ensuring that whoever monitors progress towards the targets should be responsible and impartial, but not a governmental organisation. The CBI have asked that the National Training Task Force, which I appoint, should take on the role of monitoring progress against the targets, while making it clear that the Task force is acting independently of Government in doing so. I intend to say that I have no objection to the Task Force's taking on this role with the CBI, which they are keen to do. The Training and Enterprise Councils will be playing a similar role at local level in monitoring and stimulating action towards the targets.

I very much hope you will agree my proposal, which will help us in the political debate on education and training which we can expect over the coming months. I should be glad to hear by Monday 8 July, so that I can indicate our position to the CBI in good time.

I am copying this to the Prime Minister, David Mellor, Ian Lang and David Hunt.

Yours ever
Michael

MICHAEL HOWARD

CBI TARGETS

Foundation Learning

- Immediate moves to ensure that by 1997 at least 85% of all young people attain NVQ/SVQ level II or its academic equivalent in their foundation education and training.

(The CBI propose to modify the target from 85% to 80%)

- All young people should be given an entitlement to structured training, work experience or education leading to NVQ/SVQ level III or its academic equivalent.

(The CBI propose to make clear in describing the target that the entitlement will be to an "opportunity for those who can benefit to proceed to NVQ level III".)

- By the year 2000, at least half of the age group should attain NVQ/SVQ level III or its academic equivalent, as a basis for further progression.

- All education and training provision should be structured and designed to develop self-reliance, flexibility and broad competence as well as specific skills.

Lifetime Learning

- By 1996, all employees should take part in training or developmental activities as the norm.

- By 1996, at least half of the employed workforce should be aiming for qualifications or units towards them within the NVQ/SVQ framework, preferably in the context of individual action plans and with support from employers.

- By the year 2000, 50% of the employed workforce should be qualified to NVQ/SVQ level III or its academic equivalent as a minimum.

- By 1996, at least half of the medium sized and larger organisations should qualify as 'Investors in People', assessed by the relevant Training and Enterprise Council or Local Enterprise Company.

bs010701

DRAFT RESPONSE TO CBI

The Government welcomes and supports the targets which the CBI published today. They are a clear sign of the growing commitment by employers to raising the skills of their employees and young recruits. The targets are undoubtedly stretching and ambitious, but it is essential that the nation should aim for them.

It is right that those representing employers, and others with responsibility for ensuring high attainment, should set the targets. Many organisations have committed themselves to action to achieve the targets.

The Government is already committed to policies which will support what the CBI and others are proposing, by:

providing a high standard of education in schools and colleges;

providing for an increase in the numbers of young people taking up higher education opportunities;

completing the reform of vocational qualifications substantially by the end of 1992;

giving all young school leavers an entitlement to training through the offer of a training credit. We aim to do so within the lifetime of the next Parliament. There is already a guarantee of training for young school leavers not in jobs or full time education;

setting the standard for employer investment in training the Investors in People standard.

These actions provide a strong foundation for all concerned in meeting the CBI's targets. The major effort now has to be by employers, who are committing themselves with these targets to eliminate non-training employment for young people, to provide more opportunities in young people to train to higher levels, and to extend greatly the opportunities for employees to train and qualify.

The CBI has asked the National Training Task Force to take the lead in overseeing progress towards the targets. I am glad that the Task force have agreed to do so, working closely with the CBI, and others who have committed themselves to the targets.

The Government is also asking Training and Enterprise Councils to take the lead locally in maintaining the commitment of employers and education to working towards the targets.

The targets will focus the efforts of everyone who is engaged in improving education and training in Britain. They will require a strong and continuing effort from everyone concerned. The Government supports them.

SUBJECT to MAJOR

CONFIDENTIAL

CC MMT

NOTE OF THE PRIME MINISTER'S MEETING WITH CBI REPRESENTATIVES

Sir Brian Corby and Mr. John Banham discussed the CBI strategy document with the Prime Minister this morning. The meeting was also attended by Sarah Hogg (Policy Unit).

The following were the main points made at the meeting.

(i) New opportunities were opening up in Eastern Europe for British investment. It would be important for the DTI to send trade missions to countries like Czechoslovakia, Hungary, Poland etc. Traditional links with Poland were strong; and it was clear they would welcome British investment.

(ii) It would take some time however before the East European economies could achieve the structural change and development necessary to enable satisfactory membership of the European Community. More immediately some of the EFTA countries, particularly the Nordic countries, might join. That too would open up opportunities for British business.

(iii) The UNICE group of employer federations had become increasingly powerful. They could play an important role in discouraging the European Community from proceeding with the Social Charter. The Prime Minister said that he would welcome the opportunity to meet Snr. Carlos Ferrer, the President of UNICE. He would also be happy to arrange for him to talk to DTI, Treasury and Employment Ministers. It might be appropriate for a CBI representative to accompany Snr. Ferrer to such meetings.

(iv) The Prime Minister's line on Europe was helping to break down the Paris/Bonn axis. That had to be helpful: Britain's economic future lay in Europe and in making a success of the ERM.

(v) The CBI were pursuing a broadly helpful line on the economy. It was of paramount importance to achieve low inflation as the only sound basis for sustainable growth. It was all too easy to talk the economy into a state of gloom and doom. Whatever the recent problems, the achievements over the last decade had been enormous. Indeed arguably the UK manufacturing base was now in better shape than in any other country in Europe, except possibly Germany.

(vi) The Chancellor had recently talked of other measures of underlying inflation than the RPI. Whatever the deficiencies of the RPI, it was not helpful to highlight these at this time. In order to help drive down wage settlements, it was important to keep the headline RPI very much as the focus of attention. Lower wage settlements were an absolute requirement under membership of the ERM. A minimum wage policy, as advocated by the Opposition, would be disastrous for employment. The current experience of East Germany demonstrated the practical outcome of legislating for a minimum wage.

(vii) The outcome of the most recent quarterly CBI survey would appear on Monday. It would be the first post-Budget survey and the first after the last two interest rate reductions. There was encouraging news: the optimism balance was the best for two years and, though still negative, showed a huge improvement on the previous quarterly survey. The survey also suggested that the rate of fall in output was now declining, while the expected price increases for April were at their lowest level since the late 1960s.

Summing up, the CBI representatives said that it was important not to mislead the Prime Minister. There was concern about the state of the economy; and any signals the Government felt able to give that it sympathised with the problems of industry and was acting to relieve them would be welcome.

But the CBI membership was now fully aware of the over-riding importance of getting inflation down and keeping it down. Only as that was achieved would it be possible to provide for the investment in training, research and the environment which was necessary to take the economy forward into the next century. There were some specific initiatives to help business which the CBI would wish to pursue with the Government at some subsequent stage.

In reply, the Prime Minister said that he acknowledged conditions had been rough for business for some time now. The economy was still flat but the confidence indicators did suggest that prospects were broadly in line with the existing forecast of a recovery in the second half of the year. The greatest danger was of people talking the economy down and of political uncertainty hitting the pound. It was vital that both were avoided. Everything the CBI could do in that context would be very much appreciated.

BHP

BARRY H. POTTER
26 April 1991
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chex.jp/kg/42

Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

25 April 1991

Barry Potter Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Dear Barry

PRIME MINISTER'S MEETING WITH THE CBI

You asked Sheila James earlier today for some briefing for the Prime Minister's meeting tomorrow with Sir Brian Corby and John Banham. I attach:

(i) a one page brief on NICs on cars and Barber;

(ii) a background note on Barber;

(iii) a note on what the Chancellor said to motor manufacturers at his meeting yesterday about, inter alia, NICs on cars (and contrary to what was reported in the press this morning);

(iv) a brief on last Monday's CBI Survey.

Yours

Kate

MISS K GASELTINE
Assistant Private Secretary

wpu.ic.m292

PRIME MINISTER'S MEETING WITH THE CBI

LINES TO TAKE

NICs ON CARS

"New charge not payable until 1992/1993. Chancellor will take account of this in framing his 1992 Budget".

BARBER JUDGEMENT

"Appreciate your concerns over the ambiguities of Barber and its potentially huge economic and financial implications. We have just announced Government support of the Coloroll case in order to seek clarification of the ECJ's judgement".

BACKGROUND

NICs on CARS

1. The Chancellor announced in his Budget speech that employers' NICs on company cars would be introduced for 1991/1992, although not payable until 1992/1993 (revenue £550 million per annum). This reduces an anomaly in the NICs system whereby it is cheaper for employers to pay their employees in kind rather than in cash.

2. In his recent meting with representatives of the motor industry, the Chancellor agreed to take account of the new NICs charge when framing his 1992 Budget.

BARBER

1. Pressure has been mounting from employers and the pensions industry for the Government to seek clarification of the Barber judgement and to issue a statement of its policy intentions in this area.

2. The Government has announced (24 April) its support for the Coloroll case which it believes offers a suitable opportunity for obtaining clarification from the European Court of Justice. But it would be premature to refer to any possible Government policy statement on Barber since Ministers are still considering this.

BARBER: BACKGROUND NOTE

1. The European Court of Justice (ECJ) judgement of 17 May 1990 interpreted Article 119 of the Treaty of Rome to mean that occupational pensions are equivalent to pay and must therefore treat men and women equally. As a Treaty obligation, the judgement has direct effect. It cannot be overridden by domestic UK legislation, nor by an EC directive. There is no ready means of clarifying it quickly. The state pension scheme is not directly affected, though public service occupational pension schemes are.

2. The Barber judgement is unclear as to:

(i) how much, if any, retrospection is required, ie how far pensions paid on past service contributions need be equalised;

(ii)whether it is necessary to improve (level up) benefits.

3. The pensions industry is in some disarray and is seeking guidance from the government.

4. The Law Officers have advised that the only completely safe interpretation of Barber would be to accept the most expensive versions of both (i) and (ii). However it is proper to argue against retrospection, and in the context of particular schemes (though not generally) against levelling up too.

5. The minimum defensible interpretation of Barber is equal treatment for pensions derived from service after the date of the judgement only, usually abbreviated to future service, or interpretation 3 (from a list of 6 put to the Commission by DSS). The worst seriously possible is full retrospection with automatic levelling up, interpretation 5 in the DSS list. Implementing Barber will impose heavy costs on employers (£bn):

	annual	capital
interpretation 3 (future service)	2	25-30
interpretation 4 (partial retrospection)	5	60-65
interpretation 5 (full retrospection)	6	75-80

6. Such huge annual costs far exceed the typical effect of a budget or other discretionary government measure affecting business. They would have damaging consequences for labour costs, prices, output, unemployment and competitiveness. The UK is more affected than other member states because more employees are covered by occupational pension schemes here.

7. The recommended government position is therefore to favour equal treatment for future service only. But if the ECJ eventually decides that Barber requires retrospection, there is some risk that the government could be challenged:

-for infraction of Treaty obligations by not enforcing compliance; and/or

-for damages on grounds of misfeasance, where pension schemes and/or employers had relied on Government guidance.

8. Legislation to implement the future service interpretation will need to include:

(i) equalising the regulations for occupational pension schemes to contract out of the state scheme, and in particular the guaranteed minimum pensions (GMPs) they must provide as substitutes for state scheme earnings related benefits (SERPS). This will help preserve the substantial privatisation of pension provision so far achieved;

(ii)revising the approval processes of the Occupational Pensions Board (OPB) and the Superannuation Funds Office (SFO) to avoid government approval of unequal treatment.

CBI Quotes

'Prospects for industry were bad and getting worse'.

John Banham Guardian 25.4.91

'The situation is bad and is getting worse but it is not getting worse as rapidly as before'.

John Banham Independent

'Interest rates have been too high for too long, overkilling and driving out capacity and investment, leaving businesses all the more vulnerable to the next inflationary upsurge. An earlier and rather more marked relaxation of interest rate policy need not have jeopardised counter-inflationary objectives. By contrast, it would have helped to maintain investment and so reduce tomorrow's inflationary bottlenecks'

'We must recognise the major opportunities that lie within Europe. We have lost out by not linking ourselves earlier to the ERM. The CBI argued this first in 1985 and, with hindsight, this timing would have been sensible. Discussions are now going on to replace ERM with EMU. We should not miss the boat again. This reinforces the need to get inflation and interest rates down to the levels of our main competitors'.

Sir Brian Corby - President CBI 11.4.91

'Too much damage has been self-induced ... ERM entry too late and at an uncomfortably high level'

John Banham December CBI monthly magazine

POSSIBLE POST-CBI LINE FOR GUS TO TAKE

Sir Brian Corby and Mr John Banham presented the Prime Minister with the CBI's Business Strategy for the 1990s, and discussed the opportunities for British business in Europe. The PM welcomed their view that enterprise was reborn in Britain in the 1980s, their support for ERM membership and their emphasis on winning the battle against inflation in the 1990s as the "essential prerequisite" for sustained investment.

Possible add if needed: (The CBI welcomed the five cuts in interest rates since Britain joined the ERM and hoped further cuts would follow as inflation came down. The PM said inflation would fall sharply over the coming months and interest rates would be cut when it was prudent to do so.)

Or: (The CBI told the Prime Minister there were signs the recession was over the worst and wage increases were slowing down, and urged wage restraint in the public sector too.) Tricky.

381.SH

(1)

PRIME MINISTER

CALL FROM CBI LEADERS

John Banham and Sir Brian Corby are coming to see you tomorrow at 9.00 am. The meeting has been set up by Sarah Hogg.

The CBI's alleged purpose is to present their strategy to you. I attach notes from Policy Unit on the strategy itself; on the issues which Sarah believes they will raise; and on some recent CBI quotas.

BHP

BARRY H. POTTER
25 April 1991
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SECRET AND PERSONAL

PRIME MINISTER

25 April 1991

THE CBI

Sir Brian Corby and John Banham are calling to see you at 9am on Friday. Their purpose is to present you with their Business Agenda for the 1990s: Competing in the New Europe. You were keen to allow them a courtesy call on the grounds that the CBI had been helpfully friendly. Human nature being what it is, John Banham has promptly started to make unhelpful noises - on which, however, he insists he was misreported.

This is intended to be an entirely unpublicised meeting. John Banham swears no-one else in the CBI knows he and Bryan Corby are coming. However, I don't trust the meeting not to leak, and have discussed with Gus a possible "line" for use, if necessary, afterwards.

I attach:

- A pre-publication copy of the report (the final version is no different from this draft);

- More usefully, Howell's summary and commentary on the report.

- A summary of the CBI Industrial Trends Survey due next Tuesday.

- Some correspondence Stephen has been dealing with from Bryan Corby, urging you to see the President of the European Employers' Federation, UNICE.

- - A possible "line" for Gus.

You will want to focus on the long-term Business Agenda report, rather than let John Banham witter on about the present economic situation. As you will see from Howell's note, the theme of the report is, by and large, strongly supportive of government policy. It spells out the achievements of the 1980s - John Banham has been rather good at doing this in speeches, too. It says enterprise was "reborn" and that we must never go back to the corporatism of the 1970s. It emphasises the importance of the battle against inflation - stable prices are the "essential prerequisite" for sustained investment. John Banham has taken the same line in radio interviews on the document. However, there is some nagging on public expenditure (which won't stop Banham pleading for more on his pet themes, if you give him the chance); a bleat about manufacturing; and a plea for the Bank of England to be given greater independence.

On Britain's role in Europe, Banham will make generally helpful (if somewhat random) remarks. He was delighted with your Bonn speech, and will want to tell you how well it went down in Germany. It would be good to discuss the CBI's role in UNICE; he prides himself on having turned it into a helpful ally against the worst follies of the EC programme of legislation to implement the Social Charter. Somewhat belatedly, the CBI has indeed been stirring UNICE up, and doing quite well on the Social Charter battlefront, where Michael Howard is going to need all the help he can get.

Stephen suggests you should say you would be happy to see the President of UNICE (Senor Ferrer) and that we will try to find time before the June European Council. The Department of Employment recommends in favour.

John Banham will no doubt try to slip back on to the present situation. You might like to thank him (!) for his firm support for counter-inflationary policy and ERM membership. He insisted to me today that he is "absolutely determined" to be positive and supportive and to help the government through a difficult time. However, "things are bad" out there in the marketplace. I got the clear impression he had been rattled by disgruntled noises about past government errors from the big industrial beasts in his jungle. And he is not, as you know, a man of very strong nerve.

He is all over the place on when he expects the economy to pick up, though assured me he did not mean to disagree with the Chancellor, and hastily agreed on the danger of talking the economy down. If you are drawn on to this ground, you might like to point to the dangers of gloomy talk: its impact on the exchange rate and hence on the prospect for interest rate cuts.

Banham was quoted in Thursday's FT as saying the economy was "bad and getting worse"; the FT pointed out this was noticeably less optimistic than last month, when he said the economy appeared to have "ticked up noticeably". I suspect this happened because he got stick for that earlier piece of over-optimism; the figures do not reflect accelerating gloom. Certainly, his own survey shows a dramatic improvement in business optimism, with a reduction in the balance of net gloom from minus 51 per cent of respondents in January to minus 17 per cent in April. Admittedly, this is still negative, but a lower figure than we have seen since 1989.

You might like to inquire about the survey; strictly speaking, we haven't got the figures yet, though he knows we have some idea. He assured me he was planning to put a very positive gloss on them.

He has a little shopping list (of things which he argues would show the economy "was under new management"). You will not want to allow him to deliver this list: something (ie, off car tax) for the motoring industry, a generous ECGD settlement, lower electricity prices for big users, an early order for the Vickers tank, getting industry's paws on the "peace dividend" (ha! ha!), a softening of the impact of the UBR. Some obvious contradictions there, but not stuff you will want to get into, anyway. There are also the usual grumblings about the DTI in general and ministers in particular, which I do not think he will have the gall to express to you.

In general, you might wish to use the occasion to steady CBI nerve and bring out their supportive side.

Sarah

SARAH HOGG

380.SH

SARAH HOGG 24 APRIL 1991

COMPETING IN THE NEW EUROPE

JOHN BANHAM'S PRESENTATION TO THE PRIME MINISTER, FRIDAY, 26 APRIL

The thrust of this report strongly supports what the Government has achieved since 1979 and nearly all the proposals are in line with what we are doing or planning.

The report says that "Britain is incomparably better placed to meet the competitive challenges from the new Europe and Far East than was true when The Will to Win was published in March 1981". The President's Foreword spells out the achievements of the 1980s in manufacturing output, exports, industrial relations, growth of smaller firms and incorporate profitability. It says that "in the 1980s, enterprise was reborn in Britain and many self-imposed handicaps removed".

The report admits that CBI thought in corporatist terms when it published the 'Will to Win' in 1981, admits the error of its ways and says that we must never go back to that.

But it goes on to argue that the 1990s could well be the European decade and that Britain will only be able to prosper in the new Europe if:

(a) it wins the battle of inflation;

(b) it bridges the investment gap in equipment and innovation, in skills, in the transport infrastructure and the environment;

(c) it changes its national attitude to manufacturing.

I summarise the arguments. The more contentious ones are underlined.

(a) **Winning the battle with inflation**

Stable prices are the "essential prerequisite" for sustained investment. But business bears the brunt of failure to squeeze inflation out of the economy, not least because of interest rates. The report wants fiscal policy to be used "more actively" to complement monetary policy. Complains that there has been a reduction in tax burdens since 1987/88 while the underlying level of public expenditure has been increasing. Says public expenditure must be managed so that it takes a declining share of national resources; points out that there have not been any real reductions in public expenditure for the last decade.

CBI wants the taxation system to move gradually towards one based largely on expenditure or consumption and away from the taxation of savings. Wants mortgage tax relief to be phased out. Supports incentives for direct share ownership and for people to invest in their own businsses by allowing owner-managers to benefit from the business expansion scheme.

Wants the UK to adopt the discipline of the narrow bands of the ERM as soon as possible and says that the Bank of England needs to be given a greater degree of independence. Supports full UK participation in moves to create single currency for Europe and says measures should be taken to enhance the use of ECU. Says that a single European monetary policy does not imply loss of national control over economic policy- "countries will probably need greater flexibility in fiscal policy".

Report wants to increase the performance incentive element in public sector pay. Generally, supports decentralisation of pay bargaining in the private and public sectors.

Strong support for the single market, for free trade within GATT, for privatisation, for the existing framework of industrial relations law.

Strong opposition to increases in marginal tax rates and to EC intervention in matters concerning employees' rights.

(b) **Bridging the investment gap**

The report identifies certain "handicaps to the competitiveness of British business";

(a) they say that corporation tax must be reduced further because it represents 4.1% of GDP in the UK against the EC average of 3%. But they do not want special allowances for particular types of investment;

(b) they want a level playing field in respect of mergers and acquisitions rules within Europe; [AGREED, BUT THEIR MEMBERS THINK OUR RULES ARE TOO LIBERAL!]

(c) they want the development of UK access to the continental energy supply grids because big users pay too much in the UK;

(d) they want UK regulations on things like lorry weights to be brought in line with those in Europe ie relaxed.

The report calls for direct exchequer funding of primary and secondary education in full, [POINTLESS IN ITSELF, BUT A POSSIBLE OUTCOME OF GM SCHOOLS ETC] a new structure for a better paid teaching profession, improved teacher-training and a big increase in investment in technology for use in schools.

On training, the report welcomes what the Government has been doing but wants training credits for 16-19 year olds to become available nationally as soon as possible. It strongly opposes statutory intervention in private sector training. It supports the concept of "lifetime learning" to enhance the skills of all members of the current workforce as well as the new entries and the unemployed. Supports the idea of the business-led TEC as the coordinator of all the public and

private efforts to regenerate the local economy.

On transport, the CBI want a reform of the planning system, early experiments in road pricing and a strategic transport plan for the whole of the United Kingdom because we have "the worst transport infrastructure in northern Europe, still pointing to yesterday's trade routes".

On environment, the main message is that we should do a proper cost benefit analysis of regulations.

(c) **Changing national attitudes to manufacturing**

The CBI want the DTI to assume responsibility for a reconstituted NEDO to rationalise the channels of communication between industry and government.

The report strongly supports competitive tendering and wants to find better ways for private capital to participate in major public development and infrastructure proposals.

Looking inwards, the CBI report wants companies to improve their relations with share-holders because that, together with lower inflation and a level playing field on European take-over rules, would tackle 'short termism'. Beyond that, the CBI plans to set up a national manufacturers council to focus on the specific problems which manufacturers have.

H.H.H.

HOWELL HARRIS HUGHES

COMPETING IN THE NEW EUROPE

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FINAL DRAFT

February 26th, 1991

COMPETING IN THE NEW EUROPE

A Business Agenda for the 1990s

President's Foreword

1 Almost exactly ten years ago, and in somewhat similar circumstances, the CBI published a Business Agenda for the 1980s, The Will to Win (1). This set out some seventy specific recommendations for action by business, trade unions and Government to reverse the long-run comparative decline in the fortunes of the British economy.

2 With a General Election due within the next eighteen months, and against the background of a sharp setback in business confidence since the summer of 1990 - with firms concerned to conserve cash, unemployment rising and fixed investment falling - the CBI considers it timely to set out the Business Agenda for the 1990s. This should be read in conjunction with the Agenda Europe (2), published in December 1990.

3 But before looking forward, it is as well to look back over the past decade as a whole, beyond the temporary difficulties which have reduced business confidence to a ten-year low. For there are substantial grounds for optimism about the medium term prospects, provided that business is able to build on its past success. As a result, in large measure, of implementing the recommendations in The Will to Win during the 1980s, there was a remarkable transformation in the critical manufacturing sector in particular as Exhibit 1 shows.

- manufacturing output rose to new record heights; in the last quarter of 1990 it stood almost 40% higher than in the first quarter of 1981. The economy is doing particularly well in high-technology markets, like aerospace, information technology, pharmaceuticals and telecommunications.

- exports did especially well, growing a third faster than world trade over the last three years. In 1990, as a whole, export volumes will be over fifty per cent above the 1980 level; indeed, the United Kingdom exports more per capita than Japan.

- there been a transformation in the industrial relations climate. By 1990, fewer than forty minutes per employee were lost to industrial action in the private sector. Surveys among employees consistently show high levels of job satisfaction and commitment, reflecting continuous investment by employers in communication and employee involvement.

- there was an explosion in the number of smaller firms, and employment increased steadily. While productivity has been transformed; in the manufacturing sector output per employee grew by around 5% a year during the decade. Even the current underlying growth rate of some 4% is well above the UK average for the 1970s, and the current OECD average.

- as a result, by 1988 real profitability had recovered to over 10%, still well short of international levels, but far better than the 2% achieved in the early 1980's for non-oil companies. A recent study indicates that 28 of the 50 most efficient businesses in Europe are British.

- the recovery in profitability led to a surge of much needed investment at home - not just in plant and equipment, but in innovation and skills. There was also a massive increase in UK investment overseas, principally in North America and the Pacific Rim and more recently in Western Europe. The United Kingdom is the largest overseas investor in the world after Japan, with a portfolio worth, conservatively, some £200 billion. It has been estimated that the annual growth in the value of UK investments overseas - which is not recorded in the National Accounts - comfortably exceeds the balance of payments deficit.

4 These achievements have in turn led to a much improved standard of living for the vast majority of the UK population. OECD figures show that in 1989 private consumption per capita was higher than any other EC country except Luxembourg and grew faster over the last decade here than anywhere else. Expenditure trends on housing, consumer durables and holidays bear this out (although, of course, this has been partly at the cost of low personal savings).

5 In short, British business has not only shown <u>The Will to Win</u>, but the ability to do so in some of the toughest markets there are. And because business has demonstrated what can be

done - and the benefits of applying proven good management practice more widely - there is both the need and the opportunity to look beyond the current problems. If the 1950s and 60s were the American decades, and the 1970s and 80s the decades of Japan and South-East Asia, then the 1990s could well be the European decade. Completion of the internal market, the opening of the Channel Tunnel and the shift towards market economies in Eastern Europe and the Soviet Union will present both new competitive challenges and major business opportunities for the United Kingdom.

6 In such circumstances, a narrow preoccupation with domestic politics and economics will be particularly expensive. Rather, during the 1990s the foundations must be laid for Britain to be able to compete successfully in the New Europe. This is a task not just for business but for the Nation - which is why this is a Business Agenda for the 1990s, not an agenda for business or an exercise in special pleading.

7 Indeed, in contrast to the situation a decade ago, the problems facing our economy do not lie primarily with a fundamentally non-competitive supply side. British business has shown that it can compete. To take one example, it would been unthinkable that British car factories would be producing cars of comparable if not demonstrably superior quality to their German and French competitors, even five years ago. Rather, the attitudes bred over the long decades of relative economic decline, remain embedded in too many of our national institutions. These are the root cause of the present economic difficulties. So this Agenda focuses on three steps needed to change those national attitudes that will prevent British Business from competing successfully in the New Europe.

8 First, it will be vital to complete the unfinished Agenda, by winning the battle with inflation. This in turn requires: containing consumer demand growth while business investment rises, rebuilding personal savings, providing independent support for counter-inflationary disciplines, and changing the Nation's inflationary psychology - as well as holding on to the ground that was won in the 1980s. Chapter One suggests how these requirements can be met.

9 Second, it will be necessary to bridge the investment gap in equipment and innovation, in skills, in the transport infrastructure and the environment. Chapter Two shows how these requirements can be met:

- the national overhead burden, in terms of taxation, utilities prices and interest rates, as well as inflation, must be no higher than that of France and Germany if UK-based businesses are to be profitable enough to invest in plant, equipment, skills and innovation on the scale required.

- Britain must have the best education system in Europe, if not the world. Many of the building blocks are now in place; the new decade must see their potential realised.

- the Skills Revolution that has been launched must be carried through to a successful conclusion.

- the Nation's economic geography needs to be re-written so that business is able to overcome the disadvantage of competing from the edge of a Community whose centre of gravity is moving steadily Eastwards.

- the Green Revolution will need to be managed to produce worthwhile environmental improvements without compromising the ability of businesses based in Britain to compete Internationally.

10 Finally, national attitudes to manufacturing need to change. While manufacturing has always mattered, a strong manufacturing base will be especially important in the 1990s. Without it, it will not be possible to withstand the increased competition at a time when the invisible surplus is likely to remain under increasing pressure. While there is a healthy scepticism about the ability of any UK Government to replicate the industrial planning machinery that exists in Japan and France, the DTI needs to be strengthened. The 1990s should see substantial progress towards better management in Whitehall. At the same time, corporate governance needs to be improved. More effective ways must be found to spread good management practice - so that the average performer comes closer to the level of the world-class best of British manufacturing. And there must be a more powerful and less fragmented, manufacturing 'voice'. Chapter Three indicates the steps required in each of these areas.

* * *

As with the Will to Win, this Agenda requires action by all those with a stake in the ability of British business to compete in the New Europe: shareholders, managers, employees, suppliers, customers, central and local government. The present difficulties facing the economy show what happens when communications between those who are responsible for creating the national wealth and those who consume it are less then fully effective. While the success of many businesses over the last decade shows what can be achieved when all the stakeholders work together towards common goals.

1 - WINNING THE BATTLE WITH INFLATION

11 The major disappointment of the 1980s has been the failure to win the battle with inflation. It has consistently been higher in the UK than in our principal EC competitors; and higher inflation means non-competitive interest rates. The cost to business of differential inflation is massive - of the order of £5 billion a year for every point, as Exhibit 2 shows. (Total retained earnings in all UK commercial and industrial companies in 1989, an excellent year for British business, amounted to only £17 billion). Put another way, every point of inflation adds of the order of 25% to retained earnings in a good year.

12 But, although the Government (as well as the CBI) constantly state that "inflation is public enemy number one", most people simply do not behave as though they believe it. It is not difficult to see why. Between 1980 and 1988, householders saw average house prices double in real terms, while in France and West Germany they fell (by 22% and 42% respectively). Earnings have consistently outpaced the RPI as well, and by rather more in the 1980s than in the high inflation 1970s.

13 Government appears to benefit from inflation as well. Tax revenues from the corporate sector inflate as depreciation allowances are calculated in money terms; and Corporate Tax liabilities are not adjusted for stock appreciation. So the effective Corporation Tax rate is some three points higher at 8% inflation than at 4%; a reduction of £2.4 billion in the amount available to business to invest in training, plant and innovation.

14 In short, it is business (and therefore the wealth creation process) that bears the brunt of the National failure to squeeze inflation out of the economy. And this exposure has been increased by UK membership of the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) which eliminates the possibility of regular devaluation of sterling - realignment is the preferred euphemism - to maintain our international competitiveness. The impact of costs in the UK rising 5% faster than in West Germany - roughly the current differential in the increase in unit labour costs - would be to eliminate a 10% margin on sales in 2 years, and to turn it into a 10% loss in 4. The immediate consequences are felt particularly in the sectors of the economy most exposed to international competition - the very manufacturing base on which we depend for tackling the underlying causes of inflation and the balance of payments deficit.

15 Though it may not always be apparent in the short-term, inflation is extremely damaging to our economic prospects. It distorts values and increases uncertainty, resulting in inefficiency and missed investment opportunities. Externally, it threatens competitiveness. Moreover, experience has shown that if moderate inflationary pressures are not checked, they continue to build up. Stable prices are therefore an essential prerequisite for sustained investment, which is the key to competing with New Europe. Winning the battle with inflation will require a package of measures:

(i) consumer demand growth must be contained, while business investment increases to bridge the gap with our principal EC competitors.

(ii) personal savings must be re-built, both to contain demand growth and finance the necessary investments.

(iii) the national commitment to lower inflation needs to be underscored by accepting the discipline of ERM membership within the narrow band and a more independent role for the Bank of England.

(iv) the inflationary psychology which perpetuates inflation must be changed. In particular, pay must reflect performance throughout the economy, in the public as well as private sectors and at all levels.

(v) the counter-inflationary progress of the last decade must be maintained; there must be no return to the cycle of inflation and devaluation which characterised the decades of Britain's relative industrial decline.

CONTAINING DEMAND GROWTH

16 High inflation causes high nominal interest rates, as Exhibit 3 indicates. To reduce inflation, there is no alternative to keeping a tight grip on consumer demand growth. This has been the objective of high interest rates in the UK since mid-1988. But as a CBI report in 1990 (3) pointed out, monetary policy is not the only instrument available to the Government to influence demand. Indeed, if excessive reliance is put upon monetary policy, much needed investment will be postponed and the growth of smaller firms, the entrepreneurial base of the economy, will be stunted. Monetary and fiscal policy need to work in the same direction, and in a more balanced way.

17 The principal alternative to interest rates to regulate domestic demand is through the use of fiscal policy changes to taxes or Government expenditure programmes. There are three particular reasons why more active use of fiscal policy should be considered in the early 1990s:

- it would demonstrate very clearly the Government's commitment to low inflation, putting this priority ahead of expenditure programmes and personal tax cuts.

- within the Exchange Rate Mechanism more active use of fiscal policy will be needed in any case, as interest rates will need to be set to maintain sterling within its agreed bands in the ERM.

- there has been an easing of fiscal policy in the time that inflationary pressures have been evident. There has been a reduction in the tax burden since 1987/88, while the underlying level of public expenditure (excluding privatisation proceeds, unemployment benefits and debt interest) has been increasing as a share of GDP since 1988/89.

18 Over the medium-term, if fiscal policy is to support the fight against inflation, public expenditure must be managed so that it takes a declining share of national resources. During the 1980's the rise in public expenditure's share of GDP was checked. But it is not widely recognised that, as Exhibit 4 shows, there have not been any real reductions in public expenditure in the last decade, (and quite probably no notable gains in productivity in the public service overall). In addition, though reductions in personal tax rates are desirable over the longer term, these should not be achieved by taking risks with inflation. Nor should taxes on personal consumption be lowered at the expense of business competitiveness and investment.

19 In any event, so long as the Government influences the economy so directly it will be essential that the quality of statistical information available to Ministers is much improved. It is now widely accepted that one reason for the serious economic policy mistakes in early 1988, which led to the current difficulties, was the misleading information on consumer demand and manufacturing output presented by the official statistics (but not by CBI survey information at the time, incidentally).

REBUILDING PERSONAL SAVINGS

20 Rediscovering the savings habit during the 1990s will also be essential, not only to curbing consumer demand growth but also to financing investment on the scale required to bridge the gap with our major competitors. Despite the recovery from the low point in 1988, net personal savings in the UK are still 3 percentage points of GDP lower than in France and West Germany - a difference amounting to some £13 billion a year that is spent in the UK rather than saved.

21 Housing is particularly important. In the 1980's, housing was the major savings medium for most households. It has been estimated that the equity in the nation's housing stock is worth over £700 billion, net of mortgage debt. By contrast, the total valuation of UK commercial and industrial companies on the London Stock Market amounts to around £500 billion. In almost any year during the 1980's, the capital appreciation in housing exceeded corporate profits. Largely as a result, inheritance is set to increase by some £10 billion (at 1985 prices) over the next fifteen years, to £16.5 billion by 2005, as Exhibit 5 indicates. Some of these funds must be put to a more productive use. The 1990s must not see a resurgence of house-price inflation; speculation in property is no substitute for investment in the equipment, skills, innovation and infrastructure that will be necessary to compete in the New Europe.

22 The CBI has long considered that the balance of taxation should shift towards the taxation of consumption/expenditure, and away from the taxation of savings and the creation of wealth. In fact, since the 1970s the tax burden has shifted in the desired direction, with rises in VAT being accompanied by reductions in income tax. Further moves may result from the possible introduction of taxes to deter energy consumption, connected with concern for the environment.

23 However, the present system for the taxation of personal savings has developed in a haphazard fashion since 1945, with considerable differences in the tax treatment of different forms of savings. During the 1980s a number of changes have shifted the balance of advantage away from life assurance, and occupational pensions. While incentives have been offered to induce people to invest in employee share schemes, Business Expansion Schemes, Personal Equity Plans and personal pensions.

24 In the long-run, the taxation system should move further towards one based largely on expenditure or consumption. Individuals should decide how best to structure their savings

to meet their personal needs and willingness to run risks - un-influenced by the distortions induced by the tax system. To this end, the decade should see the progressive phasing out of mortgage tax relief, so that the stark differences between UK and German patterns of saving (shown in Exhibit 6) do not continue.

25 However, to change the tax system radically will take time. The immediate priority should be to encourage people to invest in their own businesses, by allowing owner-managers to benefit from the Business Expansion Scheme, and to change the tax treatment of individual share ownership, as recommended by the CBI's Wider Share Ownership Task Force (4). A tax-free allowance for a period of five years, would provide the psychological boost necessary to encourage both new investors and those who have already purchased shares through privatisation-type issues to venture into the secondary share market for the first time. Such an incentive is particularly important for those who are unable to acquire shares at a discount through employee share schemes. At the same time an incentive is going to be needed to encourage people to invest at least part of any inheritance and pension lump sums over the next decade. The specific tax changes recommended by the Task Force were as follows:

* for five years, an annual tax free allowance of £1,200 for funds invested directly in the UK company shares - without tax on exit if the shares are held for five years

* changes to the PEP regulations to allow more than one plan manager in any tax year, to increase the annual limit to £10,000 and to examine the possibility of self-administration

* the introduction of a lump sum PEP scheme to encourage the investment of inherited funds and pension lump sums in equities, subject to overall limit of five times the annual PEP limit

* Capital Gains Tax (CGT) deferral on reinvestment of equity proceeds.

26 These proposals reflect successful French experience with the Loi Monory which was established in 1978 for a period of four years, to provide a tax deductibility for investment in shares or collective instruments up to FF 6,000 a year. This would be worth around £1,400 today. The investment had to be held for a minimum of five years, and there were tax penalties on early exit. A not dissimilar scheme was launched in the United States in the early 1980s in the form

of Individual Retirement Accounts (IRA). Employees could save up to $2,000 a year with penalties for withdrawal before retirement age, tax free. By mid-1985 some 12% of the adult population of the United States had an IRA, and by 1986 the new scheme accounted for about one quarter of all personal savings.

ACCEPTING EXTERNAL COUNTER-INFLATIONARY DISCIPLINES

27 The experience of UK economic management over the last decade suggests that the commitment to low inflation in the UK needs stronger external support. The inflationary lapses of the 1980s occurred in part because the Government "took its eye off the ball" in terms of inflation. As well as allowing demand to increase too rapidly, public sector-induced inflation has run well ahead of manufacturers' output prices and increases in unit labour costs. Indeed leaving aside interest rates, a substantial element of the recent increase in headline inflation is attributable to the cost of changes to Local Government finance and of higher electricity prices ahead of privatisation. The discipline of the ERM, a more independent Bank of England and eventual European Monetary Union will help to ensure that this does not happen again.

Exchange Rate Mechanism

28 The UK should adopt the discipline of the narrow bands of the Exchange Rate Mechanism (ERM) as soon as possible. ERM membership will help to prevent imported inflation through depreciation of the Exchange Rate; but it will also require greater discipline on costs in the tradeable goods sector, particularly manufacturing industry. As CBI has consistently made clear (5), ERM membership is not a panacea for reducing inflation; some countries have had to pay a high price in unemployment to achieve their low inflation rates. Rather, the ERM provides a counter-inflationary discipline which helped - indeed required - wage inflation in France to fall from 15% to 3½% in the four years after the Government decided to take the Mechanism seriously.

29 The CBI welcomed UK entry within the wider bracket necessary in the short-term, to allow Sterling a settling-in period while inflation converges with that of other ERM members. But the relative stability to which business is looking, as well as the counter-inflationary discipline, will be better secured by moving to the narrow bands at the earliest opportunity. This will underline the commitment of the UK to ERM membership and to eliminating differential inflation without resorting to unilateral devaluation. The central

rate of DM 2.95 is close to the average during the period 1987-90 when UK export volumes rose considerably faster than world trade.

30 To support the commitment to ERM membership and help avoid realignments within the system, the Bank of England needs to be given a greater degree of independence in the sphere of monetary policy to ensure that short-run political considerations do not deflect the Government from the commitment to stable prices.

European Monetary Union

31 ERM membership should be coupled with full UK participation in moves to create a single currency for Europe. By removing the uncertainty and risks attached to transactions within Europe, and reducing the transactions costs of dealing in a number of different European currencies, a single currency would act as a psychological spur to trading within Europe, so enhancing the benefits which will flow from the Single Market. It should also help the UK to achieve and sustain a lower inflation rate, and hence allow interest rates in line with our EC competitors. The transition to a single European currency should be based on four main principles:

* there should be a staged approach to the move towards EMU within the Community. The first stage, which is already under way, should include all members joining the ERM under the narrow bands, followed by a transition to fixed exchange rates and only then a single currency.

* the success of each stage should be ensured before moving on to the next step. In particular, greater convergence of inflation performance will be needed before exchange rates can be permanently fixed.

* measures should be taken to enhance the use of the ECU so that it can gradually assume the role of a single currency. This may require some shift in the composition of the ECU currency from its current position as a basket of currencies to a currency that is managed independently by the European Central Bank during the transition to full EMU.

* the move to fixed exchange rates should be followed as quickly as possible by the adoption of a single European currency. This is needed not only to reinforce the commitment to fixed rates, but so that business can enjoy the full benefits of monetary union.

32 The culmination of the evolutionary process of EMU will eventually be a single European currency with a European central bank and a single monetary policy. However, a single European monetary policy does not imply loss of national control over economic policy. Though there will need to be increasing co-operation between EC members in formulating fiscal as well as monetary policies, Governments should retain the freedom to implement fiscal policy in line with national objectives. Indeed countries will probably need greater flexibility in fiscal policy to reconcile the monetary policy objectives of the Community with national economic policies; that is, the principle of "subsidiarity" should be preserved in fiscal affairs.

CHANGING THE INFLATIONARY PSYCHOLOGY

33 Unfortunately, ERM membership exerts discipline mainly on the tradeable goods sector. To avoid uncertainty, manufacturing again bearing the brunt of counter-inflationary policies, the inflationary pyschology in other sectors of the economy needs to be tackled as well. Examples of this deeply embedded 'inflationary pyschology' can be seen all around. These include the particular attention paid to rises in the cost of living in pay negotiations, as employees seek to preserve living standards; the concentration of personal investment on the housing market, which is widely believed to provide a hedge against inflation; and the pervasive indexation of benefits and tax reliefs.

34 The commercial world is not immune from such arrangements. Most commercial rent agreements cannot be revised downwards and do not contain break clauses; and there is an inflationary bias in the system since new rents are set at the highest level recently achieved in the locality and there is no appeal from arbitration decisions. Indexation has become something of a feature of a range of commercial contracts; indeed many recently privatised utilities have their prices linked to the RPI specifically, whether or not it is relevant to their particular costs. The contrast with attitudes in Germany and, more recently, France is instructive. Not only is a strong counter-inflationary psychology firmly established in Germany, but indexation in contracts is illegal (without the prior permission of the Bundesbank).

35 To tackle the UK's inflationary psychology is a long-term process and will rely ultimately on achieving lower inflation for a sustained period of time. But a number of steps would help:

* devolving responsibility and authority for determining pay and improving performance within the public services as far "down the line" as is possible; and increasing the performance incentive element in public sector pay. The excuse that it is difficult to measure performance in the public services sector no longer stands up; the work of the National Audit Office, the Audit Commission and many management consultants during the 1980s has shown that sensible performance measures can be developed and applied throughout the services sectors.

* avoiding inflationary "own-goals": Government policy changes which add to business costs and raise measured inflation

* reforming the Retail Prices Index, to ensure it is more comparable with similar measures used elsewhere in Europe.

* avoiding the automatic indexation of tax allowances and benefits where this is necessary to support the drive to reduce inflation. There can be no justification for automatic increases, regardless of either cost or need - let alone rises based on indices of dubious relevance.

* re-casting the publicly financed benefits system to concentrate help on those in greatest need. The increase in inherited wealth over the next decade, combined with the growth of occupational and personal pensions, could provide the opportunity .

HOLDING THE GROUND WON IN THE 1980S

36 In any campaign it is all too easy to forget the ground that has been won, concentrating on what remains still to be done. It will certainly be important that the United Kingdom does not retrace the steps that have been taken to advantage over the past decade. Indeed, one of the purposes of going back over recommendations set out in The Will to Win has been to remind the 25% of the Electorate at the next General Election who were under 18 in 1974 how much has been achieved in the last decade. For it is all to easy to forget what the situation was like in the late 1970's. Industrial disputes, apparently regarded as inevitable, were exacerbated if not caused by wage and price controls and over-regulation. Tax avoidance and 'grantsmanship' were growth industries. Wealth was being destroyed rather than created, with negative real returns in many businesses. Investment in all its forms - new plant, innovation and skill - fell back. Britain's share of world trade was declining, seemingly inexorably. Failure was almost expected, success a surprise.

37 It will therefore be important to hold on the ground that has been won since The Will to Win was published. Specifically, the CBI believes there should be:

* no questioning of the UK's commitment to completing the Single Market, or of full UK participation in discussions about how to achieve eventual monetary union.

* no accommodation with protectionism. The UK economy has benefited greatly from being open; CBI does not want to see a return of controls over overseas investment. At the same time our trading partners should be pressed to remove barriers to investment and trade, as well as any export subsidies not allowed by the GATT, which also should be given powers to stamp out trade abuse and ensure equality of market access. The EC must ensure that the principles of free and open trade are put into practice in its own internal market. "Fortress Europe" is an unthinkable alternative.

* no re-nationalisation of companies now in the private sector. Privatisation of so many major UK businesses will turn out to have been one of the most important, and beneficial, developments of the last decade. The process must continue during the 1990s, to include in due time British Coal and British Rail.

* no increase in the public expenditure share of GDP, including that by local authorities. Tight control of public expenditure will be even more essential now that the UK has joined the ERM; it is crucial to the fight against inflation.

* maintenance of the existing framework of industrial relations law, which has contributed to the record gains in productivity and real earnings of the 1980s.

* continued reliance on individual motivation. The 1980s have shown the importance and value of personal incentives. Any increases in marginal tax rates are unlikely to raise the net yield sufficiently to offset the demotivating effect on the very people on whom the future success of the economy heavily depends.

* no return to local determination of business rates, unless these are required to meet only the costs of the specific services that business receives from the local authorities in question. The CBI would prefer (7) business to pay directly only for those services that it receives from Local Authorities, with no element of hidden subsidy, for business, householders or local residents. But so long as market forces are not allowed to operate, and businesses have no local vote, the

protection afforded by a national non-domestic rate will be needed.

* more local determination of pay and conditions, by employers and employees. The decentralisation of pay bargaining should continue and it should extend as far as possible within the public services sector as well.

38 Workplace health and safety apart, there is little need for EC-level intervention in matters concerning employees' rights and interests. Europe's employers regard the so-called EC Social Charter and its Action Programme as a serious threat to EC competitiveness and employment prospects. The welcome trends towards greater flexibility in work organisation must be encouraged. More positively, the CBI's Agenda Europe sets out in some detail the kind of Community that business would like to see evolving over the next decade: A Europe of Opportunity for All (6), outward looking, competitive and enterprising.

* * *

But the successful control of inflation also requires a healthy supply side of the economy. If this is not the case, bottle-necks and cost pressures will develop even at a moderate rate of demand growth. Indeed, a massive increase in investment is essential not just to the ability of UK business to compete but also to tackling the underlying causes of inflation and the balance of payments deficit. So the next section of this Agenda sets out the steps necessary to close the existing investment gap with Germany in particular.

2 - BRIDGING THE INVESTMENT GAP

39 As CBI has repeatedly stressed, investment - in the widest sense of the term - will be the key to competing in the New Europe. (8, 9, 10). And it is precisely because investment is one of the first casualties of inflation, that the CBI accords such a high priority to securing price stability. From this flows restored profitability, and lower interest rates - two essential pre-conditions for business to be able to match German and French levels of investment in plant and equipment as well as in skills and innovation.

40 There is no time to lose. Successive statements of CBI Economic Priorities have drawn attention to the extent of the investment gap. Exhibit 7 provides some basic statistics on the scale of the existing gap with Germany. Unfortunately, far from closing, this gap is now widening again at precisely the wrong moment. Therefore the 1990s will need to see further steps over and above the achievement of stable prices. Specifically:

(i) business must compete on more than a level basis with its principal EC rivals, in terms of the overall national overhead burden, if the gap in equipment, skills and innovation is to be bridged.

(ii) Britain will need to have the best education system in Europe; nothing less will be good enough in an era where people will be the only source of sustainable international competitive advantage.

(iii) the Skills Revolution launched in 1990 must become part of the national economic infrastructure, sooner rather than later.

(iv) the nation's economic geography will need to be re-written, to overcome the disadvantages of competing from the edge of a New Europe whose centre of gravity may be moving steadily Eastwards.

(v) the Green Revolution will need to be managed to produce the environmental improvements that we all want to enjoy, without compromising industries' ability to compete internationally.

EQUIPMENT AND INNOVATION

41 Investing for the new Europe requires British business to be able to compete on a level basis with competitors from other EC countries, and from France and West Germany in particular, as well as with those from the wider world. Unless British business is as profitable as its competitors it will not be in a position to invest in technology and innovation on the scale required. Recent trends have been encouraging, as Exhibit 8 suggests; but they will have to be maintained indefinitely. At present, the so-called playing field is tilted against British business in a number of important respects - quite apart from the need for counter-inflationary purposes to have high interest rates. Specifically:

- despite reductions in tax rates, British businesses appear to be more heavily taxed than their competitors in France or West Germany in particular. Taxation of corporate profit has steadily increased during the 1980s and now accounts for 4.1% of GDP in the UK compared to 2.2% in West Germany and an average of 3% in the EC as a whole. Each point represents over £4.4 billion a year - around one third of annual manufacturing investment in plant and equipment.

- the UK market is more open, in the sense that inward investment is welcome; it is also the only market where there is a reasonable prospect of a bid succeeding against the recommendations of the directors of the defending company and where protectionism in public sector procurement is both rare and decreasing.

- enforcement of environmental regulations in particular is often said to be more stringent and uniform than in France, Italy or Spain; and our competitors are able to operate heavier lorries, thus reducing costs.

- intensive users of energy, many of whom will need to invest heavily to tackle the environmental damage caused by emissions, pay substantially higher prices than their principal competitors in France, Italy and The Netherlands for electricity - in marked contrast to the situation in private households.

42 During the 1990s, these handicaps to the competitiveness of British business will need to be removed If the investment gap in terms of plant and equipment and innovation is to be bridged, the following steps will be required, in addition to bringing inflation and real interest rates into line with our principal competitors:

* a reduced burden of Corporation Tax, so that those responsible for creating wealth - rather than Government - decide how to distribute it over the longer term. CBI members prefer reductions in the rate of Corporation Tax to the reintroduction of special allowances for particular types of investment. But the particular problems of smaller firms require special measures; these are set-out in successive statements of CBI economic priorities, most recently in January 1990 Meeting the Challenge of Europe (10).

* a 'level playing field' with respect to competition policy, regulation of mergers and acquisitions and enforcement of Community legislation

* elimination of the cross subsidy in the Uniform Business Rate. Like business properties throughout the United Kingdom should pay like rates, which in turn should reflect only the cost of services that business receives from local authorities.

* the development of UK access to the Continental energy supply grids for gas and electricity, so that UK business can benefit from an opening of the EC market in energy and enjoy prices similar to those paid by competitors with similar load factors. As Exhibit 9 shows, this is far from the case at present.

* alignment of UK regulations affecting business with those on the Continent, so far as is possible: For example, lorry weights and bringing the UK into line with West European Time, so that UK business is able to compete on level terms.

43 However, removing these handicaps is of only limited longer-term value to the UK economy unless the skills of the UK workforce are competitive with those in France and Germany. CBI members consistently identify 'education and training' as the greatest problems outside their control affecting the future of their businesses.

THE BEST EDUCATION SYSTEM IN EUROPE

44 The education system remains a particular cause for concern, notwithstanding the introduction of the National Curriculum and the welcome changes introduced in the Education Reform Act of 1988. The United Kingdom is at or near the bottom of most international league tables of educational attainments. A serious shortage of qualified teachers looms - there could be a shortfall of 25% within 5 years unless corrective action is taken; and the shortage will be most acute in the subjects of particular importance to business (mathematics, science and foreign languages) and in inner cities where it can be argued that education holds the key to escape from the cycle of deprivation.

45 Meantime, resources that should be devoted to education are increasingly devoted to teaching empty desks. It has proved extremely difficult to restructure the education system to accommodate falling school rolls - during the 1980's the number of secondary school pupils fell by over one quarter. The Audit Commission estimates that there is now the equivalent of well over one thousand fully staffed but completely empty secondary schools in England and Wales alone; and there is waste on a similar scale in the primary sector as well. In total surplus places could well be costing £1 billion a year - or around £2,500 per teacher.

46 Teachers are the key. The teaching profession must enjoy the respect of the community at large. At present, teachers are relatively poorly paid; by 1989 their salaries had fallen to not much more than the average for non-manual earnings, when they were 35% above the average 15 years earlier. By international standards, the productivity of British teachers is low because of poor management and motivation, unnecessarily small sixth-form class sizes - typically about half those in the world-class private sector - lack of technology back up and insufficient staff support.

47 So radical measures will be needed during the 1990s both to improve the status and quality of the teaching profession and to increase the influence of parents, pupils and employers over the education system. This is not as unrealistic as it might sound. The 1980s have seen many of the building blocks put in place to create the best education system in Europe: A National Curriculum, which should have a greater emphasis on technical and vocational education, languages and core skills; improved local links between schools and businesses; increased investment in technology; new funding arrangements and greater local autonomy for schools.

48 During the 1990s, the potential of these initiatives needs to be brought together so that the education that British pupils receive is more than a match for the best in Europe. The following steps could be involved:

* direct Exchequer funding of primary and secondary education in full. Accountability for tackling the problem would rest with Ministers answerable to Parliament.

* building onto current plans for funding to follow pupils. Schools successful in attracting pupils should be able to expand. The same principle could be applied with advantages to higher education also.

* a new structure for the teaching profession, to allow for the fact that many trainees will not want to be teachers for life, and to accommodate people who would like to become teachers later on in their careers. More non-teaching responsibilities should be delegated.

* improved teacher training so that all teachers are able to take full advantage of new technology and are properly prepared for their management responsibilities, including an awareness of employer needs.

* a greater role for individual schools in determination of the pay and conditions of service of teachers. On the basis of personal appraisals, teachers should enjoy the high pay for high performance that is increasingly characteristic of the private sector.

* close links between every school and the local business community through local partnerships or other machinery suggested in the report of the CBI Task Force chaired by Sir Adrian Cadbury Building a Stronger Relationship Between Business and Secondary Education (11).

* an order-of-magnitude increase in investment in technology in schools, in part to apply the lessons learned from the many recent initiatives in this field.

* reform of A and AS levels, so that young people can continue in more subjects to age eighteen, and acquire core transferrable skills as well as knowledge - thus increasing the career options open to them.

49 There needs to be systematic testing and independent evaluation of the proposed reforms in volunteer communities. A series of local Education Trusts could be set up to oversee implementation of the changes in communities keen to see the reforms introduced quickly, in one consistent and coherent package.

COMPLETING THE SKILLS REVOLUTION

50 Skill training is the second priority consistently identified by business. That is why employers invest around £20 billion a year in training and are making strenuous efforts to maintain this investment despite the difficult current economic climate. The low skill levels in this country are potentially lethal for future competitiveness.

51 The CBI has put forward a set of specific proposals for tackling the long-standing skills problem in a report (12) published in October 1989 'Towards a Skills Revolution'. The report proposed the creation of a market in skills. Young people leaving school at 16 should have individual training credits so that they can purchase the skills that they need to begin their career. At the same time the training performance by companies of their existing employees would be raised through the spread of good practice and the validation of employers who meet the agreed standards. Another key theme of the report was the importance of taking measures that would enhance and empower individuals to play a greater role in their own self-development and motivation. Exhibit 10 shows the qualifications that should be attained by school-leavers by the end of the century.

52 The Government has already adopted many of the recommendations in this report with welcome alacrity. The sooner the individual training credits for sixteen to nineteen year olds are nationally available through TECs, the better. It is important to increase the opportunity cost of poaching skilled people at a time when training budgets will be under pressure. The academic year beginning September 1992 is an appropriate target date. After the credit and 'Investors in People' initiatives operated through TECs and LECs become established, it may be appropriate to limit the use of credits to young people who are working for employers with the 'Investor in People' designation.

53 In the meantime, it is vital that Ministers, the National Training Task Force and the CBI continue to provide leadership at the national level; industry training organisations at the sectoral level; and employer-led Training and Enterprise Councils (TECs) and Local Enterprise Companies (LECs) in Scotland, at the local level. It is particularly important that the national network of TECs and LECs is successful. Statutory intervention in private sector training has failed in the past; it must not get in the way in the future. TECs need a broad remit, covering all aspects of local economic regeneration and enterprise, as well as

adequate public funding to meet their targets and the flexibility to apply the available resources as business leaders see fit. Their main challenges are to:

* encourage the concept of lifetime learning.

* enhance the skills of all members of the current workforce, as well as new entrants and the unemployed.

* bring some local order to the so-called 'alphabet soup' of initiatives to regenerate the local economy and encourage enterprise. In inner cities that can be achieved by carrying forward the local economic development strategy documented in the CBI Task Force report, Initiatives Beyond Charity (13), and subsequently tested in over fifteen different communities.

* reinforce the development of local links between schools and business.

54 In the longer-term, TECs could provide the core of a single local organisation to represent business interests and lead its involvement in the Community. They could also provide a conduit for all public sector funds aimed at local economic regeneration. At present there are simply too many private sector and government organisations involved in any one locality - leading to frustration, confusion, duplicated effort and an overall lack of strategic direction.

RE-WRITING THE ECONOMIC GEOGRAPHY

55 The transport infrastructure is the third investment priority from a business point of view. The cost of congestion is already massive, of the order of £15 billion a year, or over £10 a week for every household in England and Wales. These estimates make no allowance for the cost of damage to the environment caused by congestion, or for the wear and tear on commuters reflected in higher staff turnover and sickness absence.

56 The problem is not new. Indeed, one of the specific recommendations in The Will to Win was that investment in the national infrastructure should be £1½-2 billion a year higher than was then planned. Unfortunately, through the 1980s as a whole, public investment in the transport infrastructure reduced while traffic increased. It is easy to see why; the combination of local objections to any major scheme, an arthritic planning system and pressure on discretionary public expenditure meant that the longer term needs of the economy were liable to give way to the current demands for

improvements in benefits, health, law and order and other services.

57 But now the situation is urgent. The opening of the Channel Tunnel and completion of the Single Market mean that British business will face increased competition from the edge of a Community whose centre of gravity is moving steadily Eastwards. The consequences for the future could be very serious for an economy with the worst transport infrastructure in Northern Europe, still pointing to yesterday's trade routes. So the 1990s must see the Nation's economic geography rewritten, as the CBI recommended in a 1989 report, Trade Routes to the Future (14). Specifically, in addition to the measures now planned for the 1990s there will need to be:

* a strategic approach for the United Kingdom as a whole, led by the Department of Transport and covering road, rail, air and Ports infrastructure; the same criteria should be used when evaluating investments in different modes

* much improved road and rail access from the North, Midlands and West to the South and East coast Ports and the Channel Tunnel, by-passing London as shown in Exhibit 11.

* special attention to the problems of London; this is akin to the cork in the neck of a bottle, impossible to go round or through. Not for nothing is the M25 known as Scotland's largest traffic jam; and inadequate transport links within London are seen as a serious threat to the City's preeminence as Europe's financial centre. The proposed heliport on the Thames must go ahead.

* reform of the planning system, so that Nationally important projects cannot be held up near indefinitely and so that the planning lead time for major projects can be reduced from over 10 years to perhaps 5. Compensation for those affected by new infrastructure developments should be more generous.

* early experiments in road pricing, an idea whose time may now have come;

* a consistent build-up of public expenditure on the transport infrastructure through the decade, to enable the civil engineering and construction industries to plan ahead with greater confidence, and also to deliver better value for the tax-payers investment.

MANAGING THE GREEN REVOLUTION

58 Finally, the 1990s will see continued pressure to improve the environment, coming from the general public as well as from Parliament and the EC. The desired improvements will only be realised, in the main, if industry - and particularly process industries - are in a position to invest. Already, in many chemical companies, approaching one third of their annual capital appropriations are driven by the needs of the environment; demanding annual targets for reducing toxic emissions are being set and met. In 1989, UK business spent some £4 billion on pollution control; this could well double in real terms by the middle of the new decade.

59 Nonetheless, opinion polls indicate that only around one adult in five considers that industry is doing enough to protect the environment. There is a considerable risk that Parliament and the EC will impose emission standards which are unevenly enforced and involve costs (and thus competitive handicaps) out of all proportion to the environmental benefits that will result.

60 Managing the Green Revolution during the 1990s will require a concerted programme by business and Government:

* British business will need to implement sound environmental management practice as spelled out in a recent publication by Business In The Community, as well as in numerous CBI guides (15, 16).

* renewed efforts will need to be made to improve energy efficiency and reduce waste within business, through recycling. Voluntary effort and fiscal incentives to change are likely to be more effective in the longer run than regulation and penalties; but regulations may be necessary as a fall-back position.

* UK Government will need to work with business - including importantly the water and electricity supply and automotive industries - to define emission standards that will make a worthwhile contribution to environmental improvements within the UK and globally, and to set implementation timescales that are realistic.

* planned changes in emission standards, energy prices and taxes should be announced well in advance, so that business has adequate time to adapt and incentive to do so.

* the EC will need to ensure that agreed environmental improvement measures are implemented in all Member States, and that enforcement is to the same uniformly

high standards.

* * *

Winning the battle with inflation and bridging the national investment gap will benefit the economy as a whole. But special efforts will be needed in the 1990s to create a yet stronger manufacturing base, if Britain is to be in a position to compete effectively in the New Europe. Steps to this end are discussed in the final section of this Business Agenda for the 1990s.

3 - CHANGING NATIONAL ATTITUDES TO MANUFACTURING

61 The CBI exists to represent the interests of businesses in all sectors of the economy; it does not therefore subscribe to the view that any particular sector is more or less important to the economy than any other. All sectors play an important part in sustaining our national standard of living.

62 But it is also important that the economy develops in a balanced way. In particular, without a strong manufacturing base able to compete with the best in Europe and the Far East, the UK will be even more seriously handicapped in the 1990s than it has been during the 1980s:

- it will be unwise in the future to rely on a continued surplus in invisibles, as international and European competition in banking, insurance and tourism intensifies. Without eliminating the balance of payments deficit on manufactured goods, the pace of national economic growth will not be sufficient to meet the ever rising demand for improved public services.

- this will be more difficult in the 1990s. Competition will be fiercer, as trade barriers are progressively dismantled and new suppliers, with lower labour costs, enter the market from Eastern Europe and South East Asia; over 5 million jobs are at risk directly, and as many again indirectly.

- moreover, British industry will no longer be able to rely on a ready local market in the previously nationalised industries, or in defence equipment - historically very important customers of the electronics, electrical engineering, construction and aerospace industries.

- the contribution of North Sea Oil to the UK economy will decline

So it is a matter of concern that manufacturing accounts for a lower proportion of GDP in the UK than in West Germany which has comparable levels of personal consumption per capita - even though, as Exhibit 12 indicates, manufacturing is more important in relation to GDP (and civilian employment) in the UK than in France, Italy and the United States.

63 In other words, the achievement of national ambitions for improved social services and benefits and for lower personal taxation will depend on the ability of businesses based in Britain to compete successfully in the world market for

manufactured goods. This is the only way in which it will be possible to sustain, let alone improve, our national standard of living. In short, while Manufacturing has always mattered, it will matter even more in the 1990s.

64 Sadly, however, national attitudes to manufacturing have changed markedly from the days when Britain was the workshop of the world. And there is a notable contrast with the situation in Japan, Germany, France and Italy in terms of the standing and understanding within society and government of manufacturing. Doubtless these attitudes reflect public perceptions of the ability of Britain's industries to compete in world markets, and to provide rewarding and satisfying careers for the most talented people. But they will have to change if Britain is to compete in the new Europe.

65 So, during the new decade, further steps over and above those already proposed will be necessary. The CBI is currently examining the steps needed to ensure that manufacturers in the UK are able to compete on a level basis with those from France and Germany. This work will be completed by the Autumn. But it is already clear that, in addition to winning the battle with inflation and bridging the investment gap, during the 1990s it will be important to change national attitudes to manufacturing. This will require:

(i) refocussing the Department of Trade and Industry (DTI) with a wider role and greater influence within Whitehall.

(ii) improving relations among all the stake-holders in manufacturing, so that Managers are able and further encouraged to invest in the longer term.

(iii) strengthening the machinery for communicating the good management practice that is evident in many, but by no means all, British companies.

(iv) creating a more effective "voice" for manufacturing in Britain.

REFOCUSSING THE DEPARTMENT OF TRADE AND INDUSTRY

66 Perhaps not surprisingly, given the events of the 1970s, The Will to Win assumed the continuation of the corporate state. Indeed it proposed that "The Government should start immediate discussions with the CBI, TUC and other parties with a view to establishing an economic forum in 1981" under the aegis of the National Economic Development Office. It

argued that "Government and Opposition Parties should strive for more consensus over industrial policy". Further, it stated that CBI members "must decide urgently whether they wish the CBI and Government to adopt a more positive approach to industrial policy", while no mention was made of privatisation of nationalised industries.

67 But, fortunately, times have changed. Partnership between business and the public sector is increasingly evident in education, skill training and in inner-cities as well as the environment. Moreover, there is now a thoroughly healthy scepticism among CBI members about the ability of any UK Government to replicate the industrial policy machinery that exists in France or Japan, for example. The training and experience of the Civil Service, the rapid turnover among Ministers and the inevitably short-term focus of Parliamentary debate will mean that the United Kingdom would be impossibly handicapped in seeking to "pick winners" or undertake indicative industrial planning along French lines, for instance. Indeed, the last decade has shown that the competitive market is more effective, at least in the UK context, in allocating scarce resources than is the bureaucracy.

68 But there are some responsibilities, with wide ramifications for industry in particular, that no Government can avoid. Quite apart from its responsibility to secure the low inflation and relatively stable currency which is so vital to international competitiveness, only Government can negotiate with other governments to eliminate barriers to trade and investment. The public sector remains an important buyer in many markets - particularly office, medical and defence equipment; and the Government inevitably plays a major role in agreeing multinational projects in the defence fields in particular. Governments play an important role in influencing the development and use of product standards. And, of course, only Governments can negotiate directly in Brussels on aspects of the Commission's Single Market and Social Action Programmes.

69 CBI members believe that communication between business and Government is not as effective as it needs to be, which is not to discount the value of many of the changes that have taken place in the last decade. A recent CBI Survey examined attitudes towards the Department of Trade and Industry across a very wide cross-section of senior management in Britain today; and it revealed that the Department is not seen as effective in delivering the programmes of greatest importance to business. Perhaps these attitudes are inevitable after a very difficult decade for the DTI which opened with its role and indeed very existence being questioned by its own

Secretary of State, and which saw some particularly difficult political traumas and rapid ministerial turnover.

70 In particular, CBI members see it as important that dynamic industrial sectors should be encouraged. These will be interrelated clusters of economic activity, with interdepedent functions in which Government is to some extent involved through: regulations, certification and testing; assessment and accreditation; standards; research and development in manufacturing companies, in research laboratories and in purchasing agencies; product design and quality; and technology transfer. The DTI has a key role to play in securing co-operation to understand and promote change, communication between decision-makers within the sectors, and timely actions in response to developments arising from changes in the legal and economic milieu. In the single European market such a leadership approach, arising within the UK, and being centred there, will benefit from sharing activities in appropriate ways with multinational companies and regional agencies such as the Commission, CENELEC, EOTC etc. It follows that this process will accelerate specialisation, between areas and companies. But the extent, timing and nature of co-operation will depend upon the reaction of companies to opportunities and threats in the market place.

71 The CBI has concluded that DTI has a key role to play in improving communications between business and Government. Specifically, in the 1990s the Department should provide a focus within Whitehall for the formulation of policy to close the investment gap with our principal EC competitors in terms of plant and equipment, innovation and skills. This means that the Department should be concerned with the profitability and international competitiveness of British business. It could involve DTI:

* taking over from the Treasury the responsibility for the National Economic Development Office, and the little Neddies in particular. Apart from other considerations, this would reduce the fragmentation of industrial policy effort within Whitehall and ensure that Ministers have direct access to business perspective in different sectors; such a move would also provide a single point of contact within Government for Trade Associations, and a focus for action on issues of particular concern to individual sectors as set out above (paragraph 70).

* reconstituting the National Economic Development Council and changing its modus operandi - so that it provides an effective forum for an informal exchange of views on the current state of the economy and what needs to be done to correct any problems that may be emerging.

* monitoring the inflationary impact of policy proposals from other Departments, so that inflationary own goals are not scored inadvertently in the future. After all, it is business that suffers most immediately from differential inflation; and the DTI should be taking the lead within Whitehall to minimise the National overhead burden on business.

* further restructuring of the export promotion effort, so that the UK matches our principal EC competitors in terms of export credit insurance, the use of aid to promote trade and diplomatic support. It might even make sense in the long run for responsibility for the export promotion efforts of some other departments (but not defence sales, a notable success story) to shift to the BOTB. At the same time it should be possible to privatise more of the existing export promotion services for individual firms - by involving the existing Area Advisory groups, Chambers of Commerce, Trade Associations, Banks and consultants to a greater extent.

* adding to its schemes for strengthening innovation through the development and spread of technology, especially in smaller firms as CBI recommended in a recent report (17) - many of whose recommendations have already been adopted by the Government.

* leading the effort to promote the 'Partnership Sourcing' philosophy throughout the public sector. Unfortunately, value for money is still too readily confused with economy, and economy with cheapness. The challenge in the defence procurement field is particularly formidable, as are the opportunities in the medical equipment area. Yet Partnership Sourcing has been shown to bring major benefits both for supplier and customer; and the public sector has a particularly important role to play in showing how these benefits can be delivered in practice.

72 While there was widespread support within CBI membership for more effective DTI, this does not mean any latent hankering for a return to the Corporate State. Business looks to Government not for subsidies, but for an environment in which it can compete on a level basis with the wider world. Indeed, one of the other disappointments of the last decade has been the poor performance of Whitehall Departments generally in tackling issues of substantial importance to the economy. Part of the explanation must lie in the machinery of Government. It is to be hoped that the 1990s will see substantial progress towards better management within Whitehall and Westminster. This could entail:

* reducing the number of Government Departments. Duplication of effort and fragmentation of responsibility are particularly marked in areas of especial concern to business: support for smaller firms, education, skills, the infrastructure, local government finance.

* putting much more work out to competitive tendering, as recommended in the CBI report The Competitive Advantage (18). It should be possible to build on the generally successful experience of the past, to extend the coverage of the market within the public sector.

* providing more local flexibility and incentives in the pay of public servants, so that managers can both match market rates for similar skills and ensure that pay reflects individual performance to a greater extent than is now possible.

* improving the accounting arrangements, to distinguish between revenue and capital expenditure and to introduce double-entry bookkeeping throughout the public service.

* changing the budgeting arrangements so that, particularly for long term capital projects, funds unspent in one financial year can be carried forward in full to the following year; the "rush to spend" by the end of March every year is as wasteful today as ever it was.

* finding better ways to access private capital for major public development and infrastructure proposals. At present, the pace of needed investment in the infrastructure is constrained by the need to limit increases in Government borrowing. It should be possible to attract private risk capital on a greater scale than has so far proved possible; but changes in the existing rules will be required for the potential to be realised.

* focusing on the management of major problems/issues with less detailed Treasury involvement in smaller programmes. Far more has been wasted in cash and political capital by incompetent implementation of the reform of local government finance than could possibly have been saved by detailed scrutiny of marginal sums in public expenditure terms. It is nonsense to expect a Minister to have to obtain his Treasury colleagues approval to spend £250,000, within a public expenditure total of approaching £250 billion a year.

IMPROVING RELATIONS AMONG STAKEHOLDERS

73 Despite a debate on the so-called problem of short-termism that lasted throughout the 1980s, the issues have stubbornly refused to go away. A CBI task force reporting in October 1987 (19) concluded that the main problem was a failure of communications between those that owned Britain's businesses and those that manage them. A recent report by Professor Paul Marsh of the London Business School and a member of the original CBI Task Force came to substantially the same conclusion.

74 Improved communication is both necessary and desirable. But it will not be sufficient, as events in the 1980s have demonstrated. It remains indisputable both that British business invested less than its principal competitors and that French, German, Japanese and Swiss managers working in Britain are astounded at the short-term perspective of British management. So the problem cannot responsibly be assumed away. Part of the solution must lie in winning the battle with inflation. Only then will the cost of funds be brought into line, and British managers be in a position to take a similarly long-term view of investment. A recent study by the Federal Reserve Bank of New York shows the extent of the cost of funds handicap that faced British and US businesses in the 1980s; Exhibit 13 provides some of the details.

75 At the same time, if managers of British businesses are not investing to meet the longer-term needs of those that own them, there must be something wrong with corporate governance in Britain. During the 1990s, further steps will need to be taken to ensure that the boards of public companies are able and encouraged where appropriate to take the long-view essential to competing successfully in the New Europe. This could involve, in addition to improving communications between boards and shareholders in general and financial reporting in particular:

* ensuring that the UK takeover process is both measured and transparent, so that the owners have the information and time needed to take a considered view of any offer for their business.

* preventing UK companies being acquired by bid-proof competitors against the recommendations of the Board of Directors; such acquisitions reduce the scope for markets to influence management.

* institutional shareholders insisting on a critical mass of independent directors, of good quality and with a

personal stake in the longer-term success of the business, on every PLC board, so that the business is managed in the interests of those that own it.

* improving the quality of PLC directors. Before joining the Board of a public company, directors could be required to complete a course to ensure that they are fully informed of their legal and personal rights and responsibilities.

* promoting the Partnership Sourcing philosophy more widely within business, building on the current DTI/CBI initiative to this end.

SPREADING GOOD MANAGEMENT PRACTICE

76 But it remains beyond dispute that while management makes a critical difference to the success of any business, the management of British business is not uniformly excellent - as any organisation providing corporate services will readily attest. So improving relations among stakeholders - and indeed all the other measures set out in this Agenda - will only be as useful as the calibre of management allows. Further steps need to be taken in the 1990s to spread good and proven management practice even more widely, within the public and private sectors. If the management of the average British concern could be brought closer to the level of the best faster than market forces will in any case require, the battle with inflation would largely be won: pay would reflect performance and the balance of payments deficit in manufactured goods would disappear.

77 Much has happened in the 1980s to extend the skills revolution to management. The Management Charter Initiative has encouraged businesses to develop the full potential of all their existing employees; over five million people are employed in the public and private sector organisations supporting the initiative. There has been a massive increase in qualifications in business studies obtained in Further and Higher Education, as Exhibit 14 shows. Total Quality Management (TQM) has become almost a religion in many companies. The UK has arguably the largest and most competent corps of professional advisors to management in Europe.

78 In addition, under the auspices of the Management Charter Initiative, a rational and understandable structure for management qualifications is being developed and tested, which gives due weight to competence on the job. While the recently launched 'Investors in People' initiative could

provide powerful incentives for employers to improve their management development performance.

79 Yet still the quality of management in British business remains uneven. So the 1990s will need to see further steps. These could well include in addition to carrying forward the Management Charter Initiative in which local networks are turned into TECs:

* expanding the DTI Enterprise Initiative, working with and through the private sector as well as TECs and the upgraded Chambers of Commerce that are now evolving.

* forging closer links between business and the science and technology faculties of higher education, to encourage more technically qualified people to enter industrial management and to encourage industry to make the most of academic expertise.

* enhancing the public standing of the engineering profession to the level that it enjoys on the Continent.

* increasing the effectiveness of Employer's Associations and Trade Associations particularly in the manufacturing sector, so that they are universally looked upon as a reliable sources of management advice.

CREATING A STRONG MANUFACTURING 'VOICE'

80 A final contribution to changing national attitudes towards manufacturing would be to create a strong 'voice' for manufacturing. The lack of such a voice is particularly damaging in Britain. Most importantly, Governments of every party seek to control inflation in ways which bear disproportionately on manufacturing and capital intensive businesses and less heavily on the voters: a policy of high interest rates and a strong pound inevitably impacts businesses exposed to international competition and those needing to invest more than other sectors of the economy. In addition:

- manufacturing suffers particularly from the bias within the education system against scientific and technical subjects and in favour of the arts; this is reflected in a continuing shortage of technical skills

- the manufacturing sector is especially vulnerable to industrial relations disruption, and under particular pressure as a result of UK and EC legislation on health and safety and aspects of the Social Action Programme

- environmental legislation will almost certainly entail massive investment by manufacturers to reduce emissions; there is a clear risk that improvements in the environment will be at the expense of the ability of Britain's manufacturers (or at least important sectors of manufacturing) to compete internationally

- the problems of short termism are particularly difficult for manufacturers who need to invest heavily not just in long leadtime product developments but in innovation and capital projects. Confusing financial engineering with the real thing is particularly damaging in a manufacturing context

- manufacturers have the most direct interest in improving the effectiveness of the international export promotion effort and in the ability of Britain to compete in terms of export credits, tied Aid, and direct export promotion assistance

- the United Kingdom has a particularly strong complex of defence industries; it follows that any peace dividend will, in effect, be paid by manufacturing to the rest of the economy in one way or another.

81 It will be evident that these issues are relevant to the manufacturing sector generally; that is, they are of concern to more than one or two individual sectors. It is therefore a matter of considerable concern that at present there is no clear manufacturing 'voice' to state clearly and unequivocally what needs to be done in each of these areas if Britain's manufacturers are to be able to compete on a level basis with their international competitors.

82 To meet this need, during the 1990's it should be possible to establish - under the umbrella of the CBI - a National Manufacturers' Council (NMC) comprising (say) the top 100 manufacturers in Britain, the vast majority of whom are already in membership of the CBI. The NMC could have the following responsibilities:

* producing an annual 'State of the Nation' report identifying the current status of manufacturing in Britain major problems and opportunities to be tackled, and the steps required. The new Manufacturing Advisory Group is, in effect, supervising the production of the first such report

* identifying priorities for CBI staff action and ensure that manufacturing concerns receive appropriate weight within the CBI decision making framework

* providing a focus for discussing particular concerns of manufacturers. There would be much to be said for

holding regular 'hearings' in the regions, to gauge opinion on specific issues. The Council would be in a position to comment publicly and with unique ability on issues of fundamental concern to manufacturers.

* providing services to manufacturers e.g. on UK and European Community employment law, health and safety, energy, export promotion, research and manufacturing issues.

* promoting the manufacturing cause to all the stakeholders, including schools, colleges, universities as well as the media - to encourage talented and appropriately qualified people to consider careers in manufacturing.

* * *

83 To sum up, Britain is incomparably better placed to meet the competitive challenges from the New Europe and the Far East than was true when The Will to Win was published in March 1981. Of course, much remains to be done. The battle against inflation has not yet been won. There is a major investment gap to be bridged; weaknesses in the Nation's education systems, skills training performance and transport infrastructure remain to be corrected as well. Levels of productivity and performance in too many UK manufacturers still lag the achievements of the best of our international competitors. Britain's businesses are not yet competing on a level basis with their international rivals not least because the failure to bring inflation under control has meant that money is relatively more expensive - causing the pressures for short-term performance that are damaging to long run competitiveness.

84 In the 1980s, enterprise was re-born in Britain and many self-imposed handicaps removed. The 1990s must see an era of investment - so that we can compete successfully in the New Europe. This Agenda sets out the views of those primarily responsible for creating the Nation's wealth on the appropriate way forward.

CBI References:

1. The Will to Win
2. Agenda Europe
3. Britain's Inflation Performance
4. A Nation of Shareholders
5. The Exchange Rate Mechanism and European Monetary Union
6. A Europe of Opportunity for All
7. The Reform of Local Government Finance
8. Bridging the Investment Gap
9. Building on Success
10. Meeting the Challenge on Europe
11. Building a Strong Relationship between Business and Secondary Education
12. Towards a Skills Revolution
13. Initiatives Beyond Charity
14. Trade Routes to the Future
15. Clean-up, Its Good Business
16. CBI Environmental Guide
17. Technology and Enterprise
18. The Competitive Advantage
19. Investing in Britain's Future

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INVESTING FOR THE NEW EUROPE

Concluding Remarks by Mr John Banham, Director General of the Confederation of British Industry to the CBI National Conference, Glasgow, 6 November 1990

PLEASE CHECK AGAINST DELIVERY

President, My Lords, Ladies and Gentlemen.

As our debates over the last day and a half have reminded us, the last year has seen some truly momentous developments in Europe, from the Urals to the Channel Coast, where the breakthrough in the Tunnel took place just last week. At long last, we have joined the ERM. Europe is on the move. The questions we have been discussing - directly and indirectly - are: what part will we play in creating the New Europe, and what kind of Europe will it be?

But the last 6 months have brought other developments that are not so welcome: escalating inflation, declining domestic demand, lower business confidence than at any time since 1980.

Too much of the damage has been self induced: the speculative boom in housing, interest rates too high for too long, ERM entry too late and at an uncomfortably high level, and the own-goals which have added 2 points to the Retail Price Index. Just last week, another £1 billion of taxation was slapped on to business in the form of the Uniform Business Rate - with not a whimper of protest from the Mother of Parliaments.

And now, widespread speculation about divisions within the Government about Europe, to add to the uncertainties created by the Gulf Crisis.

This Conference has a message to our friends in the Government. It is this. Before it is too late, remember what every single person in this hall knows: a Board that is divided is ripe for takeover. Remember what remains to be done: curbing inflation, levelling the playing field with Germany, leading the new Europe in the direction of freedom, openness, enterprise and opportunity, described so eloquently by Douglas Hurd.

Remember that there is room for sensible people to disagree about complex issues. There are difficult questions on the agenda about the nature of the Europe we are all seeking to build, as our Conference has made clear. They will not be resolved by denigrating or caricaturing other points of view. In Oliver Cromwell's words in a letter to a friend: "bear with different minds from you yourself. If you had done when I had advised you to it, you would not have had so many stumbling blocks in your path".

As our President reminded us on Monday, we must continue to be positive and constructive. There is absolutely no point in looking for people to blame. We are where we are. We have to lead. And if we are to aspire to a leading role in making the new Europe, four conditions must be met:

First, we must believe in ourselves and build on what has been achieved.

Second, we must get inflation under control in the next twelve months if a one-million increase in unemployment and a collapse in investment are to be avoided.

Third, we must rediscover the savings habit; we cannot again allow inflation in house prices to do our saving for us.

Finally, by the end of the Century, we must double our rate of reinvestment from £6,000 to £13,000 per employee every year; we cannot hope to compete with a united Germany unless we do. We have, at most, this decade to get ourselves into competitive shape.

Let me discuss each of these conditions in turn.

BUILDING ON SUCCESS

The first essential is confidence, belief in ourselves.

These are tough times for most businesses. And things seem set to get worse before they get better.

But we must not let our present difficulties (reflected in last week's headlines) obliterate the memories of the past ten years.

And this is precisely what is in danger of happening. Listening to the TUC last week at the NEDC was like listening to a broken gramophone record from the mid - 1970s, and just about as exciting. They do not seem to be aware that 1990 as a whole will see output, exports, productivity, investment in training and innovation at all time record levels. They do not seem to understand that we have achieved the highest standard of living for our people of any major economy in Europe.

Indeed, since we were last in this magnificent Conference Hall three years ago, in the aftermath of the so-called crash which was supposed to herald the onset of another depression:

- Manufacturing output has increased by close to the combined world-wide turnover of Unilever, British Aerospace and British Steel.

- Exports have grown two-thirds faster than world trade, so during this conference alone we will export £60 million more than three years ago.

- Fixed Investment will be £1,000 per employee higher; expenditure on skills training and innovation is still rising.

- There are 2 million more people in jobs, and real earnings have risen by an average of £20 a week.

- There have been over 800 UK acquisitions on the Continent, worth some £8 billion.

Indeed, the annual growth in the UK overseas investment portfolio probably now exceeds the balance of payments deficit (if only we knew what it really is).

And, last night, the FT 100 closed over 30 per cent higher than it was then.

So there is no need to talk ourselves down. On the contrary, We must believe in ourselves.

Moreover, we have made good progress in each of the priority areas that I identified here three years ago.

- Local links between schools and business have never been stronger. This year, thanks to UBI, over 12,000 teachers will get worthwhile work experience - over six times the level of three years ago.

- Anyone who doubts the contribution that business has made, and is making, to our inner cities has only to step outside the doors here and walk around Europe's City of Culture. There are many, many Initiatives Beyond Charity.

- As we heard from Michael Howard, the skills revolution called for by Bryan Nicholson, is now a realistic prospect, and not a distant dream. And the sooner training credits are universally available, the better.

- The Management Charter Initiative flourishes, supported by employers accounting for some one in five people in work today. It might even be for export to Eastern Europe.

We have succeeded in changing some attitudes, too. More people understand that a strong manufacturing base holds the key not just to tackling the underlying causes of our balance of payments deficit and inflationary tendencies, but to enhancing the Nation's standard of living over the longer term. They understand, too, that it is not Greenpeace or Friends of the Earth but manufacturing investment that will make the critical difference to our environment.

* * *

So, let us build on this success. Let there be no going back.

- No going back to the days of industrial relations chaos.

- To the bogus sham that was the Corporate State; to useless so-called 'agreements' that no one can deliver where it matters, on the ground at local level.

- To nationalisation

- Let there be no going back to the local rates; the principle of representation without taxation for householders, and taxation without representation for business.

- To the poisonous politics of envy.

Let there be no going back, in short, to the dreary dreadful days of failure.

WINNING THE BATTLE AGAINST INFLATION

But it will not be enough to hold the ground that has already been won. We must do better. The major disappointment of the 1980s was the failure to win the battle against inflation. This is the next priority, after belief in ourselves.

It is business - and particularly business exposed to international competition - that bears the brunt of the national failure to squeeze inflation out of the economy. With more expensive money, and thus much shorter payback targets, profits will be lower and investment deterred.

The problem now is not excess consumer demand; high interest rates have done their job.

The problem now is pay and performance, even if our debate yesterday was somewhat muted - for understandable reasons perhaps.

Surely we have learned the lesson of the 1970s. The world does not owe us a living. Our European competitors will not allow us to push prices up by 10.9 per cent, just because this happens to be the level of our Retail Price Index. Now that we are in the ERM, the most that we can expect is 2 to 3 per cent.

Harsh though it may be, businesses that cannot get their unit cost increases down to 2-3 per cent will eventually fail.

If a plant is too expensive in Britain, production will be transferred abroad.

If jobs are too costly in Britain, they will go.

One million jobs are on the line.

The manufacturing sector will feel the pressure first, as it always does. But the discipline must apply to the whole economy.

What are we to make of local authorities which claim to be starved of funds and to be paying teachers less than they ought to be worth when there is the equivalent of over 1,000 fully staffed Secondary Schools standing completely empty?

What are we to make of the latest report from the Audit Commission showing that the average Council worker takes nearly one month off each year in so-called sick leave?

Or of figures showing that hospital waiting lists could be cut by one-third without any significant extra spending, by better management?

Do we wait until more than one-third of secondary school places are empty? Do we wait until Council workers take six or eight weeks' sick leave a year? Do we throw yet more money - your money - at hospital waiting lists?

I am not talking about cutting back public services or about lower pay. What I am talking about is performance. Better services, better value, better management, and as a result better pay.

We have a choice about how we get inflation down. We can do it the sensible way or the French way.

It took France five years and cost over a million extra unemployed to learn the lessons of exchange rate discipline. They learned the hard way. We in Britain don't need to do it that way.

Instead, we can tackle our inflationary psychology directly.

Our inflation rate can be calculated on an internationally comparable basis.

Automatic indexation of prices, pay and benefits can, and must, be challenged wherever it occurs. Where did the 10.9 per cent rise planned for the Uniform Business Rate come from? The Government Statistical Service - that's where. A £1 billion own goal, coming again at just the wrong moment - for absolutely no improvement in service or performance. Just because of some misleading statistical abstraction not even applying to the period in question - 10.9 per cent was the RPI for September. This apparently mindless accommodation with the enemy, inflation, must stop.

But most important, we can lead.

We can explain our cost and competitive position as it is, to all involved. Good communications - and openness - with all our stakeholders will be critical, as Jim Davidson reminded us.

The TUC state that "real cuts in wages are not on the TUC agenda". I say this to them. "Neither, presumably, is an extra million on the unemployment rolls. It need not happen. Look ahead, to lower inflation next year. Think of the future. Are you really prepared to put almost the highest living standard in Europe on the line for the chance of an extra £5 a week - while the job lasts?"

We can lead by example. We all know that many of the stories about senior management pay are untrue or misleading. It is true, too, that most senior managers are not particularly well paid by the standards of some other professions.

But like it or not, the topic of senior management pay has moved into the headlines. We cannot ignore it.

Pay must reflect performance in the boardroom as well as on the shop floor; in services and manufacturing; in the public as well as in the private sector.

No performance improvement. No pay increase.

REBUILDING PERSONAL SAVINGS

But even success in the battle against inflation, vital though it is, will not suffice to equip our economy for the competitive battles that lie ahead, not least in Europe. The key is investment, which must double by the end of the Century.

And investment requires the rebuilding of savings. This is the third requirement for competing in the New Europe.

The Government has seemingly lost the savings habit; the public sector deficit repayment has disappeared. Corporate saving is also falling, as margins come under increasing pressure. So rediscovering the personal savings habit is essential not only to curbing consumer demand growth but also to financing investment on the scale required.

It will not be easy, obviously. But changing attitudes never is.

Today, the average household is spending £12 a week that would have been saved a decade ago, and which is being saved in France, Italy and Germany. The difference - £13 billion a year - goes a long way to explain our balance of payments deficit. We have let inflation in house prices do our saving for us. But what if housing declines in real value as it did in France and Germany in the 1980s?

In the long-run, all forms of personal savings should be exempt from tax. Individuals should decide how best to structure their savings to meet both their personal needs and their willingness to run risks. Indeed we are moving in that direction. The Government has a whole host of special schemes to encourage savings: SAYE, PEPS, National Savings Certificates and in January they will be joined by TESSA.

But all these are relatively small schemes, with volumes of Inland Revenue "guidance" to frighten off all but the most determined and sophisticated investors. We must make it as easy and tax efficient to save as to borrow. We must again become a Nation of savers and investors. We cannot afford another bout of house-price inflation, and all that will follow.

Why not just have a simple rule that all the earnings on everyone's first £20,000 of savings are exempt from Income or Capital Gains Tax? I doubt that the Inland Revenue would lose much - except staff; and even if it did, this would not add to demand, since it would be reflected in higher savings.

But if the Chancellor does not feel able to go this far at the very least he ought to adopt the recommendations of the CBI's Wider Share Ownership Task Force to give direct investment in equities a kick-start.

INVESTING IN MANUFACTURING

Finally, this must be the decade of engineers and teachers in particular (Lawyers are the profession for all seasons of course, and actuaries are eternal). The 1990s must see a further surge in investment in manufacturing as our debate yesterday (and Alf Gooding, in particular) made clear.

So I have recommended to the President that we establish a Task Force to advise him, and our Council, on the specific further steps needed to catch up with Germany in manufacturing by the end of the century. Nothing less will do.

The Task Force will report to our next conference. It will comprise leaders of world-class manufacturers from among our membership - and there are many. They will need to consider the role and effectiveness of the Department of Trade and Industry and our taxation system. It will need to look at the standing of engineers and engineering. And of course, it is vital that the relationship between those who own businesses and those who manage them is one of mutual confidence.

But it is already clear that if we are to be able to compete as a world-class manufacturing power, (and to continue to attract inward investment on the scale of the past) we must be seen to be part of the new Europe. Isolation would be a catastrophe for British business. Rather, we must continue to lead efforts to complete the single market. We must be involved in discussions about monetary union. And we must continue to do all that we can to get the Chancellor's hard ECU proposals considered as seriously as they need to be.

At the same time, we cannot afford competitive handicaps imposed from Brussels. The Social Contract of the 1970s was a sham, and a dangerous one at that. The Social Charter of the 1990s threatens to be worse. It is based on the twin delusions that we can legislate for ourselves an improved standard of living, and that Karl Marx lives on.

While Mme Papendraou talks about the inevitable conflict between capital and labour (by which she means Trades Unions, incidentally, even though less than one employee in three in Europe even belongs to a Trade Union), we are concerned with team work. While we focus on the future, she seems intent on recycling the failed solutions of the past.

There is too much political rhetoric in Brussels, not enough concern for jobs and Europe's ability to compete.

And, talking of rhetoric, let's not forget either that Italy has so far failed to implement 66 out of 107 Commission directives due to be enacted into National law by the end of this year. While we have almost the best implementation record in the Community.

Indeed, every time I see the latest missive from Brussels I remember that the first universal directive, the Ten Commandments, has 297 words, the American Declaration of Independence 300 - and the EC's landmark directive on the importation of caramel 46,911 - all of them redundant.

This is not the kind of open, free, competitive, enterprising Europe we are seeking to build. It sounds more like the Eastern Europe of the past.

It was not the prospect of the Social Charter that tore down the Berlin Wall, but the promise of a decent standard of living - and food - that freedom and the free market alone can deliver. A free market, incidentally, in which advertising plays a key role; and they are trying to regulate even that.

So we will continue to resist measures that will destroy jobs rather than create them.

But we must do more than resist.

For most of the 1980s we have expanded our businesses by making our assets work harder. The people, especially the management; the factories; the products and brands.

In the 1990s we will have to back this up with a much higher rate of reinvestment than we have managed hitherto:

- In skills to make them more than a match for the best in the world.

- In technology and robotics, not just to automate our processes but to achieve competitive advantage, total quality - zero defects.

- In new products.

At present, every year you - British business - invests on average about £6,000 a year for every employee - in fixed assets and software, innovation and training. This needs to double, in real terms, by the end of the century. Every year we will need to invest as much as we pay out in wages and salaries.

Or, put another way, between now and the end of the century, you will need to invest £85,000 for every single one of your employees. Slightly more than the value of the average house.

This is what being a world-class manufacturing power will entail. And it will not be possible unless we get inflation under control, and rebuild corporate profitability as well as personal savings.

* * *

President, My Lords, Ladies and Gentlemen, let me end where I began. These are tough times; very tough indeed for many of our members. And the near term outlook is not good, even without the uncertainties in the Gulf and now, it seems at Westminster.

But as we batten down the hatches and throw what little remaining ballast there is over the side, we must not lose sight of where we are heading - or how far and how fast we have come.

We can get back to the low inflation, high growth track from which we were diverted 3 years ago.

But only if we get a grip of our own inflation and contain unit labour cost increases to no more than 2 to 3 per cent. Only if Government can be persuaded to play its part in full, and stop scoring so many own goals. Only if personal savings can be rebuilt. Only if we can double investment in our manufacturing base.

Above all, only if we can continue to believe in ourselves, and what we have achieved these past ten years.

Let me repeat. There is absolutely no point in looking for people to blame for our present predicament, although there are plenty of candidates: the carping media, the short sighted analysts, the bureaucrats in Brussels.

It is down to us to ensure that Britain plays its full part - a leading part - in the new Europe. That is what this conference has been about. We have to lead. And leadership is precisely what the CBI will continue to provide.

PAUL GRAY

9 November 1989

Separate folder.

TRADE ROUTES TO THE FUTURE

It is not often that the CBI speaks with one voice. However, in "Trade Routes To The Future", the members are unanimous in their call for better infrastructure for Britain, brought about in a planned way.

To some extent the report is a shopping list. The executive summary is worth reading and I would draw your attention to paragraph 7 which contains most of the conclusions.

Just at HMT have their MTFS, perhaps DTp should have an MTIS, the 'I' being Infrastructure.

GREG BOURNE

CBI urges a £21bn transport plan to avert catastrophe

By David Black
Transport Correspondent

BRITAIN must spend £21bn on improving its road, rail and air network to avoid a creeping industrial catastrophe, the Confederation of British Industry warns in a report published yesterday.

The CBI says: "It is... recognised that the nation's transport infrastructure is hopelessly inadequate. It is already costing £15bn a year, or in excess of £10 a week for every household."

If Britain is to reap any benefit from the single European market, which comes into force in 1993, it must rewrite the nation's economic geography, it says.

John Banham, director general of the CBI, said that Britain is locked into historic trade priorities by a transport system designed to face the now decaying west coast ports. "What we need is a road, rail and air system that faces our future in Europe, rather than our colonial past."

The report says it is difficult to overstate the impact of the single market and opening of the Channel tunnel, and calls for a further £2bn to £3bn a year to be spent on roads, rail and air if Britain is to have any hope of attracting new investment.

Although Mr Banham would not speculate on how the proposals should be paid for, the report calls for the Department of Transport to oversee proposals on "how the programme is to be financed, and the implementation timetable, taking due account of the potential for attracting private capital".

Mr Banham said that failure to act will deter new investment in Britain and cause industry and investment to bleed out, principally through the Channel tunnel. "We will force business to emigrate, especially to northern France where land is cheap, skills are available, and interest rates are lower; and where there is an excellent infrastructure into the rest of Europe."

The CBI's main proposals include a major extension of the motorway network to provide fast and reliable links to the Channel tunnel, down the east coast, along the south coast and from the Midlands to the North-west.

Heavy investment in the railways should include a drive to have long-distance freight transferred to rail to relieve road congestion, and rail freight routes, especially to and from the Channel tunnel, that bypass London.

Improvements to air traffic control and the building of a fifth terminal and third runway at Heathrow, in conjunction with a Heathrow to Paddington rail link and a new runway at Gatwick, should also have priority. To take pressure off the London area, further development of regional airports must be considered.

The CBI advocates sweeping changes in planning laws, which would give Parliament the right to designate "strategic route corridors". Within them, the right of objectors to question the need for nationally required infrastructure would be limited. However, in tandem, levels of compensation would be raised above current market values, and additional higher payments for loss of homes would be introduced.

The report calls for greater government encouragement of private sector financing in all areas of transport, and for a relaxation of cash restraints on public transport. On roads, it suggests "shadow tolls" where the Government would offset competition from public roads by reimbursing private roadowners on the basis of the number of vehicles they carry.

On the railways, the CBI says the Government should recognise the benefits to the environment, the potential speed of delivery, and the major contribution made towards easing road congestion a more vigorous BR could offer. At present, investment in track and rolling stock is appraised on a purely financial basis and that is wrong, the report says.

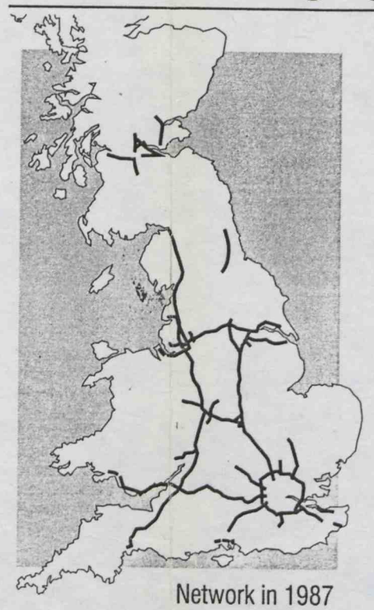
Mr Banham described London and the South-east as being like a cork in a bottle — "you can't get through it, and you can't get round it." He called for another, outer orbital road, the "early implementation" of the Central London Rail Study, currently on the Government's back-burner, a four-day week, and improved park and ride facilities.

Mr Banham said: "At the moment the South-east seems to be a large traffic jam spewing out fumes. A more ambitious, urgent approach is required if the current waste and environmental damage caused by congestion are not to increase. We have the land, the people, the resources and the money, but what we need is the will. If we fail, then the people who will pay, will not be our members, but the people of these islands. We will become a low-waged backwater."

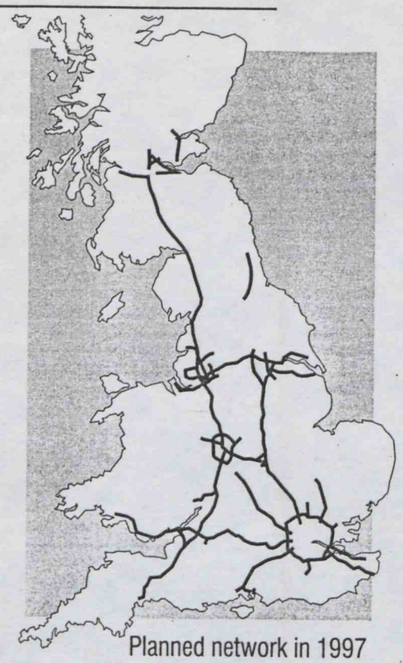
■ *Trade Routes to the Future*; CBI, 103 New Oxford St, London WC1A 1DU; £10 (members' price), £30 (non-members).

Leading article, page 28

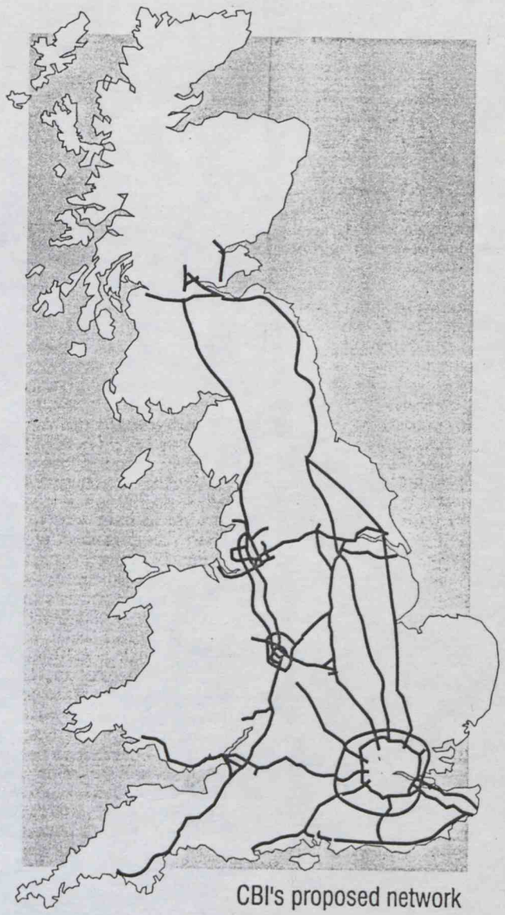
Britain's changing motorway map



Network in 1987



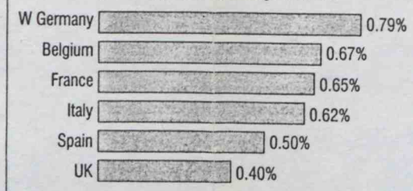
Planned network in 1997



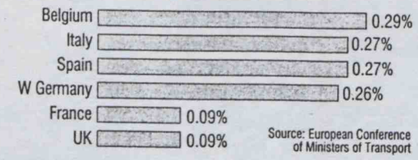
CBI's proposed network

Investment in roads

as a percentage of GDP, average 1982-85



Investment in rail



Source: European Conference of Ministers of Transport

Dire need to upgrade roads

By David Black

THE report emphasises the dire need to develop road and motorway systems, and the bottleneck in and around London. To counter urban congestion the Government should consider fairly priced, reliable public transport, in conjunction with some form of road pricing.

It says France will expand its motorway network by 250 per cent before 1997, while Britain's will be much the same. Although West Germany is much the same size as Britain, its motorway system is three times bigger.

Specific improvements called for are:

- **An east coast motorway extending the M11 to link with the A1 south of Middlesbrough.**
- **Upgrading the A1 to dual three-lane standard from London to Edinburgh, linking existing stretches of motorway.**
- **A south coast motorway from Dover to Poole via Southampton, following the route of the A259/A27/M27/A31. This would be in conjunction with an upgrading of the A36 to dual carriageway, extension of the M5 to Plymouth, and upgrading of the entire A303/A30 to dual carriageway.**
- **A new motorway between the Midlands and the North-west to run parallel to the M6.**
- **A Home Counties outer-orbital motorway from Oxford to the M20, via a new Thames crossing.**
- **Upgrading the A74 from Carlisle to Glasgow to motorway standard.**
- **Linking Glasgow and Edinburgh with a through route.**
- **Extension of the M2 to Dover.**
- **Extension of the M42 to the M1.**
- **Upgrading of the M4 to a three-lane carriageway in Wales and a second Severn crossing by the mid-1990s.**
- **Upgrading to dual carriageway of the entire A47 from Great Yarmouth to Leicester.**
- **Upgrading to dual carriageway of the entire A11.**
- **Upgrading of the A40 to dual carriageway between Oxford and Ross-on-Wye.**
- **Upgrading of the A49 to dual carriageway between South Wales and north-east Wales.**
- **Upgrading to dual carriageway of the A69 between Newcastle and Carlisle, and the A66 between Scotch Corner and Penrith.**
- **A high quality dual carriageway between Sheffield and Manchester, possibly based on the A628 Woodhead Pass.**
- **Upgrading to dual carriageway of the A75 between Carlisle and Stranraer.**
- **Upgrading to dual carriageway of the single carriageway sections of the A55/A5 North Wales expressway from Chester to Holyhead.**

Bigger and better airports required

AIRPORT terminals, runways, and the air traffic control system must be overhauled to cope with an expected doubling in passengers leaving Britain during the next 10 to 15 years, the report says.

There are more than 15 million international business trips a year, or 65,000 a day, says the report, noting that if Britain is to retain its role as a trade and finance centre, and allow British airlines to take advantage of European deregulation, it must head off the competition.

Charles de Gaulle airport outside Paris is building a third runway that could give it a capacity of up to 90 million passengers a year — three times the throughput of Heathrow. The report says lack of capacity at Heathrow and Gatwick is losing the airports revenue and quotes an estimate that an additional five peak hour slots would earn Heathrow another £180m a year and Gatwick £70m.

The CBI supports measures being adopted by the Civil Aviation Authority to increase airspace capacity but wants immediate approval for an increase in Stansted's capacity and wants London's City runway extended. It also wants approval for Heathrow's fifth terminal, a third runway, the replacement of Terminal 2 to allow redevelopment and a second runway at Gatwick.

Tunnel problems delay a railway renaissance

THE CHANNEL tunnel will call forth a railway renaissance, the CBI says, but it is uncertain that the required infrastructure will be in place in time.

British Rail receives substantially less taxpayer support than railway companies in other European countries, and because of government restraints on rail investment, Britain is already falling behind.

Britain must link roads to major rail freight hubs in all the industrial centres. These must offer through services to the Channel tunnel and beyond, linking regional British business to the heart of Europe. Most important for the regions is the creation of new rail lines bypassing London.

The CBI also advises BR to consider adopting the continental freight gauge for rolling stock to avoid the need to build transshipment depots near the tunnel. BR would need to develop new rolling stock, with lower slung wheel bogies, if the CBI's proposals are to be met.

Continental Berne gauge wagons can carry up to 20 per cent more goods because they are deeper and broader, but they could not squeeze under BR's bridges or past stations.

The report believes that private funding has a role to play, but concludes: "BR's investments in infrastructure and rolling stock are appraised on a financial basis which takes no account of any environmental or other benefits — reduced congestion or energy conservation — that may result. This is clearly unsatisfactory. There are many rail services, which although not directly commercially viable, could bring wider benefits."

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Director-General
John M M Banham

Director Scotland
John Davidson

Scotland

CBI

Our Ref NH/L68

2 September 1988

Paul Gray Esq
Private Secretary
10 Downing Setreet
London
SW1A 2AA

Dear Mr Gray

CBI SCOTLAND ANNUAL DINNER - 8 SEPTEMBER 1988
ALBANY HOTEL, BOTHWELL STREET, GLASGOW

I now enclose the official cards for the following guests:

The Prime Minister
Mr Dennis Thatcher
Mr P Gray
Mr T Perks
Mr N Wicks
Mr Cranfield-Thompson
Mr A Leach
Mr D Lewis

Also enclosed is a list of the Top Table guests, together with a list of those attending the Private Reception.

If you require further information, please do not hesitate to contact me.

Yours sincerely

N. Hannah

N HANNAH (MRS)
Administrative Officer

TOP TABLE

Mr Bill Hughes CBE - Host
Chairman
CBI Scotland

The Rt Hon Mrs Margaret Thatcher MP
The Prime Minister

Mr Dennis Thatcher

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland

Sir Trevor Holdsworth
President
CBI

Lady Holdsworth

The Rt Hon The Lord Provost of Glasgow
Mrs Susan Baird

Mr Robert Calderwood LLB
Chief Executive
Strathclyde Regional Council

Rev Dr William J Morris
Minister
Glasgow Cathedral

Mr Alastair Mair MBE
Vice-Chairman
CBI Scotland

Mr John Davidson
Director
CBI Scotland

FROM CBI SCOTLAND

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Director-General
John M M Banham

Director Scotland
John Davidson

Scotland

CBI

CBI SCOTLAND ANNUAL DINNER - ALBANY HOTEL, GLASGOW

8 SEPTEMBER 1988

PRIVATE RECEPTION 1900 HOURS - AILSA/IONA SUITE

HOST

MR BILL HUGHES CBE: CHAIRMAN, CBI SCOTLAND
Chairman & Chief Executive
Grampian Holdings PLC

MRS ANNE HUGHES

GUESTS

THE RT HON MRS MARGARET THATCHER MP
The Prime Minister

MR DENNIS THATCHER

SIR TREVOR HOLDSWORTH
President
CBI

LADY HOLDSWORTH

THE RT HON MALCOLM RIFKIND QC MP
The Secretary of State for Scotland

MRS EDITH RIFKIND

THE RT HON THE LORD PROVOST OF GLASGOW MRS SUSAN BAIRD

MR ROBERT CALDERWOOD LLB
Chief Executive
Strathclyde Regional Council

REV DR WILLIAM MORRIS
Minister
Glasgow Cathedral

MRS JEAN MORRIS

MR JOHN DAVIDSON
Director
CBI Scotland

MRS MARILYN DAVIDSON

MISS SONIA ELKIN OBE
Director, Regional & Smaller Firms Directorate
CBI

LORD GOOLD
Director
Mactaggart & Mickel Ltd

MR DOUGLAS HARDIE CBE JP: MEMBER CBI SCOTTISH COUNCIL
Director
Edward Parker & Co Ltd

SIR NORMAN MACFARLANE
Chairman
Macfarlane Group (Clansman) PLC

MR ALISTAIR MAIR CBE: VICE-CHAIRMAN, CBI SCOTLAND
Managing Director
Caithness Glass PLC

MR JIM McADAM
Chief Operating Officer
Coats Viyella PLC

MR RONNIE MERCER: MEMBER CBI SCOTTISH COUNCIL
Director Ravenscraig Works
British Steel Corporation

MRS ANNA MERCER

MR BILL MILLER OBE: MEMBER CBI SCOTTISH COUNCIL
Group Managing Director
Prestwick Holdings PLC

MR DONALD MILLER: MEMBER CBI SCOTTISH COUNCIL
Chairman
South of Scotland Electricity Board

MR WILLIE PHILLIPS: MEMBER CBI SCOTTISH COUNCIL
Managing Director
Macallan-Glenlivet PLC

MR ALICK RANKIN CBE: MEMBER CBI SCOTTISH COUNCIL
Chief Executive
Scottish & Newcastle Breweries PLC

MR BARRY SEALEY
Managing Director
Christian Salvesen PLC

NH3ABS

THE RT HON THE VISCOUNT WEIR
Chairman
The Weir Group PLC

MR IAN WOOD CBE
Chairman & Managing Director
The John Wood Group PLC

NH3ABS

SUBJECT cc MASTER

lib VC
cc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

1 December 1987

Dear Alex

DINNER WITH THE CBI

The Prime Minister yesterday gave dinner to the President and senior members of the CBI. I attach a copy of the guest list.

There was only a brief discussion of business matters. Sir David Nickson referred to the dramatic change which had come about as a result of the stock market crash. Although they would not say so in public, there was a widespread belief amongst business leaders that confidence was now fragile. There was a need for continued stability of the exchange rate. Mr. Denys Henderson said there was a period of uncertainty ahead. ICI was not cutting back overtly, but there were covert reductions in spending on the way. British industry was now better placed to resist a recession than it had been in the past, but it would be important for the Government to avoid adding to industry's costs. He referred particularly to the proposed increases in electricity prices. Sir Peter Walters pointed to the need to bring pressure through the threat of increased coal imports. Sir David Nickson said that there was a widespread view that electricity prices were being increased in order to help the privatisation of electricity.

The Prime Minister in reply pointed to the need to finance a huge programme of investment in electricity. The rate of return on electricity was still much lower than in private industry and would continue to be so even after the increase in prices. The Chancellor of the Exchequer argued that so long as the Government continued to pursue sound financial policies and industry maintained its much improved performance of recent years, there would be grounds for continuing optimism. It was important that Government and business should not criticise each other in public. That would itself undermine confidence.

I am copying this letter to Alison Brimelow (Department of Trade and Industry), Peter Smith (Chancellor of the Duchy of Lancaster's Office) and Stephen Haddrill (Department of Energy).

Yours,

David

DAVID NORGROVE

Alex Allan, Esq.,
HM Treasury.

PRIME MINISTER

3 November 1987

CBI CONFERENCE

I attended a good part of the CBI conference this week. Despite the headlines on rates and electricity prices, overall I was struck by the largely constructive note of most of the debates - focussing on what industry can do to help rather than demanding more action from Government. There was a particular commitment in the areas of:

1 Education: The significant role (and self interest) of business in improving educational standards was clearly recognised, including the extension of the "education compact" idea and the development of specific links between schools and local businesses. A Task Force under Sir Adrian Cadbury has been set up to make recommendations on how CBI members should take this forward.

2 Training and management development: There was an enthusiastic response to the proposals of the "Charter Group" - in which John Wybrew has been heavily involved - in its efforts to develop a code of best practice for management development across British industry.

3 Inner Cities: This created a lot of enthusiasm, with much interest in a presentation by Glasgow Action of the role that business leadership is playing in that city. As you know, the CBI are setting up a Task Force to encourage business involvement in inner cities.

Nevertheless there was also a consistent message from many speakers asking for the Government to give higher priority to using any scope for reduced taxation in future budgets to lower business tax levels. Despite the cut in the corporation tax rate that has accompanied the phasing out of capital allowances, many businesses complained that the net

effect has been to raise their tax payments. In essence their argument is that Government should leave more money within the corporate sector to enable companies to invest in training, research and other areas where we want business to take responsibility.

Even the debate on rates was largely a plea from delegates for a reduction in the level of the rates burden on business - which, it was argued, would rise heavily for some businesses with revaluation - rather than any particular passion about the form of the new business rating (or Community Charge) system.

It is obviously open to question whether a general reduction in business taxation will stimulate spending on - for example - more training. The counter-argument is that a reduction in the rate of corporation tax could actually make businesses look harder at discretionary spending - since the "tax offset" is reduced and the expenditure feeds through directly into earnings. This would point to the use of specific tax incentives for training, R & D, corporate giving, etc, as a more efficient way of giving funds back to the corporate sector; but such a move would reverse our current aim of simplifying the overall tax system.

Despite these issues, at a time when surveys show that the public is increasingly willing to accept the importance of business profits, the CBI's call to include a reduction in business taxation on the Chancellor's agenda is worth considering - and could be linked politically to the increasing role that the private sector is playing in taking back responsibility previously pre-empted by Government. In the light of the CBI's challenge, it may now be worth formally reviewing our objectives and options for business taxation - if only to ensure we have a well argued response.

Norman Blackwell

NORMAN BLACKWELL

8

CE/BG

Speech given by

The Rt Hon Robin Leigh-Pemberton
Governor of the Bank of England

at the Annual Dinner of the Yorkshire &
Humberside Regional CBI
11 March 1987

I am most grateful to the Confederation of British Industry for inviting me here this evening, and it is a particular pleasure to share a platform with David Nickson. The last person from the Bank of England to face a CBI audience was my colleague David Walker, who - armed only with impeccable logic - ventured to speak at last year's Conference Debate on the City and Industry. It was by all accounts a lively occasion and many of the themes discussed there have remained contentious: so it will not surprise you that I propose to address some of them again tonight. It is right that we should keep under very close scrutiny the relationship between the financial sector and industry, and I very much welcomed David Nickson's timely initiative, late last year, in creating a high-level task force to study City/Industry relations. I hope and believe that this group will be able to produce constructive ideas that will command general support. Certainly in the City there is a readiness to question old practices and to welcome new ideas.

It is an especial pleasure to come to Sheffield, a great centre of industry with long and proud traditions. I know only too well how difficult industrialists have found these last few years of restructuring. For a while the Bank of England was directly involved in some aspects of it; and we have always prided ourselves on and devoted considerable resources to keeping in close touch with industry in this as in other regions. We greatly value the work undertaken by our Agents around the country in providing a continuously up-to-date picture of the problems facing industrialists - and indeed of their impressions of us in the financial community.

It must be very tempting to look South and reflect that somehow the City of London lies in another world, divided from the industrial centres and sheltered from their problems. But I have to tell you that your problems in industry would find an echo in many a City board room. Financial firms are by no means immune from the pressures of competition and cost, from difficult capital investment decisions, from management weakness or from skill shortages. Competition, indeed, is as fierce in the City as in any part of our commercial life, and it is made still more intense by the increasing inter-connectedness of the main world markets and the homogeneity of the products traded in them - as well as by the almost complete openness of the City to competition from powerful international firms.

Recent changes in the City - graphically labelled "Big Bang" - came about precisely because of the intensity of international competition. Our domestic securities industry faced, in effect, the kind of choice between parochial decline on the one hand and international orientation on the other that faces many manufacturing industries. The measures taken over the past few years, culminating in the "Big Bang" itself last October, demonstrate that it was the competitive, international option that was chosen - with all that implies in terms of risk as well as potential reward. Fixed commissions have been replaced by negotiated commissions; barriers to entry to the Stock Exchange have been removed; powerful new enterprises have been formed; and modern technology has allowed a transformation in the openness and efficiency of the market. In thus transforming themselves, members of the Stock Exchange have responded to and embraced international competition - just as any business has to, whether providing goods or services. Prices have been cut, new technology acquired, and human and financial capital redeployed.

This is all to the good, for the City's earnings contribute massively to our economy. But how, you may ask, do all these changes benefit industry? The impression is sometimes given - and is compounded by television pictures of frenzied young men in immense trading rooms - that securities dealing, and activity in related but more esoteric markets like futures and options, is an end in itself. But this is a misleading impression. Trading in a secondary market is an essential source of liquidity, without which shareholders would be less ready to invest - or to allow companies to retain profits rather than distribute them. More generally, competitive trading provides the market background against which new financings and product development take place. The competition in the dealing rooms brings direct benefits in terms of lower costs and a greater variety of products - new ways of raising money, of sharing and spreading risk and of providing investment products. The changes introduced by the Big Bang have already lowered dealing costs and increased the liquidity of the markets in many shares: and this is likely to be favourably reflected in the market for new finance for companies of all types.

While there are great opportunities here for the industrialist, I do not wish to suggest that the changes have made life easier for him or for his Finance Director. If companies are to make the best use of all the new financing and risk management techniques now available, considerable sophistication and constant up-dating are required - as well as a degree of caution. The choices of financing instrument have multiplied: so too has the number of intermediaries. It is much easier than in the past to shop around, to obtain competing quotes for particular funding or other transactions or types of advice. The pendulum has swung a long way since a company put all of its deposit, borrowing and payments

business through a single bank, and relied on a single issuing house for its access to capital markets. While the relationship between a company and its professional advisers, be it legal, taxation or financial remains extremely important, that type of "relationship" banking is now supplemented and indeed sometimes replaced by "transaction" banking, whereby a range of intermediaries may be involved with a company, some just for one piece of business. For some company treasurers this is an entirely sensible way to approach the City: many are, after all, at least as sophisticated as the bankers with whom they deal. But in other cases the abandonment or dilution of the relationship with a lead bank or corporate finance adviser can be a source of subsequent regret. Often when trading conditions become more difficult the new transaction-based intermediaries prove fair-weather friends: in such times well-informed, stable and supportive banking relationships can be of immense value, and the fact that they may cost slightly more will then be of little relevance.

But the City cannot always be a comfortable place for company boards - it would be wrong if it were. It does after all provide the market in which the shares of public companies are bought and sold: and this means that it is a market in which the proprietorship of the company resides and may change hands. Like all markets, it sends messages, sometimes disagreeable ones.

If proprietorship of a company is to mean anything, it must include the right to vote and the right to sell; and boards cannot escape the fact that shareholders may sometimes vote or sell all at once. It is therefore highly desirable that Boards should pay very close attention to what their shareholders are telling them - either directly, or indirectly through the market. And it is correspondingly incumbent upon shareholders, particularly substantial or influential ones, to exercise the rights attaching to their ownership with all due responsibility.

It is much easier for institutional shareholders than for individuals to keep themselves informed about a company and in touch with its management. We in the Bank have devoted considerable attention over the past 15 years or more to promoting a closer relationship between the major institutional shareholders and the companies in which they invest: encouraging them to intervene, collectively if necessary, if they feel matters to be going adrift. This will involve, in particular, a close interest in the composition of the Board. In times of dissatisfaction or concern, the relationship is likely to be a difficult one, and it will always be bound by constraints on both sides, not least because price-sensitive information has to be kept confidential until it is made public; but it is worth persevering with - if only because the alternatives are so unpalatable. If a

substantial shareholder feels frustrated and unable to get his views across, his only recourse may be to sell his shares. But for a holding of any size this can be difficult; so that in practice the institution may often feel locked in - and all to ready to listen to or even accept overtures from a potential predator.

I am only too well aware of the expense, disruption and sometimes even damage that can be inflicted on a company by a contested takeover. But that alone is no reason to condemn all such bids. Boards cannot expect protection from unwelcome predators, for that is but a short step from saying that they should be protected from their own shareholders - who are, after all, the proprietors of the company. Protection of the kind that some have advocated would in my view lead to less efficient management, and by limiting investors' rights it would make them less ready to take up new equity, with the result that raising finance would become more difficult and more expensive.

Takeovers and mergers have an important role to play in our system. They can lead to economies of scale, to beneficial integration, and to more efficient market penetration. This is particularly important at a time when real competition for many firms come from larger foreign enterprises. They can also lead to better company management. They do not always do so: shareholders can be wrong, and so may be the management of bidder companies. But the degree of success or failure has not in my experience depended on whether or not the takeover was contested.

Some of you may nevertheless feel that in some respects the process has gone too far: that market mechanisms that ordinarily play an essential role in protecting the interests of shareholders have sometimes in recent years come to be abused. Some takeover bids appear to have been launched not so much in response to evidence that a company's management is not up to the task, or in the belief that its business would do better in different hands, but in order to reap a once-for-all capital advantage. And there have been situations recently where opportunistic predators have sought to use the considerable platform and influence of a minority shareholding to unsettle the management of a well-run company. The expression "putting a company into play" is as unpleasant as the idea behind it. The aim is to pressurise a company's management into action dedicated solely to a favourable impact on the share price in the short-term, partly or even primarily at the expense of the future. The consequence is often a protracted period of unfocussed uncertainty which inflicts quite unnecessary damage, weakening a company's management and distracting them from longer-term objectives, sapping the morale of its workforce, and making employees feel individually insecure to the point of leaving.

This must be a matter of great concern to the City. Approaches of the kind that I have described often depend for their success on creating a highly-charged and artificial situation in the share market, and give rise to temptations - on both sides of the battle - to engage in aggressive, even manipulative tactics that are immensely damaging to the interests of shareholders and to the reputation of the companies and advisers involved. Those in the City who act for companies or individuals in these cases must, I suggest, be ready to accept a full measure of responsibility - even if it entails opprobrium - for the transactions that may result, and should exercise the most careful judgement at the outset with respect to the clients for whom they act and the activities contemplated. Those who sow the wind cannot expect the whirlwind to visit elsewhere. History - including quite recent history - well illustrates the need for City houses to be properly jealous of their reputations and those of their clients.

What can companies themselves do by way of self-protection against speculative disruption? I have already mentioned the importance of forging good relations with shareholders, especially institutional investors. Markets are not generally myopic - they are usually capable of assessing quite accurately the information they receive. But they do need information if they are to give the right signals. Company reports are sometimes alarmingly bland and uninformative. Boards often complain about the short-term views taken by their shareholders - but do not give them anything on which to base a longer view. We all know that good training programmes, soundly-based research and development and campaigns to break into new markets, as well as major investment programmes are costly and their short-term impact on the profit and loss account cannot be disguised. Yet these are the lights that brighten a company's future. Why hide them under a bushel? Why not, in a word, give a clear presentation that the company has made its dispositions and knows where it intends to be four or five years from now? Under the pressure of a takeover, companies are quick enough to reveal information beneficial to the share price. Shareholders' scepticism in such circumstances is hardly surprising - so why not anticipate, within commercially prudent limits?

We have in this country one of the most efficient financial markets in the world. Industry should benefit from this, not labour under a sense of disadvantage and resentment. It is nothing less than madness for there to be divisions between the City and Industry. In partnership, they can achieve all that the Nation expects from its commercial system. I want that partnership to flourish.

cc. DTI

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 November, 1986.

The Prime Minister has asked me to thank you for your letter of 23 October about developments in broadband cable.

Mrs. Thatcher was pleased to have your views on Recommendation 15 of the Peacock Report. This recommendation raises significant issues for the Government's telecommunications policy and, as you know, no decision has yet been taken on it. Your views were therefore timely, and I know that the Department of Trade and Industry will be giving your submission close attention.

With regard to Project Beany, I understand that the Department of Trade and Industry is looking forward to seeing your proposal in its final form, and that any application for financial assistance by National Telecable will be considered carefully. The project sounds interesting, and the Prime Minister has asked me to wish you success with your plans.

(P.A. Bearpark)

M.J. Matson, Esq.

JB

SR

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215) .....
(Switchboard) 01-215 7877

PS/

Secretary of State for Trade and Industry

CONFIDENTIAL

10 November 1986

P A Bearpark Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA

Dear Andy, Per 4th

I am replying to your letter of 07 October to William Fittall at the Home Office, asking for advice on a letter the Prime Minister had received from Mr Malcolm Matson of National Telecable.

Mr Matson is an enthusiast for cable and through his company, National Telecable, which is backed by Reed Publishing, he has ambitions to run a number of cable franchises across the country. So far he has been awarded a franchise for Bolton by the Cable Authority but he has yet to begin building a system there.

Mr Matson's letter covers two issues related to the future of broadband cable networks in the UK: Recommendation 15 of the Peacock Report and National Telecable's own plan to set up a broadband network in Bolton (Project Beany) . These are both matters for which this Department takes the lead.

Peacock Report : Recommendation 15

This recommendation, which concerns the proposal for a national common carrier for all telecommunication and television services, has been considered by MISC 128 and is being referred to E(TP) for further discussion. Mr Matson has already submitted his views on the Recommendation to this Department. His basic message is that the existing policy towards cable development should be given time to work and that there should be no change at this stage if at all.

JG4AEL

1786 1986 BOARD OF TRADE BICENTENARY

999-1

Project Beany

Mr Matson intends that the Bolton cable system should provide a test-bed for interactive services. He is putting together a proposal, which he calls Project Beany, in partnership with a Canadian company, Teletronics Communications Ltd, who will provide the necessary hardware and software technology. National Telecable are seeking participants for the market trial and have made approaches to the DTI about possible assistance under the Support for Innovation/Cable Demonstration Scheme. No firm application has yet been made.

I enclose a draft reply for the Prime Minister to send to Mr Matson. There has been previous correspondence between No 10 and Mr Matson on the subject of cable and I enclose copies for your information.

Nicola Parkins

NICOLA PARKINS
Private Secretary

JG4AEL

999-49

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:-

M J Matson Esq
Managing Director
National Telecable
19 Stratford Place
London W1N 9AF

01

The P.M. has asked me to

I Thank you for your letter of 23 October about developments in broadband cable.

Re T—

~~I~~ was pleased to have your views on Recommendation 15 of the Peacock Report. This recommendation raises significant issues for the Government's telecommunications policy and, as you know, no decision has yet been taken on it. Your views were therefore timely and I know that the Department of Trade and Industry will be giving your submission close attention.

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JG4ADO

NATIONAL
TELECABLE
19 Stratford Place London W1N 9AF Telephone: 01-493 8388
Telex: 291429 Electronic Mail: 81:NNG 019
Fax: 01-493 8280

23rd October 1986

The Rt. Hon. Mrs. Margaret Thatcher, MP
10 Downing Street
London SW1

Dear Prime Minister,

It is now nearly two years since you kindly wrote to me on the subject of broadband cable.

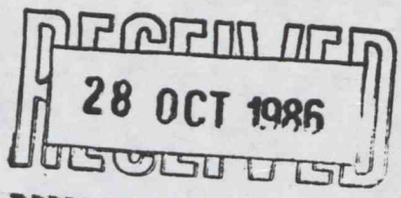
In the intervening time National TeleCable has been resolutely pursuing its strategy for developing the broadband infrastructure envisaged by the legislation which your Government passed in 1984.

We have always believed the Cable & Broadcasting Act 1984 and the Telecommunications Act 1984 to be inspired pieces of legislation, unique in the world in permitting the accelerated development of a market driven national Integrated Broadband Communications network - sometime referred to as IBC (e.g. by the EEC in its RACE programme) or by Professor Alan Peacock as the 'national fibre-optic grid'.

I take no satisfaction in seeing that most of the concerns I expressed to you in my letter of 7th February 1985 have now come to pass regarding the negative effect of British Telecom upon the early emergence of a private sector development of IBC in the United Kingdom. Although this has resulted in the nation losing some of the valuable headstart it was given by the legislation, we consider the damage caused to be by no means irrepairable. However, it would inevitably become so if the legislation or the regulatory environment were now to be 'meddled' with, particularly on the basis proposed in Recommendation 15 of the Peacock Committee Report. Peacock's recommendation makes what we believe is a false assumption, namely that some deficiency in the legislation has contributed to the current low state of activity and investment in the UK broadband cable industry. I enclose a copy of a paper we have sent to the DTI at their request, which sets out our argument as to why this assumption is false and why it is essential that Recommendation 15 of the Peacock Report is rejected.

Your Minister of Information Technology, Mr. Geoffrey Pattie, MP and his staff at the Department of Trade and Industry plus Professor Bryan Carsberg at Oftel and of course the Cable Authority are all well acquainted with National TeleCable and our Project Beany. (briefing note enclosed). This Project could be the definitive proving of the UK legislation by

2/28/10



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 October 1986

I enclose a copy of a letter which the Prime Minister has received from Mr. Malcolm Matson, Managing Director of National TeleCable.

I should be grateful if you would provide a draft reply which the Prime Minister might send to Mr. Matson by Monday 10 November.

I am sending a copy of this letter and enclosure to Catherine Bradley (Department of Trade and Industry).

(P. A. BEARPARK)

William Fittall, Esq.,
Home Office.

TO MR EVANS IT

FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)
PLEASE BY:
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demonstrating the market demand today for a wide range of broadband services if they are offered over a common carrier local network at a competitive tariff. Not only would such a successful demonstration result in the rapid take-off of the broadband cable industry in the UK but it could also lead to an emulation of the UK legislation elsewhere and particularly in Europe. I believe that the well intentioned RACE programme sponsored by the EEC is fundamentally flawed and will only achieve IBC at great public cost and several years after private enterprise has brought it about in the United Kingdom - thanks to our unique legislation.

National TeleCable remains confident that no further Government assistance or amendment to the legislation is needed in order to permit a private sector market demonstration of IBC such as we propose in Project Beany.

We remain convinced that the early widespread development of such networks in the UK would have a significant positive impact upon the structure and cost effectiveness of the UK economy in both the private and public sectors and that it will prove beyond doubt that the IT revolution which was heralded in 1982 holds some of the most important seeds for the further economic and social regeneration of the country.

May I suggest that there are two considerable contributions which you Prime Minister could personally make to help ensure that this happens in a timely fashion? The first is to resist any immediate pressure from vested interests to amend the legislation. The second is to ensure that your Ministers are made aware of Project Beany (and any other project like it) and encourage their Departments to use this Project to explore the potential that an IBC network could have for improving the services, increasing the efficiency and reducing the operating costs of various parts of the public sector.

Thank you for your continued commitment to the original objective. You may rest assured that we remain no less committed ourselves.

Yours sincerely,

Malcolm J. Matson
Managing Director

enc.

Mrs. R. Levy,

Thank you.

18/3

FOR INFO MR SPICER IT

13 MAR 85

10 DOWNING STREET

11 March, 1985

From the Private Secretary

The Prime Minister has asked me to thank you for your letter of 7 February about your proposal for a Broadband Network Construction Loan Guarantee Scheme. She is sorry you did not receive an acknowledgement to yourletter.

The Prime Minister has asked me to assure you that there is no lessening of Government interest in cable and the Minister of State for Information Technology is currently taking the opportunity of publicly emphasising the benefits that will flow from the expansion of cable. She was particularly interested in this context to learn of the significant initiatives you are taking to push forward its development.

As the Prime Minister said to you in her letter of 26 November last year, the role of Government is to establish a favourable climate for cable so that companies can take full advantage of the opportunities that are being created by the advance of technology. The Government has always taken the view that cable should be privately financed and market-led. On the face of it, your proposal for a Loan Guarantee Scheme would seem to run counter to that policy. The Prime Minister has, however, asked the Department of Trade and Industry to explore your proposals on her behalf, and to get in touch with you in due course.

(Mark Addison)

M J Moison, Esq.

14/3

10 DOWNING STREET

From the Private Secretary

14 February 1985

Dear Christine,

I enclose a copy of a further letter to the Prime Minister from Mr. Malcolm Matson, the Chief Executive of National TeleCable. You will recall that the Prime Minister wrote to Mr. Matson, on your advice, on 26 November 1984.

I should be grateful if you could arrange for advice to be submitted on his latest letter, in consultation with the Department of Trade and Industry. Subject to your views, I would have thought that the reply from No. 10 should be relatively brief, and that Mr. Matson's detailed points should be pursued by the appropriate Departments.

May I please have your advice, and a draft reply by Thursday 7 March.

I am sending a copy of this letter and enclosure to Andrew Lansley (Department of Trade and Industry).

Yours ever,

David

DAVID BARCLAY

TO Mr Smith
FOR ADVICE AND DRAFT REPLY IF APPROPRIATE)
PLEASE BY: 21/2/85
IF DEADLINE CANNOT BE MET PLEASE PHONE 215 5422

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Mr Roberts
Mr Cosh
Mr Gill ECGD
Mr Willott
Mr Macdonald T
Mr Whiting GP

DEADLINE EXTENDED TO [illegible]

Mrs. Christine Heald,
Home Office.

CNG

67

19 Stratford Place
London W1N 9AF
Tel: 01 629 9999

7th February 1985

The Rt. Hon. Mrs. Margaret Thatcher, MP
10 Downing Street,
London SW1

Dear Prime Minister,

Thank you for your letter to me of 26th November 1984 on the subject of cable TV to which I felt a reply was not required at the time. I particularly appreciated your statement of conviction about cable contained in the last paragraph of your letter. Being thus reassured of your commitment that the development of broadband cable in the UK should continue in accordance with your Government's policy and knowing that you have recently requested ITAP and the Cable Authority to assess the extent of this progress, I am writing to you now with what I trust will be regarded as constructive personal suggestions on the matter. I offer these comments to you largely from the investment banking perspective I have had of the industry for the past two years. I am also a director of Aberdeen Cable Services Ltd. (one of the successful 11 pilot licencees) and together with two other cable entrepreneurs (Patrick Scott, Chief Executive of Aberdeen Cable Services Ltd. and Michael Davis, Chairman of Windsor Television) have formed National TeleCable Management Ltd. This company is committed to developing cable and telecommunications companies in various locations throughout the UK to exploit the opportunities provided by the recent legislation and the deregulated telecommunications environment.

The delays in issuing the licences and the change in capital allowances (which is certainly in the best longterm interest of cable) have resulted in many would-be corporate investors quickly retreating from this capital intensive 'sunrise' but unproven industry.

When this dwindling of investor commitment in many of the 11 successful applicants began to take place, they tried to fill the gaps left in their capital structure by seeking new sources of funds - either debt or equity. Clearly some level of debt financing would be attractive in that it would increase the projected ROI (much needed by this time) and so everyone has tried hard to secure debt/lease finance. All the 'cable serious' Banks (many of them US) were more than ready to lend, but while feeling relatively comfortable with the longterm prospects for the industry (having discovered an early caution to the US industry to be ill founded), were clearly very uncomfortable with the covenant of the borrowers

- nearly all new enterprises with no track record. The only way round this was for these banks to require joint and several guarantees from the existing shareholders in the cable operating companies which was equivalent to asking them to increase their equity. This defeated the objective and it threw the consortia companies back to seeking fresh equity investors. By this time, potential corporate investors had almost totally dried up (for the reasons we all know only too well) and news of this led to increasingly bad press and an almost total halt on cable investment by financial institutions. This downward spiral of confidence has led to the current situation in which the industry finds itself and which has resulted in several of the interim licencees finding great difficulty in proceeding.

The question must be whether this situation has resulted from a fundamental incompetence on the part of the industry (i.e. it has already proved itself to be no more than a lame duck and worthy of being treated like one) or whether this young industry needs further temporary practical support if it is to be successful in achieving your Government's objectives of changing the face of the telecommunications industry in this country and contributing to the successful exploitation of I.T. I believe the cable industry has already accomplished much and against huge opposition and entrenched interests - most of which are predisposed to hope that tomorrow will be very much like today and have the weight and influence to go a long way to ensuring that it is. We in National TeleCable and many others in the cable industry are committed to successfully achieving the change your policy seeks to effect.

If your Government continues to believe that the cable industry can be a fundamental element in the structural change and growth of the economy and society as we move towards an I.T. age (and we most certainly do) then it is surely now appropriate to devise an acceptable means of assisting the industry to overcome the serious short-term obstacles it is now facing in achieving this goal. While there is no explicit evidence that your Government no longer regards the successful development of cable to be a vital part of a broader I.T. strategy, recent Ministerial comment has done little to convince either those inside or outside the industry, who are wavering in their confidence, that your Government has not abandoned the 'ITAP' view of cable's future. The very real benefit to the industry of an early clear statement by yourself, confirming or otherwise this commitment, would be considerable. As a result of your kind letter to me of 26th November, I have no such doubts myself. I want others to hear the same good news.

In terms of what Government action is now appropriate and necessary, I would strongly advocate the establishment of a 'Broadband Network Construction Loan Guarantee Scheme'. Under such a scheme the Government would guarantee to Banks and leasing companies a major proportion of the loan required to finance the network construction. The strategically important industry of cable would thus be strengthened in much the same way that the strategically important economic sectors of 'exports' and 'small business' are aided by ECGD and The Small Business Loan Guarantee Scheme. As with this latter scheme, the Banks would have to agree that the proposition was bankable despite any perceived lack of collateral or track record. I believe that in a well managed cable operating company, this guarantee would not be called. In the rare case where it was, the expenditure would have been incurred on a valuable 'national asset' which if not of immediate use to another cable operator, would certainly be of value to BT who could acquire the assets at cost. Such an arrangement might avoid any increase in the PSBR. A binding undertaking from BT to make such acquisitions should not be difficult to secure since they have already concluded not dissimilar arrangements with those independent cable operators with whom they are associated. The Scheme would be of most value to the industry if instituted swiftly, in time for the forthcoming round of franchises. Indeed, I would suggest that such a scheme might only be necessary for the forthcoming round of franchises (plus the current Interims) since I would hope that, within a year, the performance of some early licencees will have demonstrated beyond doubt the demand for services which, in turn, will convince lenders and investors that broadband networks are a high revenue generating asset. The scheme should be reviewed on an annual basis and could be administered by the Cable Authority as part of the franchising process. The award of the Licence would qualify the company to apply for the loan guarantee.

The other very real contribution that such a loan guarantee scheme would make to achieving your Government's long term objective of increasing telecommunications competition, is that it would permit new cable companies to be formed independent of British Telecom and Mercury. This is of major importance. In the present climate and in the absence of a loan guarantee scheme such as I propose, British Telecom (and now I understand Mercury) probably represent the only means for a would be operator to solve his funding problem. With BT's involvement cable operations require a 3 million rather than a 30 million pound investment by the operator!

However, I believe that the price that the industry and your Government have to pay for this could be very high. The reason why BT is willing to 'lend' its covenant to an operator in this way is that BT, beyond anyone else, needs to be involved in cable - for defensive reasons. As a monopoly entering a de-regulated environment, there is only one way for BT's market share to go. Cable operators are potentially one of the most effective vehicles for eroding British Telecom's current PSTN market share. I believe that if your Government fails to take steps similar to those I propose above, it will effectively be discouraging competition by forcing the 'minnow' new competitor into the arms of the 'defensive monopolist'. It is no good looking to Mercury for help for they too, I believe, now realize that de-regulation and the potential competition from cable operators is not as attractive as trying to consolidate the current quasi duopoly. Since such a relationship with BT or Mercury is currently concluded prior the award of the telecoms licence to the potential operator, his recource to OFTEL will be limited and unlikely to yield positive action in the timescale set by the Cable Authority for the determination of applications.

The Loan Guarantee Scheme would certainly free the cable industry from British Telecom which is currently the only available 'banker' to the industry. That still leaves the 'collaboration for voice services' issue to be addressed. One matter with respect to BT that would be helpful to consider now is the vital issue (for a cable operator) of 1989 and the lifting of restrictions on resale of circuits. Several would be investors in cable still fear that OFTEL, or whoever, will not have the means of enforcing BT's sale of capacity on competitive terms at that time.

I see the potential here for a Catch 22 situation to develop whereby the lifting on the restriction of resale of circuits in 1989 has little effect because, between now and then, British Telecom (and Mercury) may effectively kill during pregnancy the very organisms that would have been best placed to exploit circuit resale. As many cable operators are driven into BT's arms for the financial reasons stated above (and in my opinion most will be unless there is some other source of financial guarantee), British Telecom is still able to dictate the commercial terms it 'negotiates' with those embryonic cable operators it decides to do business with. That is why, without a loan guarantee scheme or something similar, I would strongly caution the Cable Authority from requiring detailed voice plans (i.e. involving BT/Mercury as currenty required) prior to the provisional award of a licence. It places the applicant in a totally vulnerable position - he needs BT as a banker, but knows that unless he

accepts their commercial terms on voice collaboration or network build or whatever else, they are likely to withhold such financial support. Nor is it any good the DTI requiring voice capability in the operators licence and forcing BT to collaborate - BT simply ups the terms it offers to the operator as 'banker' and again the cable operator is financially stranded. The industry is thus greatly weakened by the most obvious network constructor and providor of 'voice services' also being the only available lending/leasing banker. BT on the other hand, as the company that stands to lose most if an independent cable industry develops, must be only too pleased to see no action from your Government to change the current situation. It is clear from the remarkable disclosure that BT made on Page 25 of their recent prospectus, that it fears the longer term competition from cable and, as it states, 'may wish to request the Director General (OFTEL) to make a modification of its Licence'. We in the cable industry have no such fears for the longterm future provided we survive the present - something about which BT must be ambivalent.

It is clear that unless something similar to what I propose above is implemented to permit cable operators to go elsewhere than to BT for their 'debt financing', then, by definition, BT will have successfully demonstrated within 5 years that cable operations without BT is a non-starter.

I hope the above suggestions are helpful and I am grateful for the opportunity to bring them to your attention. I assure you of my own continued commitment 'to make it work' and those of us involved in National TeleCable look forward to meeting the challenges ahead whether or not you decide to adopt the suggestions I make above. If you do, then we will all succeed that little bit quicker and the probability of your Government achieving its long term objectives in this vital area of I.T. will be greatly enhanced. If I can be of any further assistance to your or your staff, then I shall of course be only too pleased to do so.

Yours sincerely,

Malcolm J Matson
Chief Executive

cc Director General - Cable Authority
Director General - OFTEL

NPR

10 DOWNING STREET

THE PRIME MINISTER

26 November 1984

Dear Mr. Nelson,

Thank you for your letter of 9 November.

I am sorry that I was unable to attend the CBI Conference this year and therefore missed the opportunity of seeing "The Cable Industry" exhibit there. I was, however, most interested to read the brochure which you prepared for the occasion.

As you will now know, the Home Secretary announced on 12 November the appointment of the Deputy Chairman and three members to the Cable Authority. The Cable Authority will formally come into existence on 1 December and will take on its powers and duties under the Cable and Broadcasting Act 1984 on 1 January.

The Authority's over-riding duty under the Act is to use its powers in the manner best calculated to promote the development of cable services over new wideband cable systems. In his speech at the annual lunch of the Cable Television Association on 13 November, the Chairman of the Cable Authority made it very clear that the Authority would be pressing ahead quickly in the New Year with the awarding of further franchises.

/ The setting up

The setting up of the Authority opens up a new phase in the evolution of the cable industry. The Government has never pretended that it can guarantee the success of cable; in the last resort cable has to stand or fall by its ability to persuade consumers that the services which it can offer are worth acquiring at the price demanded. What we have always said, however, is that technology is opening up a whole range of new opportunities and that the role of the Government must be to enable and encourage them to be taken rather than getting in the way. Our actions over the past two years in creating the legislative framework for the development of cable have been inspired by the conviction that cable can succeed and bring with it many benefits for the public and for business alike. That conviction has not changed.

Yours sincerely

Margaret Thatcher

Malcolm J. Matson, Esq.

TO Mr Smith	COPIES TO
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)	PS/GP PS/Sir BH Mr Liesner Mr Dobbs Mr Wills Mr Wright Mr Macdonald Mr Thornton/GP Dr Dobbie/HEE 4d.
PLEASE BY: 20/11/84	
IF DEADLINE CANNOT BE MET PLEASE PHONE 215 5422	

10 DOWNING STREET

From the Private Secretary

12 November 1984

I attach a copy of a letter the Prime Minister has received from Mr. Malcolm Matson.

I should be grateful if you could let us have a draft reply for the Prime Minister to send to Mr. Matson, to reach us by Wednesday 21 November.

I am copying this letter and enclosure to Andrew Lansley (Department of Trade and Industry).

David Barclay

Mrs. Christine Heald
Home Office.

24 UPPER BROOK STREET
LONDON W1Y 1PD
TEL 01-409 2339

9th October 1984

The Rt. Hon. Mrs. Margaret Thatcher, MP
10 Downing Street,
London SW1

Dear Prime Minister,

I appreciated your Private Secretary writing to inform me that the unfortunate death of Mrs Gandhi prevented you from attending the CBI Conference and visiting The Cable Industry exhibit.

It proved a useful opportunity to demonstrate that Cable is making progress in the UK and given the avid attention paid by many of the leaders of British industry to the live satellite fed programming we were showing, it further substantiated the market demand!

Nevertheless, the continuing delay in issuing all necessary licences to the successful eleven operator applicants of 1983 which in turn has largely contributed to the several recent commercial withdrawals from the industry, has further eroded the confidence of the City and other potential investors in Cable who suspect that the Government's commitment may be wavering. Like many others closely involved in Cable, I have no reason to think likewise and it was comforting to hear from Mr. Geoffrey Pattie MP when he visited The Cable Industry exhibit that such confidence on our part was not misplaced. However, it would be of considerable benefit to the Cable Industry if a positive statement could be made by yourself when the membership of the Cable Authority is announced which I hope will be as soon as possible after the successful British Telecom share issue. I appreciate that this must take priority.

I am enclosing a copy of the brochure I prepared for the CBI Conference which may be of interest to you and from which you will see that we remain optimistically committed to achieving the Government's objectives with respect to the development of broadband cable systems in the United Kingdom.

Yours sincerely,

Malcolm J. Matson

enc

10 XII
1986

CF papers

27 October 1986

I enclose a copy of a letter which the Prime Minister has received from Mr. Malcolm Matson, Managing Director of National TeleCable.

I should be grateful if you would provide a draft reply which the Prime Minister might send to Mr. Matson by Monday 10 November.

I am sending a copy of this letter and enclosure to Catherine Bradley (Department of Trade and Industry).

(P. A. BEARPARK)

William Fittall, Esq.,
Home Office.

NATIONAL
TELECABLE
19 Stratford Place London W1N 9AF Telephone: 01-493 8388
Telex: 291429 Electronic Mail: 81:NNG 019
Fax: 01-493 8280

23rd October 1986
R24110

The Rt. Hon. Mrs. Margaret Thatcher, MP
10 Downing Street
London SW1

Dear Prime Minister,

It is now nearly two years since you kindly wrote to me on the subject of broadband cable.

In the intervening time National TeleCable has been resolutely pursuing its strategy for developing the broadband infrastructure envisaged by the legislation which your Government passed in 1984.

We have always believed the Cable & Broadcasting Act 1984 and the Telecommunications Act 1984 to be inspired pieces of legislation, unique in the world in permitting the accelerated development of a market driven national Integrated Broadband Communications network - sometime referred to as IBC (e.g. by the EEC in its RACE programme) or by Professor Alan Peacock as the 'national fibre-optic grid'.

I take no satisfaction in seeing that most of the concerns I expressed to you in my letter of 7th February 1985 have now come to pass regarding the negative effect of British Telecom upon the early emergence of a private sector development of IBC in the United Kingdom. Although this has resulted in the nation losing some of the valuable headstart it was given by the legislation, we consider the damage caused to be by no means irrepairable. However, it would inevitably become so if the legislation or the regulatory environment were now to be 'meddled' with, particularly on the basis proposed in Recommendation 15 of the Peacock Committee Report. Peacock's recommendation makes what we believe is a false assumption, namely that some deficiency in the legislation has contributed to the current low state of activity and investment in the UK broadband cable industry. I enclose a copy of a paper we have sent to the DTI at their request, which sets out our argument as to why this assumption is false and why it is essential that Recommendation 15 of the Peacock Report is rejected.

Sent to HO asking for its return

Your Minister of Information Technology, Mr. Geoffrey Pattie, MP and his staff at the Department of Trade and Industry plus Professor Bryan Carsberg at Oftel and of course the Cable Authority are all well acquainted with National TeleCable and our **Project Beany.** (briefing note enclosed). This Project could be the definitive proving of the UK legislation by

demonstrating the market demand today for a wide range of broadband services if they are offered over a common carrier local network at a competitive tariff. Not only would such a successful demonstration result in the rapid take-off of the broadband cable industry in the UK but it could also lead to an emulation of the UK legislation elsewhere and particularly in Europe. I believe that the well intentioned RACE programme sponsored by the EEC is fundamentally flawed and will only achieve IBC at great public cost and several years after private enterprise has brought it about in the United Kingdom - thanks to our unique legislation.

National TeleCable remains confident that no further Government assistance or amendment to the legislation is needed in order to permit a private sector market demonstration of IBC such as we propose in Project Beany.

We remain convinced that the early widespread development of such networks in the UK would have a significant positive impact upon the structure and cost effectiveness of the UK economy in both the private and public sectors and that it will prove beyond doubt that the IT revolution which was heralded in 1982 holds some of the most important seeds for the further economic and social regeneration of the country.

May I suggest that there are two considerable contributions which you Prime Minister could personally make to help ensure that this happens in a timely fashion? The first is to resist any immediate pressure from vested interests to amend the legislation. The second is to ensure that your Ministers are made aware of Project Beany (and any other project like it) and encourage their Departments to use this Project to explore the potential that an IBC network could have for improving the services, increasing the efficiency and reducing the operating costs of various parts of the public sector.

Thank you for your continued commitment to the original objective. You may rest assured that we remain no less committed ourselves.

Yours sincerely,

Malcolm J. Matson
Managing Director

enc.

IND POL

CS7

PTS

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332

From
Sir James Cleminson MC DL

CBI
INDUSTRY
YEAR 1986

C(F (original to Honours)

11th June 1986

Dear Prime Minister,

I mentioned to you yesterday that we were making progress with the search for someone to replace Terry Beckett who is due to retire at the end of this year.

I have also put forward a nomination via the Department of Trade and Industry for a K.B.E.

I do feel that Terry has done a great deal for British Industry, which is demonstrable, and I hope that, if such a recommendation is placed before you, you would give it your support.

Yours James.

The Rt. Hon. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London SW 1

JAMES CLEMINSON.
135 CRANMER COURT
LONDON SW3 3HE
01-581 1759

CF 4
Your meeting?

11th June 1986

Dear Prime Minister.

This is just a note to thank you most sincerely for fitting David and myself into your busy programme.

I am sure he will maintain an excellent relationship with your government and we are fortunate to have him to take over from me.

I have very much enjoyed working with you and appreciated your understanding of our position. I shall now do my best to work for you.

Many thanks and best wishes for the future,

Yours ever

James.

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332

From
Mr David Nickson CBE DL
President

CBI INDUSTRY YEAR 1986

11th June 1986

PM/86

4 pp

Dear Prime Minister

I was particularly glad to have the chance to see you with James Cleminson yesterday afternoon, so early in my term of office as President

Thank you so much for this opportunity. I greatly look forward to seeing you from time to time over the next two years.

Yours sincerely

David Nickson

The Rt. Hon. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London SW1

SUBJECT cc MASTER

10 DOWNING STREET

10 June 1986

From the Private Secretary

Dear John,

MEETING WITH THE CBI

The Prime Minister this afternoon met Sir James Cleminson and Mr Nickson to say farewell to the one and to welcome the other as President of the CBI.

Most of the discussion was general. But Mr. Nickson stressed that he intended to make the problem of the high rate of growth of unit labour costs a major theme of his Presidency. It was not always easy to put the message across. It was, in particular, wrong to direct the message to companies which might be growing fast, highly productive, and needing to attract skilled manpower. Mr. Nickson said he intended to urge the advantages of pay settlements covering more than one year. He had found immense advantages in his own company in reaching multi year settlements. Sir James Cleminson confirmed this from his own experience at Reckitt and Colman.

The Prime Minister and Mr. Nickson agreed that the important thing was to emphasise the need for low growth in unit labour costs, not low pay. The objective was a high productivity, high pay economy, in which pay was justified by output.

Mr. Nickson felt that to concentrate on the earnings figures themselves could sometimes be counterproductive.

Outside the meeting Mr. Nickson explained that in his company multi year settlements had been front end loaded, with quite small increases in the second and third years of a three year agreement. But the main gain from achieving such settlements was the way in which changes in working practices and in other areas could be achieved more easily when pay had already been settled. Union resistance to change tended to be much weaker. Sir James Cleminson agreed with this assessment.

I am copying this letter to John Mogg (Department of Trade and Industry) and Tony Kuczys (HM Treasury).

Yours, David.

DAVID NORGROVE

John Turner, Esq.,
Department of Employment

CC B/UP

PRIME MINISTER

CBI

Your meeting tomorrow is to make the acquaintance of Mr David Nickson. I enclose a copy of his CV.

Officials at the CBI do not know what Sir James Cleminson and Mr Nickson may raise with you. They guess the problems of pay settlements and also the coming public expenditure round.

Other possible subjects might be:-

- EMS
- interest rates
- education reform

On education, you will remember that Sir James Cleminson in his speech to the CBI Annual Dinner argued for a more centralised educational system.

David Norgrove

9 June 1986

NICKSON, David Wigley, CBE 1981; DL; CBIM; Chairman, Scottish & Newcastle Breweries plc, since 1983 (Director, since 1981; Deputy Chairman, 1982–83); Deputy President, 1985–86, President, from May 1986, Confederation of British Industry; *b* 27 Nov. 1929; *s* of late Geoffrey Wigley Nickson and of Janet Mary Nickson; *m* 1952, Helen Louise Cockcraft; three *d*. *Educ*: Eton, RMA, Sandhurst. Commnd Coldstream Guards, 1949–54. Joined Wm Collins, 1954; Dir, 1961–85; Jt Man. Dir, 1967; Vice Chm., 1976–83; Gp Man. Dir, 1979–82. Director: Scottish United Investors plc, 1970–83; General Accident Fire and Life Assurance Corp. plc, 1971–; Clydesdale Bank plc, 1981–; Radio Clyde PLC, 1982–85, Edinburgh Investment Trust plc, 1983–. Member: Scottish Indust. Develt Adv. Bd, 1975–80; Scottish Econ. Council, 1980–; Scottish Cttee, Design Council, 1978–81. Chm., Countryside Commn for Scotland, 1983–85. Chm., CBI in Scotland, 1979–81; CBIM 1980. Mem. Management Cttee, Atlantic Salmon Trust, 1982–, Vice-Chm., 1985–. Mem., Queen's Body Guard for Scotland, Royal Co. of Archers. DL Stirling and Falkirk, 1982. *Recreations*: fishing, bird watching, the countryside. *Address*: Renagour, Aberfoyle, Stirling FK8 3TF. *Clubs*: Boodle's, Flyfishers'; Western (Glasgow).

David Nagan.
For info only - circle unlikely event of conjunct tomorrows meeting.
MGT 9/6

MR. ADDISON 9th June 1986.

C.B.I. MEETING.

You may wish to inform the PM. that her office and the C.B.I. have been working closely on a project designed to bring the market and greenery together namely, the International Pollution Abatement Fair 1987...(note attached).

HARTLEY BOOTH.

Minister of State for
the Environment, Countryside
and Local Government

Department of the Environment
2 Marsham Street
London SW1P 3EB
Telephone 01-212 3434

9 June 1986

Dear Hartley,

You asked for a note on the proposed International Pollution Abatement Fair for the PM's meeting with the CBI. I attach concise notes on this and on EYE.

Yours sincerely,

A G DOWNEY
Private Secretary

Hartley Booth Esq

INTERNATIONAL POLLUTION ABATEMENT FAIR

Following an initial idea from Mr Hartley Booth, Mr Waldegrave put forward a proposal for mounting an international trade fair of pollution abatement technology, to be held in the UK as part of European Year of the Environment (March 1987 - March 1988). In December 1985, Mr Waldegrave met representatives of the CBI and the pollution abatement industry, who supported the idea and agreed that a working group should contact some of the leading organisers of trade fairs. This they did.

Brintex Ltd have agreed to organise a fair, to be known as the International Pollution Abatement Fair. It will be held at the NEC, Birmingham from 6 to 9 April 1987. It will run alongside the International Construction Equipment Exhibition (ICE), held annually in the UK, France and Germany in rotation, which in the UK is also organised by Brintex.

Brintex are well advanced with the planning and advertisement of the IPA Fair, gaining widespread support from the pollution abatement industry in this country and with good contacts in Europe and worldwide. The Fair is sponsored (non-financially) by DOE and supported by the CBI. The UK Committee for EYE, and the European Commission, have both welcomed the Fair.

At the same time as the Fair, there is to be a conference on pollution abatement technology. This is being organised by the Public Works Congress Council (who are associated with ICE), with help from the CBI and from DOE and DTI. The Council are inviting European Commissioner Clinton Davis to address the opening session of the conference. They will be seeking strong representation from European industry as well as from the UK, relying heavily upon the CBI for help in this respect.

DOE
Central Directorate of Environmental Protection

EUROPEAN YEAR OF THE ENVIRONMENT (March 1987 - March 1988)

The CBI have said that the UK is adopting too low a profile in EYE. In fact the UK is well ahead of other member states in preparation for EYE. Mr Waldegrave has invited the Chairman of the CBI environment committee, Mr Richard Lindsell, to sit on the EYE National Committee. The Committee has already made contact with industry. The Prime Minister might wish to encourage the CBI itself to volunteer more support for EYE.

We hope that the Prime Minister's initiative on litter will be closely linked with EYE. There will be an important role for industry in this.

DOE

Central Directorate of
Environmental Protection

file

Mr. Norgrove

I have arranged for Sir James Cleminson and Mr. David Nickson to come and see the Prime Minister on Tuesday 10 June at 1730 for 45 minutes.

Do you wish to be in touch with them about which topics they wish to raise?

CR
13 May 1986

Caroline
Fine, thanks. Leyland.
David
T. Norgrove

17.30 - 18.15.
TUE 10th
June
CR.

1 MR. NORGROVE

2 PRIME MINISTER

NEW PRESIDENT OF THE CBI

Sir James Cleminson has asked whether he could bring in Mr. David Nickson, the new President of the CBI, to see you for half an hour preferably before the CBI dinner. This is going to be extremely difficult from a diary point of view. Would you like me to try and find a slot?

CR

CAROLINE RYDER

9 May 1986

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332

From
Sir James Cleminson MC DL
President

CBI

Personal

17th December 1985

(1) Mr Thorpe
(2) Prime Minister

Dear Prime Minister.

This is just a very brief note to thank you very much indeed for giving me so much time yesterday. I thoroughly enjoyed our meeting and I do of course understand your point of view.

I will pass your message on to Sir Terence Beckett, who I know will be very pleased and would want to join me in wishing you and Denis a very happy Christmas and, hopefully, a good break at Chequers.

Yours

James.

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London, SW1.

Subject on master

File DSG

CCBG ✓

10 DOWNING STREET

From the Private Secretary

17 December 1985

Dear Tony,

MEETING WITH SIR JAMES CLEMINSON

Sir James Cleminson today came to see the Prime Minister at his request.

Sir James said that the Harrogate Conference had been possibly the most encouraging he had attended: there was now a firm recognition by industry that four-fifths of the things which needed to be done could only be done by themselves. Self help had been a recurrent theme of the Conference. For the rest, the CBI hoped that interest rates, particularly real interest rates, would come down. But they understood that the time was not yet right. They did not want to press for reductions in interest rates at an unpropitious moment.

Sir James said that his main purpose in calling was to explain the CBI's representations that up to £1 billion of any fiscal adjustment should go directly to help the unemployed. This proposal had come from the grass roots and Sir James said he had never seen such unanimity in Council as he had about this. The spending should be done in conjunction with industry, and the CBI expected that industrial spending would be in the ratio of 1½ or 2 to spending by Government. The Government's own spending should be cash limited and go to well-tested schemes. Members of the CBI had said that they would rather have spending of that kind than tax cuts.

The Prime Minister replied that it was not clear that there would be any scope for tax cuts. She pointed very vigorously to the fact that the CBI's members were highly paid, and that 41 per cent of income tax receipts came from people with below average earnings. She did not encounter people saying they were reluctant to receive higher pay. Lower taxes were the only way to achieve higher take-home pay without raising costs. She had hoped to see a reduction in perks when the top rate of income tax had been reduced to 60 per cent. This did not seem to have happened.

Sir James noted that the CBI's drive to reduce pay settlements was not so far proving very successful. He urged the need for the UK to join the Exchange Rate

Mechanism of the EMS in order to help put pressure on industry. Companies would know that they would then not be bailed out by a depreciation in the exchange rate. The Prime Minister suggested that had the UK been in the ERM during the past week interest rates would have risen still higher.

In response to a question from the Prime Minister, Sir James said CBI members were concerned about the spate of take-overs in the City and the risk that there might be a growth in the use of Junk Bonds to parallel the United States experience. The changes in the financial markets generally could also put pressure on managements to concentrate excessively on the short-term.

The meeting closed with a brief discussion of South Africa. Sir James said the CBI intended to work with the UK/South Africa Trade Association (UKSATA) to try to change attitudes towards South Africa in this country. People needed to recognise that the best way to achieve change in South Africa was through economic progress, and also to recognise the risks that a breakdown could push South Africa towards the extreme Left. The Prime Minister welcomed this initiative and suggested that Sir James Cleminson might discuss it with Lord Barber if the opportunity arose.

I am copying this letter to John Mogg (Department of Trade and Industry), Leigh Lewis (Department of Employment) and Robert Culshaw (Foreign and Commonwealth Office).

Yours ever,

David.

David Norgrove

A. W. Kuczys, Esq.,
H. M. Treasury.

PRIME MINISTER

MEETING WITH SIR JAMES CLEMINSON

Sir James Cleminson is coming to see you at his request (letter enclosed).

I understand that he wants to report to you the outcome of the CBI Conference and the strategy the CBI propose. You are familiar with this, but I also enclose the briefing you had after the CBI Conference.

Sir James may I suppose also mention South Africa to you.

Sir James would be a good person to emphasise tax cutting caution to. The Treasury tell me the CBI are assuming a £3½ billion fiscal adjustment, as in the last FT TFS, for their Budget representations.

Summary of CBI Budget package enclosed.

DRN

D R NORGROVE

13 December 1985

SL2AEA

DRAFT - 6 December 1985

THE CBI'S PACKAGE

	Exchequer cost (Gross) £s billion 1986/87	Exchequer cost (Gross) £s billion full year	Business Contribution £s billion full year
1 Improved Incentives			
- reduction in taxation, by a 10 per cent real increase in all main personal tax allowances	1.7	2.1	
2 Co-operation for jobs and the environment*			
- Development of the Enterprise Allowance Scheme including encouraging more training	0.10	0.12	
- Reducing the Job Release Scheme age limit and encouraging other flexible working arrangements	0.14	0.18	
- Building Improvement Programme	0.30	0.40	
- Increase in funding for Urban Development Grants.	0.07	0.15	1.0
- Increase in funding for Derelict Land Grant schemes.	0.07	0.15	0.02
		£1 billion	
3 Improved competitiveness and growth			
- Rate changes to promote wealth creation through a 10 per cent partial business derating	0.62	0.42	
- Safeguards for the assets of smaller companies through business assets relief from Capital Transfer Tax to 100 per cent	0.02	0.07	
Promotion of new capital formation through the abolition of Stamp Duty on New Issue Capital	0.07	0.07	
Feedback effect		c. -0.40	
Total full year cost		3.35	
Fiscal adjustment (FSBR 1985)		3.50	
PSBR (FSBR 1985)		7.50	

* All costs in this section are net of any feed back from increased tax revenue and reduced public expenditure, as a consequence of reductions in the number of registered unemployed.

Cutting unemployment now

The opportunity for the 1986 Budget

CBI Members in all Regions believe action must now be taken to get unemployment down quickly. That broad view has subsequently been endorsed by the President's Committee and confirmed at October's meeting of the full CBI Council.

These suggestions for cutting unemployment are being put forward for discussion by CBI Council on November 27. They are additional to the measures just announced by the Government.

It is envisaged that up to £1 billion might be allocated for cost-effective initiatives, such as those described here, in the context of the next Budget. This spending would be contained within the Government's Medium-Term Financial Strategy and would not be inflationary. Indeed, the CBI would go further: it believes greater inflation would increase rather then reduce unemployment.

THE PROBLEM

Unemployment is too high. And it remains so in spite of steady economic growth and job creation. There seems to be little early prospect of it falling significantly.

Unemployment largely reflects the rapid decline in manufacturing employment. The closure of factories and the loss of traditional jobs has caused considerable upheaval and change. Many communities have found difficulty in coping with the problems.

Unemployment has created a climate in which the UK's social problems have grown; it is an obstacle to solving them.

CHANGING MARKET

The growth areas in jobs are those for part-time females, the self employed and better skilled, non manual employees. On current trends there will be more women at work than men by 1991.

In contrast unskilled and semi-skilled male manual work has declined. The large majority of unemployed are looking for these types of jobs.

There are more than 1.3 million people continuously out of work for over a year – nearly 650,000 more have been unemployed for more than six months. The experience of such unemployment erodes the ability and confidence the individual needs to compete for vacancies. On any index of misery, this group has suffered most.

PAY, COMPETITIVENESS AND GROWTH

The basic long-term answer to these problems is economic growth. Growth alone will not cure the problems, but it will create jobs and the extra resources needed to tackle them directly and indirectly. There will, nevertheless, continue to be pockets of deep-rooted problems needing particular help.

Achieving growth demands a thriving business sector gaining larger markets through improving competitiveness. This means not only greater emphasis on every aspect of the UK's non-price competitiveness – design, marketing, quality – but much better performance on pay, productivity and thus unit labour costs.

CBI members believe that the UK's poor historical performance on pay and productivity compared to our main competitors has contributed substantially to our current unemployment. The prospects for jobs will only brighten if this trend is reversed. In particular, UK firms must stop making uncompetitive pay settlements. In the immediate future, this means settlements in the coming year two percentage points lower than last – and the same two percentage point reduction is needed again the following year.

These CBI proposals are some additional ideas aimed at mitigating the impact of unemployment. They are cost effective initiatives which can be pursued within the spending levels set out by the Government in its Medium-Term Financial Strategy. They are not, therefore, running the risk of stimulating inflation. Subject to discussion, these proposals will be looked at in the context of the CBI's 1986 Budget representations.

Finding the jobs – the CBI proposals

This outlines the CBI package of proposals to cut quickly into the current levels of unemployment – expanding existing initiatives such as Urban Development Grants and derelict land reclamation, and developing quite new approaches.

As the CBI sees it any proposals must satisfy five fundamental criteria; they must be:

- Consistent with the CBI's broad economic and financial strategy.
- Non-inflationary.
- Conducive to improved business performance.
- Cost-effective in delivering the help to those most in need.
- Part of a strategy and not a piecemeal operation.

Financial control must be maintained over the new proposals.

Their 'take-up', effects and precise costs are difficult to calculate in advance – so they should each be subject to a 'cash-limit'.

The CBI does not believe that this would harm their attractiveness or effectiveness. The Derelict Land Grant has already shown that this can be achieved.

URBAN GRANTS

Private investment in inner cities needs encouragement. Firms are often understandably reluctant to commit themselves, conscious of the very real risk that the return on their investment may fall below that obtainable elsewhere.
Following the USA's example, the Government has, since 1982, been providing that encouragement in a highly effective way – the Urban Development Grant (UDG). UDGs are offered where firms are prepared to put in their own money on projects which will improve the economic, physical or social environment. Every public pound spent so far has brought in four times that in private funds. An input of £60million of public money has created 16,000 jobs.
But there is clearly scope for more. The Government has in UDG a cost-effective job creating tool; it should make more use of it.

DERELICT LAND

A prerequisite for getting jobs back into some of the areas where unemployment is highest is often the reclamation of land made derelict by the industrial activity of yesteryear.

A start has been made – more than 17,000 hectares have been reclaimed since 1974 – but more than twice as much remains, and dereliction grows daily.

The Government offers grant aid to help with the cost of reclamation, but most of it goes to local authorities – £67 million of the £72 million spent in 1984/85. A substantial effort is now needed to increase grant aid to private firms undertaking reclamation. More firms would come forward with proposals if:

- A higher percentage of their costs were recoverable.
- Interim payments were made instead of a lump sum at the end – this would ease cash flow problems.
- Money could be guaranteed from one year to the next.

Reclamation provides jobs where they are most needed now, *and* brings scope for further development, hence more jobs in future.

BUILDING IMPROVEMENT PROGRAMME

It seems commonsense to put as many of the core unemployed as possible to work on improving buildings and the environment. Such a programme would address six key areas; it could:

- Fill the void left by the run down in Home Improvement Grants.
  Work would be done directly for the applicant rather than through cash grants. Housing Associations could also apply to have their conversion work undertaken through this programme.
- Help renovate inner city areas – projects such as refurbishment, conversion, new amenities.
- Improve the provision of basic leisure/tourist amenities – walkways, parks, signposts, picnic areas, public conveniences and so on.
- Help improve the environment – particularly by reviving derelict or unused land.
- Improve the appearance of public buildings – where such work is not budgeted for within the next three years.
- 'Pump-prime' marginal commercial work.
  The programme could undertake substantial renovation of buildings or land in return for an equity stake in the property. This would make some non-viable projects commercially attractive.

Funding for this programme would be clearly separate and additional to those for normal infrastructure work. Financial control should rest with the MSC and not directly with local authorities. However, local authorities would hopefully play an important role in helping to organise this work.

Private sector contractors would tender for the management of project work – they would have to recruit the long-term unemployed and their costs would be paid by the MSC.

The supervision and management costs would be included in the tender fee. Recruits would receive the rate for the job; training in complementary skills would also be available. Where no suitable skills were available, recruits could come from outside the 'long-term unemployed' group.

- This programme would strengthen the bona fide building sector while squeezing 'black economy' firms.

Its work would benefit the community as well as individuals.

GREATER TRAINING

It would be impractical to attempt to train most of those without jobs for work where there are currently skill shortages. The mismatches here go deep and will take longer to correct. Nevertheless, more opportunities must be created for the unemployed to train for the jobs generally available.

- Local training schemes would complement the Building Improvement Programme to teach relevant skills. They would have to be consistent with established programmes.
- A new Training Allowance Scheme similar to the EAS would give recipients £40 per week for a year. They would receive this while they undertook any activity which improved their 'marketability'. This would include education and training courses, structured voluntary work and recognised sports training programmes.
- A limited number of 'training vouchers' would pay for a bona fide training course as evaluated by the MSC's training division.

IMPROVING MOBILITY

The lack of mobility in the UK labour market can be an obstacle to the unemployed finding work.

- Concessionary fares on public transport could be available to the unemployed searching for a job – it is a fact that those with private transport find it easier to get work.
- Similar concessions could be made available where there is high unemployment and growing employment in adjacent areas, but where the costs deter people travelling between the two. An individual finding work would receive reduced fares for, say, a year.
- The Building Improvement Programme could be used to allow Housing Associations and voluntary groups to increase the accommodation specifically for those coming to an area to find work. If successful, the newly employed could stay there for a limited period before moving into the open market.

NEW WAYS TO WORK

Reorganising work must take place gradually in order to improve business efficiency and give more people jobs. This has been an important factor in accommodating the growth in the workforce over the last century.

The Government should encourage this change by establishing a programme supported by a cash-limited sum administered by advisers and marketing executives. These could be drawn largely from the Work Research Unit and the Department of Employment. Their job would be to persuade organisations of the benefits of new ways of working, supporting this with a limited cash grant.

This grant would be conditional on the change not otherwise having taken place, and it leading to higher employment or lower unemployment than would otherwise have been the case.

This programme would incorporate and develop the relevant existing measures as well as encourage new initiatives. In particular, it would:

- Develop the current Job Release Scheme so that voluntary early retirement could commence at 60 for men and 58 for women.
- Develop the existing Job Splitting and part-time Job Release Schemes so that they encouraged more part-time working generally as well as job-sharing.
- Promote the benefits of additional shift and rota working.
- Encourage sabbaticals whereby individuals could receive an allowance, say £40 per week, to leave work for a year, for instance, to undertake training.
  Their place would have to be taken by a registered unemployed person, they would have no guarantee of their job back.

The programme would be carefully audited to evaluate its cost effectiveness in raising employment and reducing unemployment.

PROMOTING ENTERPRISE

The current Enterprise Allowance Scheme (EAS) and the growth of local Enterprise Agencies have both been successes in their own ways.

The CBI welcomes the latest expansion of the EAS, but greater effort needs to be made to provide counselling, perhaps through Enterprise Agencies. If this helped to improve the viability of individual enterprises, then it could be expanded further.

The allowance should also be available to those setting up cooperatives or going into partnerships even where the other participants might not be unemployed.

The earnings 'disregard' for benefit entitlement could be raised to £18 per week for the long-term unemployed, encouraging them to take part-time or casual work.

LOCAL EMPLOYMENT STRATEGIES

There is a wide array of initiatives – public and private, national and local, orthodox and unusual.

These do not need control or regimentation but they would benefit if there were a clear reference point to provide co-ordination and harmony.

They would also benefit since the 'goodwill' and commitment to tackle unemployment – and this stretches across the political spectrum – could be better focussed and harnessed.

It would isolate those extremists who wish to gain cynically from unemployment.

Local Employment Strategies should:

- Bring together all the relevant groups in the community.
- Identify the strengths, weaknesses and needs of the local economy.
- Identify educational and skill needs and the ways in which these could be met.
- Co-ordinate help towards new enterprise and small businesses.
- Encourage involvement in the anti-unemployment initiatives.

It could prove a cost-effective investment to appoint a talented manager to coordinate, articulate and prompt this strategy.

Costs and effects

These proposals are principally aimed at the 'core' unemployed – the long-term jobless and those in hard-hit communities. They would be cost effective and should each be controlled by 'cash limits'.

Up to a further £1 billion of public money could be set aside to support them.

Together with the existing provisions which would be incorporated into this strategy, the CBI estimates a further 350,000 people could be taken out of unemployment by the end of the first year in which these proposals were fully operational.

Getting the balance right

There is a difficult balance to strike. Growth must be fostered through improving economic and business performance.

This offers the best means of safeguarding employment in the longer run.

But it has to be acknowledged that this will not have an immediate and substantial impact on unemployment which will take time to achieve.

The scale and nature of the UK's unemployment problem is such that it is now vital to act quickly to cut it.

If we do not, there is grave risk that our recovery will be radically shifted off course.

NBPM

Ref. A085/3106

MR NORGROVE

CBI Annual Conference

Mr Wiggins attended the CBI Conference as an observer. The Prime Minister might --- be interested to glance at the attached copy of the report of his impressions.

RA

ROBERT ARMSTRONG

29 November 1985

19/11 Sir Robert Armstrong (or) To Archie

You may be interested to glance at this report - though it reflects the CBI's usual ambivalent stance on most issues.

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MR UNWIN

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cc Mr Roberts
Dr Walker

CBI ANNUAL CONFERENCE

It may be worth recording a few impressions of the CBI Conference. It was - inevitably - in many ways rather a tame and predictable affair, with little scope for debate on issues where there was a real difference of opinion. As a result there was not much in the way of fresh insights, and most debates followed fairly predictable lines. However, the essential theme which ran through all the discussions was that the main responsibility for improving the UK's economic performance lay with industry rather than with the Government, and I think this in itself already represents substantial progress from previous attitudes.

This point has also been singled out by the pundits on the media.

Responsibilities of Management

2. The first morning was spent rehearsing, in one way or another, the essential responsibilities of management. There was general agreement that it was not up to the Government to formulate a strategy whereby UK industry could compete more effectively in world markets; the Government had to set the framework (remove controls, let markets function, etc) but it was up to industry to improve its manufacturing, marketing and selling performance so that the UK could compete more effectively with Germany, Japan, the US, etc. There was general support for a 'marketing initiative' whereby the CBI are aiming to interest as many of their member companies as possible in formulating more coherent marketing plans. There was even a video of Mr Kinnock endorsing this approach.

Pay and Productivity

3. The Newspapers have already given a good deal of prominence to the resolution condeming the idea of automatic annual pay increases. There was general recognition that, although substantial improvements in productivity had been achieved, UK unit labour costs were still increasing while those of competitor countries were declining. (The point was made that real living standards in Germany had been reduced by 5 per cent, reflecting a general consensus among the German working population that this could not be avoided.) Although some people argued that the Government should take action to reduce the exchange rate (by reducing interest rates) even those who thought this agreed that direct action by UK industry to reduce its own costs would be a more satisfactory answer to the problem. One delegate remarked that it was up to directors to set a good example in determining changes in their own pay. The eventual outcome will no doubt fall far short of all these good intentions, but there was a clearer perception than I had feared of the need to stand firm against inflationary wage demands, and this may constitute grounds for a somewhat less pessimistic view of the prospects for the current pay round.

Training and Education, and the image of Industry in Society

4. There was a great deal of interest in training and education, ranging from the need for more professionalism among managers to questions about the qualifications and qualities of potential recruits to industry from higher education and directly from schools. There was a particularly well attended fringe meeting on Sunday evening with a panel including the Education Secretary and Lady Warnock. There was general sympathy with the Education Secretary's objectives in broadening the curriculum and seeking to measure candidates' performance against absolute standards rather than relative to their contemporaries (and Lady Warnock got little support for her argument that the whole examination system was wrong). The two year YTS was generally endorsed, despite the additional calls it made on the resources of industry, as was a call for more and closer links between firms and local schools and higher education institutions. There was still the odd complaint that there should be a fairer system of financing training and that the rival attractions of the public sector remain too strong; and some speakers failed to notice, in calling for greater differentials to reward people undertaking training, and a clearer perception among young people of the advantages of a career in industry, that action to correct present deficiencies can only be taken by industry itself. On higher education it was agreed that the cuts in resources had gone far enough, and that the reduction in the relevant age group around 1990 should give rise to an increase in the proportion of young people going through higher education rather than in a reduction in the input of resources. (The point was emphasised that it is appreciably more expensive to train graduates in science and technology than arts graduates, so that additional emphasis on the former was bound to result in some reduction in the 'productivity' of higher education expenditure.)

Economic Policy Issues

5. There was general agreement that more should be spent on the infrastructure, with builders and civil engineers lobbying hard for an increase in public sector orders. (The same message was put forward at a fringe meeting by the Charter for Jobs, where Mr Shields argued in an old-fashioned way for additional expenditure of several £ billions, which he said could be absorbed without running into skill shortages or resulting in price increases.) There was some confusion as to whether this additional infrastructure expenditure should be financed by additional public borrowing; the Conference voted specifically against that latter proposition, but seemed ready to contemplate £1 billion additional expenditure on infrastructure to be financed 'within the available fiscal adjustment'. There seemed to be more sympathy for raising tax thresholds than reducing the basic rate of income tax, and more generally a widespread recognition that the infrastructure, the unemployed and the low paid had higher priority in allocating the available fiscal adjustment than people who are already comfortably off. There were still some vestiges of the old complaint that if only the Government could control its own current expenditure, there should be plenty resources available for more expenditure on capital projects; and a 'private member's resolution' was carried in a very thin house arguing for changes in our accounting conventions. (Voting was generally done by waving

blue cards; I resisted with difficulty raising a yellow card to protest against this latter point.)

6. There was a specific, but not unanimous, vote in favour of lower interest rates. The argument was that UK real interest rates are several percentage points higher than are industrial competitors', and that additional investment and output are thereby being hampered. Some of those who advocated this line of argument were clear that the result would be a reduction in the exchange rate, which they also favoured; but others were more cautious, recognising that the impact on inflation of a lower exchange rate carried with it substantial risks. It was striking that complaints were in general louder against exchange rate instability than against the current level of the exchange rate, although there was no specific vote on UK membership of the EMS. The debate did not bring out clearly how much the current and projected fall in the rate of inflation owes to this year's rise in the exchange rate and fall in commodity prices, neither of which can be relied on to continue; I fear that financial markets, in setting high UK interest rates, are probably judging correctly that underlying inflationary pressure in the UK economy is more serious than the Chancellor would sometimes like us to believe - as the CBI in effect recognised in their discussions of pay and unit labour costs.

The CBI have already endorsed membership.

But NB flat/downward sloping yield curve

7. There was a real difference of opinion on regional policy, with some people regretting recent changes on the grounds that less assistance was being given, and in less predictable amounts, while others thought the policy changes an improvement in that resources were now being concentrated much more effectively on projects which would create or defend employment. It seemed to me that there was general agreement that it would be better to devote resources to improving the estuarial crossings of the Thames and Severn than to the Channel Tunnel (which some people feared would move industrial activity out of the UK altogether into Northern France).

Other Issues

8. The Conference passed a motion rejecting the introduction of a uniform business rate, on the arguments that this would result in a weakening of business links with local government and would give too powerful a weapon to an incoming Labour Government to fleece industry. The CBI Council argued for a uniform business rate, but on the conditions that the poundage could not rise faster than inflation and that there should be some overall industrial derating corresponding to the present domestic rate relief, but no one wanted to commit themselves to this in advance of seeing the Government's promised Green Paper. On ATP, predictable noises were made about the Bosphorus Bridge, and there were calls for more bilateral aid and less multilateral aid; it was alleged that the French are spending £3 billion a year on mixed credits. Although CBI members were generally disposed to demonstrate their social conscience in favour of the UK unemployed, there was no suggestion that this sensitivity applied also to the third world - no one was arguing for a net increase in the overall aid programme. On pensions, the desirability of maintaining the consensus, the preference for reforming rather than abolishing SERPS, and the need to ensure that changes were only made after they had been fully

thought through, were all generally endorsed. Although there was no specific vote on this, there seemed to be a general feeling against an enforced worsening of the terms of contracting out, and there was some scepticism about the advantages of personal pensions; the point was made that obligatory membership of an industry-wide pension scheme for the merchant navy had worked well, and that personal pension arrangements, apart from involving high administrative costs, might get in the way of the establishment of sensible industry-wide schemes.

9. Distrust of the financial sector by the rest of industry surfaced on a number of occasions. Apart from the question of lower interest rates (where representatives of the banks not surprisingly urged caution), there was some inclination to blame the City (rather than, as on previous occasions, the Government) for pre-empting the best graduates, there were the usual complaints that bank managers were insufficiently understanding, and there were obviously widely felt worries about take-over activity and its implications for the long-term financing of industry. A specific complaint was made against the take-over bid for Allied-Lyons by an Australian company, given that Australian rules would preclude a UK company from making a comparable take-over bid in Australia.

JW

A J WIGGINS

21 November, 1985

lile DA

10 DOWNING STREET

THE PRIME MINISTER

21 November 1985

Dear James,

Thank you for your very kind letter. I am glad you enjoyed the programme.

I certainly noticed the supportive speeches you and others made at Harrogate. The points you argued - particularly on the need for better control of costs - need to be made on every possible occasion.

I would of course be happy to meet you and my office will be in touch with yours to fix a time.

Yours ever,

Margaret

Sir James Cleminson, M.C., D.L.

EC

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From
Sir James Cleminson MC DL
President

CBI

Personal

20th November 1985

R20 by hand.

My dear Prime Minister,

By great good fortune I got back from the CBI Conference at Harrogate in time to see your television programme last night.

The real reason for writing this letter is therefore to let you know what a triumph I think it was. I nearly tried to ring you last night and then decided that although I know you wouldn't have been asleep, it was too late to do so. My very sincere congratulations.

Your staff will have received a copy of the speeches which both the Director-General and I made at Harrogate. You will see that although there were not unexpectedly certain matters discussed in a way which would not have met with your entire approval, the general gist was extremely supportive.

The theme that has come through is clearly that we need to go on getting inflation down and with it output up to a growth rate of 4%. We also recognised that to get what we want on ~~interest rates~~, we need to take a hold on wage and earnings increases.

The main points will be put to Council at the end of the month to be turned into a strategy for business, and some time after Council I would very much appreciate the opportunity of having a brief word with you.

Best wishes and again congratulations.

Yours ever

James.

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London, SW 1.

P.S. Judy thought just as I did about the T.V.

James Cleminson Speech

SIR JAMES CLEMINSON - CBI CONFERENCE, HARROGATE - 19 NOVEMBER 1985

It's all too easy to forget what the path was like in 1979 - strewn with rocks - price controls which made it all too easy to put prices up - wage controls which allowed wages to go up with low productivity - dividend controls which discouraged the successful - exchange controls hampering international investment. And the ever present threat of so-called planning agreements. All combined to lead to lack of enterprise and competitiveness, and inevitable failure.

All these, like many other barriers were swept away.

I've said overseas that there's been a renaissance in British industry. It has woken up to the need for competitiveness, design, development and quality. I believe we have started

19 November 1985

CBI PROPOSALS

3

General line to take

A number of proposals are under discussion by the CBI with a view to their budget representations to my Rt Hon Friend the Chancellor. I know he will consider whatever the CBI proposes.

Government record

As the CBI acknowledge, the Government is already pursuing a number of policies they propose:

- on derelict land reclamation, on which £70 million was spent last year;

- on the urban programme which we have trebled since 1979;

- on home improvement grants, on which spending has increased from £90 million to £750 million last year;

- on training, on which we have extended both the Youth Training Scheme and the Community Programme;

- on early retirement where we already have an extensive job release scheme.

CBI urge more spending rather than tax cuts

I note that the CBI voted yesterday that their proposals for increases in spending in particular areas must be achieved within the Government's overall spending total.

Indeed they stress and I quote:

"Greater inflation would increase rather than reduce unemployment."

It is because this Government has kept firm control on public expenditure that we have been able both to reduce the burden of direct taxation and to maintain an increased spending on priority areas.

CBI

THE FABRIC OF THE NATION

A further report

Roads · Water · Derelict land
Buildings · Railways

The Fabric of the Nation – a further report

CBI

Confederation of British Industry
Centre Point
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London
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November 1985

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FOREWORD

by Sir Terence Beckett, Director-General of the Confederation of British Industry

The case we set out in the CBI report 'The Fabric of the Nation', published in June 1984, still stands. This report updates our specific proposals and concludes that there is much that still needs to be done. All our proposals are aimed at helping to cut business costs significantly, and thereby improving competitiveness and enhancing employment prospects.

All accept that the infrastructure has an important role to play in economic development. With the real prospect of a slower overall growth next year, this link has added importance.

On the current state of the infrastructure, the message from this report is clear:

Action is required now to stop further decay in Britain's infrastructure.

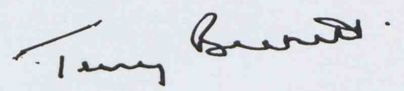
In our review of individual programmes, we make a number of action points on derelict land, building, water and railways, as well as roads.

The CBI believes that increased infrastructure spending can be financed within the Government's financial strategy, through implementing the recommendations made in 'Financing the Future', published in June this year. These provide the framework against which the financing of projects needs to be judged; they demonstrate too that the money is there.

But decisions are required now - if we wait we shall miss the opportunity to build on the current economic recovery and risk dropping back further in the league table of international competitiveness.

The CBI welcomes the Government's increasing awareness of the importance of infrastructure investment. In this report we draw attention to specific projects and areas that our members, businessmen whose competitiveness is directly affected by the infrastructure, have told us need most urgent attention.

British business is working hard to improve its performance, but the Government must take the initiative in those areas where only government can act; infrastructure is one of those areas.



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SUMMARY AND RECOMMENDATIONS

'The infrastructure stock of the UK looks increasingly outdated' and 'action is required now' - these are the messages from this report which follows up 'The Fabric of the Nation'.

With the prospect of a slowdown in growth next year, and continued problems with competitiveness, the outlook for jobs is gloomy. By spending extra money on infrastructure projects with a high rate of return, business costs would be significantly reduced. This provides the best basis for an increase in employment.

As the CBI has already shown[1], there is a sound financial basis for the funding of these projects because of the resources that could be found through savings in the Government's current expenditure. These savings provide the framework within which extra projects could be financed, beginning in 1986.

The report welcomes the recent progress made by the Government on the infrastructure, particularly the NEDC Infrastructure Review and the follow-up action in the regions. With greater consultation between the Government, CBI and the TUC the prospects for further improvements are much enhanced. This report is aimed at furthering and improving this debate.

The report points to the need for early action in the following areas in the UK's infrastructure in particular:

* DERELICT LAND — This problem is growing and the Government should take early concerned action to tackle it. The report recommends that the administrative procedures associated with the Derelict Land Grant should be simplified and that the funds allocated for land reclaimation should be increased.

* BUILDING — The report gives ample evidence of the backlog of essential repairs and maintenance work needed on public sector buildings. Additional resources are required and can be found by attaining a better overall balance between capital and current spending.

* ROADS — The report contains a comparison between the road projects listed in 'The Fabric of the Nation' and 'The 1985 National Roads Review'. Gaps are evident and, overall, there is a difference of some £¾ billion between the Department of Transport's planned expenditure and what was called for in 'The Fabric of the Nation'. The CBI will be putting forward these results and suggesting ways forward in the consultations with the Department of Transport, as part of the NEDC Infrastructure Review.

* WATER — The report points to the serious prospect of a deterioration in existing assets in the water industry

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1 'Financing the Future', Third Report of the CBI Working Party on Government Expenditure, July 1985.

and the lack of investment in badly required new services and improvements. Increased investment is called for and the need to set spending plans for periods of up to five years, with some certainty that they will be maintained.

* RAILWAYS — The report welcomes the Government's recognition of the importance of developing a modern railway system, but urges continued efficient monitoring. It asks for a study on rail commuter services in the London area, to see if the current operation of services can be improved, and for a reduction in the effective discount rate from 11 to 7 per cent, to establish parity with road projects.

The report also points to important current defects in public sector planning techniques and calls, in particular, for a clearer distinction between capital and current spending - 'A clearer distinction would enable the public to build up a better picture of the output which Government is obtaining from its inputs'.

Chapter I

THE CASE FOR INFRASTRUCTURE SPENDING

Introduction

Here we point to the decline in infrastructure investment and the importance for the economy of reversing this trend. The CBI's case for increased infrastructure spending is based on the long term impact of public capital investment; cost improvements to the basic infrastructure can significantly cut business costs, improve competitiveness and, hence, enhance employment prospects.

The decline in infrastructure investment - the facts

Capital expenditure has declined and is set to decline further in the future. The 1985 White Paper outlining the Government's public expenditure plans to 1987/88 shows that:

* Overall capital spending - excluding defence - is set to be cut by 24 per cent in real terms over the next three years.

* Between 1975 and 1983 capital spending on roads fell by over 26 per cent in real terms.

* Total current expenditure on roads is due to fall by 0.2 per cent during 1985/86 against an inflation forecast of some 5 per cent.

* Capital expenditure on construction is due to fall 3.3 per cent in real terms during 1985/86.

The CBI case

British industry's high production costs are in part attributable to the inadequacy of the basic infrastructure and its deterioration. Some 18 to 20 per cent of business costs are incurred through transportation. Investment in the basic infrastructure, particularly through an improvement in the transport network, would increase the competitiveness and productivity of many firms by enabling them to cut these costs.

The CBI believes that increased spending on specific cost-effective infrastructure projects is necessary to make the most productive use of the current recovery as well as being one of the measures that need to be taken to reduce unemployment. Growth prospects will be put in jeopardy unless action is taken now to improve business competitiveness and to provide for future needs.

The CBI's view is that extra infrastructure spending would help business in the market place, but this is backed up by the belief that dynamic effects will follow as a result of a change in the composition of total output; a change which follows if resources are moved from current to capital expenditure. This will provide the 'supply side' environment within which business can help to make a real contribution to increasing the pace of job creation.

Improved competitiveness is the key to the long term recovery of the UK economy. Unit labour costs against our main competitors in manufacturing remain 18 per cent higher on average than they were in the mid-1970s. Business accepts that the prime responsibility for improving competitiveness, reducing unit labour costs and better industrial performance rests with trade and industry; but the Government must make its contribution by improving the basic infrastructure.

Conclusions

A country with a declining capital stock is a country with a declining economy; but where competitiveness improves, orders and output can increase leading to additional employment and additional demands on the local community - particularly in terms of factory, office and house construction.

This is so obvious and so important that Government should commit itself to an annual increase in the net worth of the public capital stock. An increase in asset sales for 1986/87 above the planned figure of £2 billion would only be justified if a significant proportion of the funds were used for infrastructure projects. The Government should not sell off part of the public sector's capital assets in order to finance tax cuts or increased current expenditure at a time when the nation's capital stock - so vital to our competitiveness - is deteriorating.

The need for a shift in the Government's course on infrastructure spending is clear, and we urge the Government to make the appropriate adjustments to its plans.

Chapter II

THE MANAGEMENT OF CAPITAL SPENDING

Introduction

This chapter points to some current defects in public sector planning techniques and suggests important changes, particularly in the structure of public sector accounts, and in the Department of Transport's computerised cost-benefit appraisal package (COBA), used in assessing the merits of road building schemes.

Background

Because of the size of the public sector, the value for money that is derived from each Pound the Government spends is of economic significance. If the efficiency of spending can be improved, current levels of expenditure can provide better services and release resources for use in productive investment in both private and public sectors.

The ways in which the Government allocates and administers its expenditure, and in particular its capital expenditure, is of key importance in determining the overall efficiency of such spending. The method of accounting will determine to a large extent the nature of the financial information that is available when studying a project. The cost benefit criteria that are chosen influence whether a project is deemed cost-effective, whilst the planning horizon will affect whether a project can be included in existing construction programmes.

In the last five years the value for money from Government spending has been improved in several areas. Savings have been made in manpower, in reducing input costs through a greater use of competitive tendering and contracting-out, and through the development of management techniques and the Financial Management Initiative; but there is still a long way to go.

Action

In a number of areas, current public sector planning techniques fail to ensure that resources are allocated efficiently and that full value for money is obtained.

The CBI accepts that there is a distinction between planning and control, but does not accept all of the implications which the Treasury believe follow on from that distinction, particularly concerning the restriction of planning horizons for capital projects, and hence capital allocations, to periods of between one and three years.

Stopping and starting capital projects because planning horizons are too short not only reduces the rate of return on an investment, but also thwarts business plans based on the projects concerned, as well as adding to business costs.

Both central and local government should move towards a three to five year planning horizon for capital spending. This will facilitate more efficient planning than the current system of annual allocations. This idea has the support of the Audit Commission.

The CBI welcomes the Government's recognition of the long lead times required for capital projects and the need to plan capital expenditure in a more stable framework. A necessary part of this stability is a clear commitment from Government that capital spending will not be cut by shifts from capital to current expenditure in its planning of public spending. In a recent article, two leading Treasury economists[1] recognised the technical case for such a separation.

The control of public sector expenditure is central to the Government's economic strategy, but the credibility of public expenditure control will be undermined as effectively by a marked deterioration in the quality of Government spending, if there continues to be a gradual erosion in capital expenditure, as it will by overspending the planning total.

The Government should match its commitment to increased public service efficiency with increased planning efficiency of capital expenditure. This means taking action to review and alter the structure of public accounts so that cost effective capital expenditure can be financed within the constraints of the Medium Term Financial Strategy; capital projects which contribute to the net worth of the public sector have a strong economic justification.

The CBI welcomes the Treasury's acknowledgement that the public sector faces similar difficulties in its planning of long term expenditure to those experienced by the private sector. The CBI believes this points to a restructuring of public sector accounts to allow greater flexibility. The Public Expenditure White Papers should make a clearer distinction between the capital and current expenditure of the Government.

A clearer distinction would enable the public to build up a better picture of the output which Government is obtaining from its inputs. Projects which indisputably 'add value' to the net worth of the public sector should have priority in the queue for public funds.

One aspect of the planning procedure is COBA, the Department of Transport's computerised cost benefit appraisal package. This compares the economic net benefits of proposed alternatives with the existing road structure, taking account of projected changes in traffic flows. The costs and benefits of the scheme are quantified using a 7 per cent discount rate. In 'Financing the Future' we gave details on how the programme operated and concluded that:

* The present COBA programme should be widened to take account of significant additional financial benefits accruing to road users, economic benefits which are not at present accounted for.

* The principles underlying the imposition of the 7 per cent discount rate to road projects should be re-examined, and wherever possible, the rate be reduced to the 5 per cent applying to the rest of public sector investment.

* Dynamic economic benefits should be given due consideration in the overall appraisal of an investment proposal as with environmental considerations.

The cost benefit criteria applied to capital projects must take into account the wider needs of the economy as well as meeting the narrower financial objectives of the MTFS.

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1 'Approaches to the PSBR' by John Odling-Smee and Chris Riley, National Institute Economic Review, August 1985.

Conclusions

This chapter has argued that there are important defects in current public sector planning techniques. The CBI believes that, given the wider industrial effects of the current system of controls and their bias against capital spending, a special group with representatives from business and Whitehall should be set up to establish a system of funding for Government capital projects which takes account of the long term planning needs of the public and private sector.

The CBI will be consulting its members in the coming months on this and will be glad to exchange information with counterparts in Whitehall, as a part of the partnership called for in 'Financing the Future'. Separate talks are required on the use of COBA and the CBI would welcome an early opportunity to meet with Department of Transport officials to discuss the recommendations outlined here.

Chapter III

THE BENEFITS OF INFRASTRUCTURE SPENDING

Introduction

'The Fabric of the Nation' specified infrastructure schemes which would improve the conditions under which business operates. These proposals were, and still are, a list of priorities within the overall programme which should be implemented over the next decade. This chapter demonstrates the range of benefits which accrue to infrastructure projects. The focus is again on roads, but once more the analysis could be extended to other areas of the basic infrastructure.

The dynamic benefits - the glow around the wire

A wide range of industries involved in construction benefit from infrastructure projects. For example, 8 per cent of motorway expenditure - about £110 million per annum - goes to the electro-technical industry, whilst the existence of a new rail network promotes the development of new housing and commercial buildings. In effect, there are two forms of benefit. Direct, which affects those businesses involved in construction or in servicing firms involved in construction, and indirect where firms increase their sales because the improved infrastructure cuts their business costs and advances their competitive position.

Localised benefits are not the only advantages to be derived from such improvements. Existing businesses are able, through increased competitiveness, to open up new markets and expand export sales. The M4 corridor proves this point, with its thriving and expanding business community. The M4 corridor confounds those who regard the benefits of a road as entirely the improvement in journey times between two places.

Where infrastructure projects are embarked upon, land values are improved, and demand for additional goods and services as inputs into the productive process stimulates the growth of small companies in areas as diverse as machine tools, spare parts, industrial cleaning and commercial and financial services. The entire region benefits from economic regeneration and increased employment opportunities, providing in turn further resources for productive investment.

The employment effects

As an example, Figure III.1 sets out the potential employment effects of ten of the road schemes put forward in 'The Fabric of the Nation'[1]. The employment figures set out below represent long term increases in employment for businesses within the sphere of influence of a scheme which, as a result of road improvements, become more competitive.

Some of these jobs will be transferred, but many will not and those that are will be more secure because their firms will be more competitive.

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1 The employment estimates are derived from a study conducted by the office of the Avon County Surveyor, in conjunction with a wide range of local and regional authorities.

FIGURE III.1

POTENTIAL EMPLOYMENT BENEFITS GENERATED BY ROAD IMPROVEMENT SCHEMES

Scheme	Purpose	Est. works cost (Nov 82 prices £m	Existing employment in the area of the scheme	Employment potential of: Developments directly dependent on a new scheme[1]	Developments significantly enhanced by scheme[2]
A505 Luton-Dunstable Relief Road completion	To relieve existing congested routes	na	95,000	500	10,000-15,000
Avon Ring Road completion	To improve traffic flows and remove traffic from shopping and residential roads	30	101,500	5,400	36,000-47,000
Manchester Airport Eastern Link Road A34 Bypass	To link Manchester Airport to A34 and A6(M) and open up 61MU industrial area	13	60,000	2,000	10,000-11,000
Dearne Towns Link (M1-A1)	To provide a new route between the A1 and M1 and help encourage industrial development of a derelict area	14	46,000	4,600	19,000
Cardiff Peripheral Distributor Road completion	To help promote economic activity and regeneration of area where traditional industries are in decline	45	87,000	16,500	2,500
A77 Ayr Road Route	To provide a fast continuous through route between Glasgow and Ayrshire	28	500,000	nil	23,000
A325 Blackwater Valley route[3]	To cater for North-South movement in Blackwater valley area of Hampshire, Surrey and Berkshire and relieve congestion on existing unsuitable single carriageway road	40	37,300	1,000	5,100
A120 improvement	To provide alternative East-West route from Colchester to M11 and relieve communities on existing inadequate route	15	13,000	nil	1,500-2,000
Totton Western Bypass	To connect the M27 to Fawley oil refinery, Fawley and Marshwood power stations and Hythe	na	15,800	2,100	1,900
East Leeds Network[4]	To provide a link between Leeds City and the potential M1-A1 link (proposal by the Department of Transport)	19	145,800	4,500	15,300

1 These figures refer to the employment potential of an industrial development for which planning permission has been refused because of inadequate road facilities, and developments firms have indicated will be directly contingent on the road scheme being implemented.

2 These figures refer to the employment potential of industrial development which would be enhanced by the existence of the road scheme, either through firms obtaining wider planning permission than can be granted, or by benefitting from significant reductions in the cost of their activities.

3 The employment figures refer only to areas of the route within the province of Hampshire County Council.

4 This proposal has been slightly modified from that contained in 'The Fabric of the Nation'.

Avon - a case study

The employment potential of road schemes is clear, as shown by a case study of the Avon Ring Road[2]. The relevant section of the road runs from the A4174 Bromley Heath to the A4 Bath Road and would, in conjunction with those parts already constructed, create a continuous route from the A38 at Filton to Hengrove Way in Hartcliffe.

The road would not only improve conditions in the Bristol area by cutting journey times, increasing access and reducing congestion, but would also make industry and commerce in the area more competitive through better communications, thus creating new employment.

As far as sites with potential for new employment are concerned, there are two categories; those sites which cannot be developed until the Ring Road is constructed because existing access is unsuitable, and those sites which may be developed but whose attraction would be enhanced by the provision of the road. The main areas of existing or proposed employment influenced by the Avon Ring Road are listed in Figure III.2.

* In the Kingswood District, there are new sites which could provide a total of some 7,000 jobs, of which 4,500 cannot be considered for development until the Ring Road is built.

* In South Bristol there are some 1,700 potential jobs whose prospects could be enhanced by provision of the Avon Ring Road.

* In many of these areas, accessibility would be substantially improved by the possible link to the M4 motorway at Westerleigh Road. This creates a much more direct route to the national network, in particular from the Eastern and Southern areas of Bristol and Kingswood.

Conclusions

The existence of the dynamic benefits contained in these examples - increased competitiveness and profitability, enhanced potential for job creation and economic regeneration - must be a significant factor in assessing the true benefit of an infrastructure scheme.

Such benefits are not confined to the locality of the initial investment; in time they will spread along and around the project. In this way the benefits of the initial investment will spread out, improving the environment and increasing prosperity, not just for a small area but for the economy as a whole.

Investment in the infrastructure carries benefits for all sectors of industry. Civil engineering is the first to be affected, but, as the network produces employment effects, the whole construction industry is drawn in to produce new factories, offices and houses.

Once this has happened, the community that has been established begins to thrive and any firm that can take the opportunities offered by a new market will begin to prosper.

All of which shows that infrastructure projects can solve one of the most serious mismatches in the labour market; between firms that want to increase their workforce and a deteriorating urban environment incapable of winning the confidence of industry.

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2 Information provided by the Avon County Council.

FIGURE III.2

LONG TERM EMPLOYMENT BENEFITS GENERATED BY THE CONSTRUCTION OF THE AVON RING ROAD

Plan Ref No	Location	Area	Type of Development	Potential Jobs*	Remarks
1	Longwell Green Industrial Area, Kingswood	15 ha (37 acres)	10.7 ha (26 acres) manufacturing/ local warehousing - under construction or with permission	1110	To be developed in accordance with Design Brief
			3.2 ha (8 acres) local warehousing - constructed	192	Part developed already
			1.1 ha (3 acres) retail constructed	102	Not completely dependent on construction of Ring Road
2	Longwell Green/ Warmley Development Area, Kingswood	10.5 ha (26 acres)	Manufacturing/light industry	884	Planning permission for Residential Development approved but employment dependent on completion of Stage III of the Ring Road (A420-A431)
3	Bath Road, Bridgeyate, Kingswood	6 ha (15 acres)	0.7 ha (1.7 acres) constructed local warehousing	41	Part already developed - not dependent on construction of Ring Road
			5.3 ha (13 acres) 50% local warehousing/manufacturing	390	
4	Siston Hill, Kingswood	18.5 ha (46 acres)	Manufacturing/light industry (but would prefer office accommodation as it could be all developed comprehensively)	1564	Cannot be considered for development until Ring Road advanced
5	Emersons Green, Kingswood	40.5 ha (100 acres)	Manufacturing/light industry and local warehousing	3000	Cannot be considered for development until Ring Road advanced
6	Coldharbour Lane	30.5 ha (75 acres)	High technology industry	3000	Dependent in first instance on decisions re Green Belt
7	Wallscourt Farm (including Hewlett-Packard)	115.5 ha (285 acres)	A large element of high technology industry	10000-12000	Some units in use on Hewlett-Packard site
8	Parkway	46.5 ha (115 acres)	Offices	9000-12000	Long term possibility
9	Patchway Common	40.5 ha (100 acres)	Offices/hotel/other	2000-3000	The subject of a current planning application
10	Aztec West	54.5 ha (135 acres)	Industry/warehousing/offices	6000-10000	Some units already occupied
11	Cribbs Causeway	67 ha (165 acres)	Warehousing/industry	3000-3500	Several units under construction
12	Whitchurch Lane Industrial Estate	16 ha (40 acres)	Manufacturing/light industry (75%) local warehousing (25%)	1020 240	Development not dependent on construction of Ring Road.
13	Former allotments adjacent to	2.9 ha (7 acres)	Manufacturing/light industry (90%) local warehousing (10%)	184 14	Development not dependent on construction of Ring Road
14	Former site of Robertsons Jam Factory, Bristol	3.2 ha (8 acres)	Retail	240	Superstore under construction. Development not dependent on construction of Ring Road

* SP employment standards assumed

Offices - 200 jobs/acre; manufacturing/light industry - 34 jobs/acre; local warehousing - 24 jobs/acre; retail warehousing - 34 jobs/acre

Chapter IV

INDIVIDUAL INFRASTRUCTURE PROGRAMMES

Introduction

In previous chapters we have looked at infrastructure investment in terms of its economic significance. In this chapter we look at the problems which exist within individual infrastructure programmes. The picture is not promising. The infrastructure foundations of the UK economy look increasingly fragile.

Derelict Land

Background

Recent consultation with members on urban policy has highlighted the problem of land dereliction touched on in 'The Fabric of the Nation'. All available evidence points to the fact that the problem is growing; the CBI believes that the Government should take concerted action to tackle it. This section will examine the scope of the problem and suggest that the administrative procedures associated with the Derelict Land Grant (DLG) should be simplified, and that the funds allocated for land reclaimation should be increased.

The scope of the problem

The extent of the problem was revealed by a Department of the Environment (DoE) survey carried out in 1982 and published last year. This showed that the area of derelict land[1] in England totalled 45,683 hectares of which 34,278 hectares were considered to justify reclamation.

Because dereliction occurs progressively, the reclamation programme needs to proceed at a faster rate than that achieved between 1974 and 1982 if the situation is to be contained, let alone improved. To some extent, the Government has recognised this need and has progressively increased the amount of grant aid available; from £12 million in 1974/75 to £76.4 million in the current financial year. But, in view of the backlog of work to be undertaken and the costs of land reclamation (between £45,000 and £60,000 per hectare), this sum is unlikely to lead to a marked reduction in the total area of dereliction (to clear the backlog of derelict land identified as justifying reclamation in the 1982 survey would cost £1½ to £2 billion).

In the present economic and social climate, there is a strong case for increasing the funds available to tackle the backlog and thereby helping to improve the prospects for industry in inner urban areas.

Improving the effectiveness of DLG

The DLG scheme would be considerably improved if it could be made more attractive to private developers. This could be achieved in three ways:

1 For the purpose of this survey derelict land was defined as land so damaged by industrial or other development that it is incapable of beneficial use without treatment.

* by increasing the amount of grant available from 80 to 90 per cent, thereby reducing the loss suffered by the developer;

* by making it possible for interim payments of grant to be made. This would, in many cases, ease the debt burden borne by the developer while a site is being reclaimed. Both of these measures would necessitate additional funds; and

* by making the application and other administrative procedures associated with the scheme as simple as possible.

Action

In a speech in September, Mr Kenneth Baker MP, the Secretary of State for the Environment, said "One of the things I have got to do is bring more derelict land or semi-derelict land back into building use."

If this aim is to be achieved, the CBI believes that:

* **The funds allocated for land reclamation should be increased and that the grant application procedures should be simplied.**

* **The rate of grant available for non-local authority projects should be increased from 80 per cent to 90 per cent and that the possibility of interim grant payments being made should be considered.**

* **The changes proposed by the DoE to the present DLG scheme with regard to the merging of categories A and B and the introduction of rolling expenditure programmes should be implemented.**

Building

Background

Evidence of the backlog of essential repair and maintenance work needed to public sector buildings has emerged from a number of sources:

* As long ago as 1977, a Department of Education and Science Report, 'A Study of School Buildings' indicated that £1.2 billion (£2.5 billion at 1985 prices) needed to be spent to bring schools built before 1976 up to modern standards.

* In 1983 the Davies Report 'Underused and Surplus Property in the National Health Service' put a figure of £2 billion on the amount that should be spent to bring hospitals and health centres up to minimum acceptable standards.

* An Audit Commission report this year, 'Capital Expenditure Controls in Local Government in England', stated that the routine maintenance backlog for council housing has been accumulating at the rate of some £1 billion per annum "for a number of years".

All these findings have been further reinforced by the recent NEDO study "Investment in the Public Built Infrastructure"[2] and memoranda submitted to the NEDC by government departments outlining the condition of their building stocks.

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2 National Economic Development Office, January 1985.

Action

In order to tackle the backlog of overdue and essential repair and maintenance work, the CBI believes that:

* **The Government must devote additional resources to the problem. This report has argued that this can be achieved by changing the balance between current and capital spending; failure to do this means that disproportionately greater expenditure will be required in future to meet the rising costs of present neglect.**

* **There should be greater integration between local and national systems for assessing building needs and allocating resources.**

Roads

Background

The publication of 'The Fabric of the Nation' in June 1984 helped stimulate the debate on investment and infrastructure. One important sequel was the discussions at the NEDC on infrastructure and the setting up in Spring 1985 of a joint CBI, TUC, Department of Transport (DTp) group chaired by Mrs Lynda Chalker, Minister of State for Transport, to review the road construction programme. The Government, in taking this step, had recognised the importance of an up-to-date road system in the revitalisation of the economy. A report was presented by Mrs Chalker to the July NEDC, during which the Chancellor advanced the view that more infrastructure spending was part of the supply side measures needed to get the economy back into gear.

The DTp produced its own review of the progress of the road programme on 20 June this year, called 'The 1985 National Roads Review'. The CBI welcomes this review but has a number of reservations. Particularly, the CBI is concerned that increases in programmed expenditure apply only to the national network administered by the DTp. Local authority roads cover 96 per cent of road mileage, 75 per cent of traffic and 60 per cent of total expenditure but there is little evidence that significant increases in programmed expenditure are planned in the area. This makes it more difficult for all sections of the business community to make meaningful plans for the future in partnership with the local authorities.

Comparison with 'The Fabric of the Nation'

Of the 44 'The Fabric of the Nation' schemes involved, all bar three are dealt with to some degree by the 1985 Review. Appendix I sets out the comparison.

However this does not mean that all of the schemes in 'The Fabric of the Nation' are to be fully implemented. In aggregate, the DTp schemes in 'The Fabric of the Nation' are estimated to cost about £3¾ billion (November 1983 prices). At present, the DTp projects which make up these schemes have been allocated around £2½ billion. If the cost of the three schemes not included in the programme[3] (£½ to £¾ billion) is deducted, a difference of £½ to £¾ billion still remains between DTp planned spending and that which was called for in 'The Fabric of the Nation'.

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3 These are the M25 widening, the second Severn crossing, and the M6 duplication, which are currently under preliminary study by the DTp.

Action

The projects currently listed as priorities by the CBI Regions are all required to help industry improve its distribution of raw materials or finished products but often they will also improve environmental conditions in particular locations.

The roads listed in Appendix I are those which are those specifically requested by the CBI Regions and may or may not be included in current DTp programmes[4].

Some projects which are wanted by the CBI occur on non-trunk, ie local authority, roads. Among these are the need for improvements to:

* The route from Poole to Bristol, the West and the N West.

* A third bridge at Reading linking the M4 and S Oxfordshire.

* A third Dartford Tunnel.

* Roads on the Isle of Wight.

* A501 the London Inner Ring Road.

Significant advances have been made in transport infrastructure. However, clearly much more progress is still required. The CBI will continue to press to Government the importance of an efficient road network to British industrial performance and our international competitiveness.

Water

Background

From 1974, when the water authorities were established, investment in water services declined steadily in real terms until 1984/85 when it stood at £744 million. In the current year capital investment is expected to amount to £814 million and is forecast in the 1985 White Paper on Public Expenditure to be £882 million in 1986/87 and £931 million in 1987/88, in cash terms. With inflation at present levels, this represents a modest increase in investment in real terms in the immediate future.

The water industry is in a position where there is a serious prospect of a deterioration in existing assets and a lack of investment in badly required new services and improvements.

Water supply

The main area of concern with respect to water supply is the performance and condition of water mains. Bursts average 216 per thousand kilometres and water lost from mains is estimated to be 25 per cent or more.

The Water Research Centre, which has developed techniques for addressing these problems on site, has suggested that current levels of expenditure on the rehabilitation of water mains should be immediately increased by about

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4 Roads in Scotland and N Ireland are not included in this analysis but the improvement of the A75 between Carlisle and Stranraer is essential to both countries and to England.

£10 million a year above the present estimate of £60 million. A clearer indication of whether this is sufficient is expected to emerge as water authorities continue with their appraisal of the situation in key areas.

In addition to the need to maintain the system, there is a continuing demand for new services to be provided which varies from one authority to another. Compliance with the European Directive on the quality of drinking water will also require expenditure to ensure that the UK complies with its requirements.

Sewerage

Whilst much of the sewerage system is old, it has been recognised that age is not a good criteria for determining the condition of sewers. Nevertheless, the condition of some sewers is a cause for concern, together with a high proportion of unsatisfactory storm overflows.

The water authorities are focussing attention on critical sewers where the consequences of failure would be significant. Initial assessment of the backlog of work on these alone indicate an investment requirement of up to £1,500 million. Reflecting this, the Water Research Centre has suggested further expenditure of 15 per cent in renovation and renewal using the new techniques developed by the Centre.

Sewage treatment and disposal

With increasing environmental consciousness, the treatment and disposal of sewage cannot be neglected. This is particularly so now that under the Control of Pollution Act 1974 members of the public, including environmental bodies, will have access to information about sewage discharges and therefore be able to assess performance.

Whilst, overall, river quality is good, there are some sewage works which are inadequate, delapidated, unreliable and expensive to maintain. The length and condition of many sea outfalls for sewage is also of considerable concern in relation to meeting the requirements of the European Directive on the quality of bathing waters.

For these reasons, and to meet new demand, there is a continuing need for expenditure on sewage treatment and disposal facilities.

Action

It is difficult to derive a precise estimate for the investment needs of water authorities; this is understandable since roughly 70 per cent of their assets are buried underground as water mains and sewers. However, this should not consistitute a reason for delaying increased investment when the authoritative evidence indicates that present levels are too low by at least £100 million in current price terms.

To increase investment to these levels it is essential to move to spending programmes covering periods of up to five years with some certainty that they will be maintained. Financial plans also require commensurate changes.

Railways

Background

The approval in July 1984 of the East Coast Main Line electrification scheme

costing £306 million over 6½ years was a welcome recognition by the Government of the importance of developing a modern railway system. It also provided a boost to the industry. However, business transport requirements are constantly changing and the Government must ensure that sufficient investment funds are available to allow it to respond quickly enough to changing circumstances.

Action

The allocation of resources to transport infrastructure needs is far from satisfactory, given the continuing difference in criteria applied to road and rail investments. The 7 per cent discount rate applied to road schemes is based on a social cost benefit analysis. Rail projects are appraised in purely financial terms also using a 7 per cent discount rate. It is generally recognised that the inclusion of social benefits adds about 3-4 per cent to the return achieved. Implicitly therefore rail projects are being appraised using a 10-11 per cent discount rate as compared with the 7 per cent for road projects, a substantial disadvantage.

Although viable rail projects are being examined and approved by the DTp without too much delay, basic problems remain for rail commuters in one London area. While welcoming the present consultants' studies of road provision in a number of parts of London, the CBI would like to see an appropriate appraisal of the costs and benefits attributable to rail commuter services on a similar basis to consider whether significant improvements can be justified.

Conclusions

This chapter has demonstrated that some key areas of Britain's infrastructure need increased investment, whilst others need increased maintenance expenditure to maintain the existing capital stock.

The CBI welcomes the Government's increasing awareness of the importance of infrastructure investment. Whilst progress has been made, more is required. The CBI welcomes an early opportunity to discuss this report with Ministers, and interested groups, and urges immediate action to stop the decay in Britain's infrastructure.

Appendix I

COMPARISON BETWEEN 'THE FABRIC OF THE NATION' AND 'THE 1985 ROADS REVIEW'

Summary

The schemes listed here were produced on the basis of regional consultations. It is clear from our comparison with the DTp Roads Review that insufficient resources are being allocated to road construction and maintenance for the national roads system to meet the needs of the regions.

The DTp is to hold regional consultations as part of the development of the NEDC Infrastructure Review. The CBI Regions will be taking an active part in these consultations and will want see the gaps filled when that process is complete.

FIGURE AI.1

COMPARISON BETWEEN 'THE FABRIC OF THE NATION' AND 'THE 1985 ROADS REVIEW'

	Fabric of the Nation scheme (cost £m)[1]	DTp projects	DTp Implementation date	Cost £ million Nov 1983 prices	Date in Fabric of the Nation	CBI Comments[2]
Greater London						
1	A406 East London River Crossing (99/130)	East London River Crossing	1989 onwards	130.0	1987-89	Little scope for acceleration. Public enquiry not yet held.
2	A40 Junction improvements (55/53)	Ealing Gypsy Corner	1987-89	15.7	1987-89	Inefficient to have more than 2 schemes in progress together.
		Ealing Western Circus	1987-89	15.2		
		Long Lane junction	1989 onwards	15.0		
		Swakeleys Road junction	1989 onwards	7.2		
3	A12 Eastway-Eastern Avenue (88/85)	A12 Hackney Wick to M11 Link	1987-89	85.0	1987-89	
4	A406 North Circular Road Improvement (333/368)	Links under construction	1985-87	60.7	(1985-87 (1987-89	Traffic requirements preclude more schemes before 1989.
		Great Cambridge road (A10) junction	1985-87	21.4	(1989 onwards	
		Popes Lane to Western Avenue	1987-89	21.3		
		Hanger Lane to Harrow Road	1987-89	50.9		
		Falloden Way junction	1987-89	24.2		
		Chingford Road to Hale End Road	1987-89	42.7		
		Regent's Park road junction	1989 onwards	41.0		
		Golders Green junction improvement	1989 onwards	10.0		New in programme.
		Bounds Green/Green Lanes improvement	1989 onwards	40.0		
		East of Silver Street to A1010	1989 onwards	23.4		
		Dysons Road to Hall Lane	1989 onwards	32.9		
5	A23 Improvement (52/4)	Coulsdon Inner Relief Road	1989 onwards	4.0	1991-94	
6	M25 widening (150/-)	-	-	-	1991-94	Not in programme study in progress.
South East						
7	A23 Crawley-Brighton Improvement (20/28)	Warninglid to Brighton	1987-89	24.0	1987-89	
		Handcross to Pease Pottage improvement	1989 onwards	3.7		New in programme (not in Fabric of the Nation).
8	A34 Oxford-Winchester Improvement (19/28)	East Ilsley to Chilton improvement	1985-87	3.5	1987-89	
		Whitway diversion	1985-87	5.2		
		Newbury Bypass	1987-89	19.5		
9	A41 Improvements in Herts and Bucks (34/25)	Kings Langley Bypass	1987-89	10.4	(1985-87	DT83: 1985/87.
		Berkhampstead Bypass	1987-89	10.3	(1987-89	"
		Aston Clinton Bypass	1987-89	5.0		DT83: 1987/89 reserve list.
South East (cont)						
10	A3 Improvements in Surrey and Hants (38/43)	Campton-Shacklefield improvement	1985-87	6.0	(1985-87 (1987-89	
		Midford Bypass	1987-89	4.3		
		Liphook and Petersfield Bypass	1987-89	23.7		
		Hindhead improvement	1989 onwards	11.8		DT83: 1987 onwards.
11	A27/A259 Havant-Folkestone improvement (160/147)	Havant to Chichester Bypass	1985-87	29.3	(1985-87 (1987-89	
		Fontwell improvement	1985-87	3.6	(1989-91	
		Westhampnett Bypass	1987-89	6.5		
		Brighton Bypass	1987-89	52.8		DT83: 1985-87.
		Pevensey Bypass	1987-89	4.2		
		Winchelsea Bypass	1987-89	3.1		
		Arundel Bypass	1989 onwards	11.8		New to programme.
		Patching Junction improvement	1989 onwards	5.0		New to programme.
		Polegate Bypass	1989 onwards	8.3		New to programme.
		Bexhill and Hastings Western Bypass	1989 onwards	16.2		New to programme.
		Rye Bypass	1989 onwards	5.8		
		New Romney Bypass	-			Suspended.
		Dymchurch and St Marys Bay Bypass	-			Suspended.
		Hythe Bypass	-			Suspended.
12	A420 Swindon-Oxford improvement (28/2)	Kingston Bagpuize and Southmoor Bypass	1987-89	2.0	(1987-89 (1989-91	Need to add further schemes. Public consultation underway.
13	A2 Dualling in East Kent and future upgrading to motorway (105/10)	Barham Crossroads junction	1985-87	1.8	1991-94	Need to upgrade Section NW of Dover.
		London Boundary to M2 (provision of hard shoulders)	1985-87	8.1		No upgrading to M-way planned.
Eastern						
14	A11/A47 Newmarket-Great Yarmouth inc Norwich Southern Bypass (111/77)	Thetford Bypass	1985-87	6.6	(1985-87	
		Wymondham-Cringleford	1985-87	8.8	(1987-89	
		Newmarket-Red Lodge	1987-89	1.0	(1989-91	
		Red Lodge Bypass	1987-89	1.9		
		Acle Bypass	1987-89	4.6		
		Besthorpe-Wymondham	1987-89	3.0		
		Norwich Southern Bypass	1987-89	44.2		
		Four Wentways junction	1987-89	2.9		
		Roundham Heath to Snetterton dualling	1989 onwards	1.8		New to programme.
		Four Wentways-Newmarket dualling	1989 onwards	1.2		
15	A418 Thame-Stevenage Route (105/-)	Thame to Stevenage	-		(1989-91 (1991-94	Suspended.
16	A47 improvement King's Lynn to A1 (23/19)	Peterborough Westwood Junction	1985-87	1.2	(1985-87 (1987-89	DT83: reserve list 1987 onwards.
		Peterborough Longthorp Junction	1985-87	1.2		
		Eye Bypass	1985-87	3.8		DT83: 1985/87 reserve list.
		Guyhirn Diversion	1985-87	2.8		DT83: 1987 onwards.
		Caster and Ailsworth Bypass	1987-89	2.8		DT83: 1985/87 reserve list.
		Thorney Bypass	1987-89	2.4		DT83: 1985/87 reserve list.
		Walpole and St Johns	1987-89	2.9		DT83: 1987 onwards.
		Tilney High End Bypass	1987-89	1.8		Possible need for further dualling.
17	A12/A47 Great Yarmouth Bypass completion (6/6)	Great Yarmouth Southern Bypass (Southern section)	1987-89	5.9	1987-89	Other sections completed or under construction.

1 The first figure refers to the estimated cost of the scheme in 'The Fabric of the Nation', the second to the amount allocated in the 1985 Roads Review. All figures are in November 1983 prices.

2 DT83 = Status of road project in the 1983 Roads Review.

South Western

18 A361 North Devon Link completion (42/58)	Barnstable Bypass	1985-87	14.8	(1985-87	
	North Devon Link stage 2A	1985-87	25.0	(1987-89	
	North Devon Link stage 2B	1985-87	18.0		
19 A417/A419 improvement (15/13)	Birdlip Bypass	1985-87	1.5	(1985-87	
	Blunsdon to Cricklade widening	1985-87	2.1	(1989-91	
	Brockworth Bypass	1987-89	6.8		DT83: 1985/87.
	Latton Bypass	1989 onwards	2.5		New in programme.
	Stratton Bypass	-			Suspended.
20 A30 Exeter Penzance improvement (56/88)	Blackwater improvement	1985-87	4.3	(1985-87	
	Okehampton Bypass	1985-87	22.0	(1987-89	
	Exeter to Okehampton stage 3	1985-87	19.2		
	Zelan improvement	1987-89	3.1		DT83: 1985/87.
	Mitchell Bypass	1987-89	2.1		DT83: 1985/87.
	Summercourt improvement	1987-89	2.2		DT83: 1987/87.
	Indian Queens improvement	1987-89	5.8		
	Plusha to Bolventor	1987-89	8.7		
	Launceston to Plusha	1987-89	6.2		
	Okehampton to Launceston	1989 onwards	14.4		
21 A36 Bristol-Southampton Road improvement (48/33)	Bath to A420	1985-87	3.5	(1985-87	
	Warminster Bypass	1985-87	9.0	(1987-89	
	Heytesbury Bypass	1985-87	1.6	(1991-94	DT83: 1985/87 reserve list.
	Steeple Langford Bypass	1985-87	1.5		DT83: 1985/87 reserve list.
	Batheaston and Swainswick Bypass	-			Under study.
	Beckington Bypass	1987-89	1.6		DT83: Reserve list 1987 onwards.
	Cod Ford Bypass	1987-89	1.5		DT83: 1985/87 reserve list.
	Salisbury Bypass	1989 onwards	14.0		
22 A40 Oxford-Ross-on-Wye improvement (74/35)	Highnam to Jays Green improvement	1989 onwards	5.5	1989-91	
	Witney Bypass to Cassington dualling	1989 onwards	6.2		New in programme.
	North of Oxford improvement	1989 onwards	23.5		New in programme.
23 Second Severn Crossing (105/-)	-	-	-	1991-94	Not in programme but under study.

West Midlands

24 A564 Stoke-Derby link (91/89)	Stoke-Derby link (Hatton, Hilton and Foston Bypasses)	1987-89	9.8	(1985-87 (1987-89 (1989-91	DT83: 1985/87.
	Stoke-Derby link (Stoke Southern Bypass)	1989 onwards	17.0		DT83: 1987 onwards.
	Stoke-Derby link (Doveridge Bypass)	1989 onwards	7.6		
	Stoke-Derby link (Derby Bypass-Derby Spur)	1989 onwards	54.2		
25 A446 Birmingham Northern Relief Route (116/120)	A446 Northern Relief Route	1989 onwards	120.0	(1987-89 (1989-91	Little scope for acceleration.
26 M40 Oxford-Birmingham (226/223)	Oxford-Birmingham (Otmoor section)	1987-89	40.8	(1985-87 (1987-89	All four - DT83: 1985/87. No acceleration possible. Schedule likely to be delayed as not feasible to start all four schemes together.
	Oxford-Birmingham (Gaydon section)	1987-89	25.5		
	Oxford-Birmingham (Warwick section)	1987-89	46.0		
	Banbury Bypass	1987-89	111.0		

West Midlands (cont)

27 A435 improvement - (M42-M5 link) (23/50)	Alcester Bypasses	1985-87	7.4	(1985-87	
	Evesham Bypass	1985-87	9.5	(1987-89	
	Studely Bypass	1987-89	13.8		
	West of Ashchurch - A435	1989 onwards	6.7		
	Norton and Lenchwick Bypass	1989 onwards	12.7		
28 A449 Birmingham West Orbital Route (79/-)	Wolverhampton Western Bypass	-		1989-91	Suspended.
	Stourbridge Bypass	-			Suspended.
	Kidderminster Eastern Bypass	-			Suspended.
29 M6 duplication in Cheshire/Staffordshire (394/-)	-			1991-94 1994 onwards	Under study but not in programme.

East Midlands

30 A604 M1-A1 link (86/102)	A604 M1-A1 link (Kettering-Brampton)	1985-87	44.4	(1985-87 (1987-89	Danger of slipping back to 1987/89.
	A604 M1-A1 link (Kettering section)	1985-87	13.8		
	A1-M1 link (M1 - Kettering)	1985-87	44.1		
31 M42/A42 completion	Measham-Ashby Bypass	1985-87	23.5	(1985-87	
	Castle Donington North	1987-89	24.1	(1987-89	
32 A43 Oxford-Stamford improvement (51/50)	Peartree Hill to Wendlebury improvement	1985-87	20.6	(1985-87 (1987-89	Little scope for acceleration.
	Brackley Bypass	1985-87	6.0	(1989-91	DT83: reserve list 1985/87.
	Towcester Bypass	1985-87	4.2		
	Bulwick Bypass	1985-87	2.3		
	Kettering Northern Bypass	1985-87	5.0		
	Blisworth Bypass	1987-89	8.2		
	Silverstone Bypass	1989 onwards	3.4		New in programme.
	Whitfield Turn to Brackley Hatch dualling	1989 onwards	2.5		New in programme.
	Stamford Bypass	1989 onwards	2.5		DT83: reserve list 1987 onwards.
33 A46 Leicester Westerm Bypass (33/34)	Leicester Western Bypass	1987-89	34.3	1987-89	
34 A6 Improvement in Leicestershire and Northants (32/43)	Market Harborough Bypass	1987-89	5.0	(1987-89	
	Barton Bypass	1987-89	2.3	(1989-91	
	Great Glen Bypass	1989 onwards	1.9		New in programme.
	Burton Latimer to Rushden	1989 onwards	13.6		
	Clapham Bypass	1989 onwards	4.5		New in programme.
	Kegworth Bypass	1989 onwards	2.1		
	Quorn and Mountsorrel Bypass	1989 onwards	12.7		
35 A47 Leicester-A1 dualling (80/4)	Billesdon Bypass	1985-87	2.6	(1985-87 (1987-89 (1989-91	Need to get more schemes into programme.
	Wardley Hill improvement	1985-87	1.6		DT83: 1987 onwards.

North Western

36 M63/M66 Manchester Outer Ring Road East Flank (165/180)	Portwood to Denton	1985-87	57.0	(1985-87	Little scope for acceleration.
	Denton to Middleton	1987-89	122.0	(1987-89	
37 M63 Stratford-Eccles improvement (11/20)	Stratford to Eccles improvement			1985-87	No scope for acceleration.
	Stage 1	1985/87	8.3		DT83: 1983/85.
	Stage 2	1985/87	2.4		
	Stage 3	1985/87	2.5		
	Stage 4	1985/87	6.6		

North Western (cont)

38 A590-M6 to Barrow development (15/12)	Dalton in Furness Bypass	1987-89	7.7	(1987-89 (1989-91	
	High and Low Newton Bypass	1989 onwards	3.0		New in programme.
	Swarthmoor Bypass	1989 onwards	1.2		New in programme.
39 M65 Calder Valley Route completion (53/50)	Blackburn-M6 link	1989 onwards	50.0	1991-94	
40 A59 Liverpool-Preston improvement (89/9)	Burscough Bypass	1987-89	9.1	(1985-97	
	Bickerstaffe to Brotherton	-		(1987-89 (1989-91	Suspended.
	Bretherton to Hutton	-			Suspended.
	Preston Southern Bypass	-			Suspended.

Northern

41 A69 improvement (68/65)	Horsley to Corbridge improvement	1985-87	2.4	(1985-87 (1987-89	DT83: 1985/87.
	Eighton Lodge Junction improvement	1985-87	4.0	(1989-91	
	Newcastle Western Bypass	1985-87	49.0		
	Brampton Bypass	1987-89	3.9		DT83: 1985/87.
	Warwick Bridge Bypass	1989 onwards	5.1		
	Haltwhistle Bypass	-			Suspended.
	Haydon Bridge Bypass	-			Suspended.
42 M1/A1/A6183 Kirkhangate-Dishforth (127/130)	Wetherby Bypass	1985-87	9.3	(1985-87 (1987-89	
	Kirkhamgate-Dishforth (Knowsthorpe-Austhorpe)	1987-89	13.2		DT83: 1985/87.
	(Austhorpe to A1 Bramham)	1987-89	21.7		DT83: 1985/87.
	(Stourton to Knowsthorpe)	1987-89	9.0		DT83: 1985/87.
	(Lofthouse to Stourton)	1987-89	13.3		DT83: 1985/87.
	(Dishforth Interchange)	1987-89	4.6		DT83: 1985/87.
	(Bramham-Wetherby)	1987-89	37.5		DT83: 1985/87.
	(Wetherby-Dishforth)	1987-89	9.3		DT83: 1985/87.
43 A629/A650 Airedale Route (89/65)	Airedale route (Victoria Park to Crossflats)	1985-87	10.5	(1985-87 (1987-89	
	Airedale route (Kildwick to Beechcliffe)	1985-87	19.5		
	Airedale route (Crossflats to Cottingley Bar)	(1987-89 (1989 onwards	2.2 17.0		
	Airedale route (Shipley Eastern Bypass)	1989 onwards	15.5		
44 A616/A628 Sheffield/Manchester Route (79/18)	Stocksbridge to M1 Mottram to Tintwistle Bypass	1985-87	17.5	(1989-91 (1991-94	Suspended.

ECN

10 DOWNING STREET

From the Private Secretary

12 September 1985

PRIME MINISTER'S MEETING WITH THE CBI

Here is a draft of the Press Release the CBI propose to release after their meeting with the Prime Minister and others this afternoon. They tell me they may revise it in the light of the meeting.

I am sending copies of this letter and enclosure to Philip Wynn Owen (H.M. Treasury), Paul Haston (Mr. Channon's office, Department of Trade and Industry) and Michael McCulloch (Mr. Raison's office, Foreign and Commonwealth Office).

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

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Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332

Sir James Cleminson MC DL
President

cc Bernard Ingham.

CBI

Mr. David Norgrove

Attached draft press release - about which we spoke.

Beatrice Gilpin

12.9.85.

DRAFT Press Release 12 September 1985

P.147.85

CBI MEETS MRS THATCHER TO DISCUSS GOVERNMENT SUPPORT FOR EXPORTS

Sir James Cleminson, President of the Confederation of British Industry, today (Thursday) led a delegation to see the Prime Minister at 10 Downing Street to discuss government support for British exporters, including bids by the UK for major overseas projects.

The invitation to No 10 followed a letter from Sir James to Mrs Thatcher urging more positive backing for British exporters after the recent loss of several big orders to foreign companies benefiting from special loans offered by their Governments. The meeting also reviewed the export services provided by the Government through the British Overseas Trade Board and the Export Credits Guarantee Department.

CBI and the Government are at one on the importance of making the national export effort as effective and competitive as possible, and the CBI team welcomed recent ministerial statements emphasising the Government's firm commitment to the promotion of British overseas trade. The prime object of the meeting was to discuss ways of further improving Britain's export performance.

The CBI asked for maximum coordination on export matters between all Government departments concerned, and the closest possible liaison and consultation between them and industry and commerce, to ensure a quick reaction from Whitehall in support of companies' efforts to secure overseas business. They emphasised the important role of the British Overseas Trade Board in advising Government on all aspects of export policy, and the value businessmen attach to the commercial work done at British Embassies abroad.

The CBI team urged the Prime Minister to ensure that in all its actions affecting the economy, the Government takes into account the likely effect on the competitiveness of British exports in world markets.

Sir James was accompanied by Sir Fred Warner, Director of Guinness Peat and Chairman of the CBI Overseas Committee; Mr Martin Laing, Chairman of civil engineers John Laing and of the CBI Export Promotion Committee; Mr Roy Withers, Deputy Chairman of Davy Corporation plc and Chairman of the Overseas Projects Board; Mr Kenneth Edwards, CBI Deputy Director-General; and Mr Hugo Herbert-Jones, CBI Director of International Affairs.

Mrs Thatcher was accompanied by the Chancellor of the Exchequer, Mr Nigel Lawson, and the new Secretary of State for Trade and Industry, Mr Leon Brittan., Mr. Paul Channon, Minister for Trade, DTI, and Mr. Timothy Raison, Minister of State, FCO and Minister for Overseas Development.

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Draft CBI pers notice attached.
DKN

PRIME MINISTER

CBI MEETING

Some figures. The CBI may criticise one or two of these - they believe CSO have understated recent production - but they cannot deny the broad picture.

Great Britain

Average Earnings (underlying) year to June 1985

	%
Whole economy	7½
Manufacturing	9

Manufacturing Earnings	%
Germany	2½
US	4
Japan	4
France	6½
GB	9

Manufacturing unit wage costs year to 1985 Q 1

	%
Germany	-2
Japan	-1
Canada	2
France	2
US	2
UK	5

Note that Mr Peter Bates, one of the CBI delegation, is deputy chairman of Plessey Electronics. This may be useful if you want to point to the very strong political support which the Government gives for major contracts, eg. Ptarmigan, which is a Plessey system.

DAVID NORGROVE DKN

12 September 1985

SL2ACN

PRIME MINISTER

MEETING WITH CBI: SUPPORT FOR EXPORTS

You are meeting the CBI tomorrow at 1600 in the Cabinet Room. The CBI expect it to last an hour, though one and a half hours is allowed in your diary.

The list of those attending for the CBI is at Flag B. Those attending for the Government are the Secretary of State for Trade and Industry, the Chancellor , Mr. Channon and Mr. Raison. Bernard Ingham will also be present. Mr. Brittan has to leave at about 1650 to attend the signing of an international agreement. I have given his apologies to the CBI.

You are holding a half hour preparatory meeting at 1000 tomorrow morning with the Government side, except Mr. Raison who will be on his way back from Kenya.

The CBI intend to issue a press statement after the meeting. We may be given advance sight of it.

The cause of the meeting is Sir James Cleminson's letter to you of 16 July at Flag A.

The main briefing provided by DTI is at Flag B and detailed notes are at Flag C.

This will be a meeting for the CBI to make representations. Their press arrangements suggest that they see it as an opportunity to be able to say that they have been to see the Government on this as much as an opportunity to win changes in export support. The CBI have recently been to see both the Chancellor and Mr. Brittan. It may not be entirely irrelevant that their conference starts on 17 November (to 19 November in Harrogate).

In case it is relevant I have asked the Treasury about the cost of abolishing NIS. NIS at the full 3½% inherited in 1979 would have raised just over £3 billion from the private sector this year (about £5 billion in total: but the public sector share would not, of course, be available to finance income tax cuts). This would have been sufficient to finance a cut in the basic rate of almost 3 percentage points.

There is arguably an offset from the increase in employers' NIC rates since 1979 but this is less than half a percentage point, and I suggest could be left out of account.

DAVID NORGROVE

11 September 1985

B

"EXPORT SUPPORT" - THE PRIME MINISTER'S MEETING WITH THE CBI, 12 SEPTEMBER

BRIEF

CBI TEAM AND TOPICS

1 The CBI have indicated the broad topics they will raise and the allocation between speakers:-

		Topic
Sir James Cleminson	(CBI President: Chairman of Reckitt and Colman, Vice-Chairman of the Norwich Union)	Opening remarks
Sir Fred Warner	(Director of Guinness Peat Group: a former Ambassador to Japan, and former member of the European Parliament)	Co-ordination of export drive
Mr Roy Withers	(Deputy Chairman of the Davy Corporation)	Project Support
Mr Peter Bates	(Deputy Chairman of Plessey Electronics)	BOTB activities
Mr Martin Laing	(Chairman of John Laing)	FCO and ECGD support
Mr Ken Edwards	(Deputy Director-General of CBI)	Make-up of Aid Programme
Mr Hugo Herbert-Jones	(International Affairs Director DBI)	Secretariat

2 The CBI will be developing points made variously this year by the CBI to the Lords Select Committee on Overseas Trade, by the Major British Exporters group to the same Committee, and by the Overseas Project Board in their annual report.

3 The main area of discussion will be "Project Support". Mr Withers is Chairman of the Overseas Project Board, a group of businessmen within the BOTB framework advising the Minister for Trade on overseas projects. Both he and Mr Bates are members of the BOTB.

999-80

I - CO-ORDINATION OF EXPORT DRIVE

4 The CBI will develop points made in their evidence to the Lords Select Committee, ie:-

- closer co-ordination of ministerial policies (to reduce fragmented decision-making, eg policy on overseas students ignoring trade effects)

- closer industry/Government consultation than exists through NEDC and with Whitehall departments

- a more continuous dialogue between Government and business on strategic national objectives.

Line to take

5 The CBI should be more specific on the shortcomings of present arrangements, and on the role of any new Government/industry Committee. If CBI consider there are gaps to be filled it would seem preferable to use the present framework, perhaps particularly through the BOTB and its advisory groups.

II - PROJECT SUPPORT

6 Here the discussion should be on mainly the workings of the Aid and Trade Provision. But there should also be points on ODA's bilateral aid.

(a) Purist approach : arbitrary restructions: speedier decision-making

7 It may be argued that:-

- HMG should put more resources into winning overseas projects against ruthless competition, and less into theoretical debates on the merits of such support and less into quixotic campaigns to abolish "mixed credit" practices, which are becoming increasingly general.

- arbitrary "unilateral" restrictions on UK project support, such as "initiation limits" (reducing HMG's ability to make the important first offer of aid) and cut-off points on country eligibility, should be removed.

- debates over the precise "developmental" contribution of projects, and over the use of the last tranches of ECGD country cover, should be cut out where competitors are challenging.

Line to take

8 At the Prime Minister's suggestion a review of the administration of ATP was completed this summer. This resulted in increased delegated authorities for ODA and DTI, and the removal or modification of certain restructions - ie no fixed initiation limit or per capita country limits, eligibility of China for ATP, pledge of speedier developmental appraisals, etc.

9 On the international side we do continue to campaign for sensible steps to stop "mixed credit" practices get out of control, and for greater measures of transparancy and discipline. But such steps must be multilateral. It is also important that we continue to look at the economic aspects of such support measures, and at ways of improving their effectiveness.

(b) more flexibility: need for soft loans

9 There is a need for more flexible financing arrangements. "Soft loans" are necessary for certain projects in Indonesia, and probably in China and other Asean countries.

Line to take

10 Recognise the need for more flexibility. But "straightforward" ODA loans would be much more costly in p.e. terms than grants, and so fewer projects could be supported.* Instead soft loan mechanisms are being developed with the financial community. There are some complex aspects, but in general discussions are going well and soft loans should be available in October. Discussions with the Indonesians and the Chinese are scheduled for that month.

(c) increasing the funds for ATP

11 At £66m a year ATP is only a minor fraction of the "mixed credit" or soft loan support provided by Japan and France; it is also well below the levels of such countries as Germany, Italy and Canada.

12 A substantial increase in ATP funds - a doubling for a start - is needed to take advantage of the opportunities arising in China (where our competitors have already been very active with mixed credit offers), and to meet Indonesian requirements.

Line to take

13 The future level of ATP funds will be decided in the forthcoming PES discussions. The CBI will recognise the difficulties in finding extra funds.

* because loans tend to be for the whole of a project whereas grants usually cover only part of the cost.

(d) Loss of projects as a result of existing arrangements

14 It may be alleged that arbitrary restructions, limits on funds, etc have led to loss of projects

Line to take

15 Even with a budget of £66m a year it has been possible to make substantial offers of ATP support. For example in recent months some £110m ATP support has been offered on four projects alone, it buses in Thailand, diesels in Tunisia, a dam in Sri Lanka, and rural water supplies in Malaysia. Recent projects already won include the Posco Steelworks in Korea (£7.6m ATP for £32m UK exports) where HMG illustrated its willingness to use financial support other than grants.

16 It should also be pointed out that winning such projects involves two aspects : first, there is the "financial package", and secondly, there is the competitiveness of the contractor. With the number of OECD offers of mixed credits rising (by over 50% in 1984 from 220 to 350), financial packages are becoming such a general feature that the emphasis must increasingly be on the competitiveness of the contractor.

(e) making ODA's bilateral aid more effective : removal of 100% grants

17 Providing 100% grants to credit-worthy countries such as India is wasteful. They should be replaced with mixed credits or soft loans (provided through the mechanisms being developed for ATP). The aid programme could then be "stretched" to support many more projects.

Line to take

18 Aid to the poorer developing countries is provided by the UK and othe countries in grant or near grant terms - a necessary practice in view of their credit and economic positions. In India mixed credit support has already been used for such large projects and Balco and Rihand. The possibility of such use in other major projects will be considered.

(f) greater business involvement in bilateral aid

19 The BOTB and OPB should have a role in determining the capital projects to be supported within bilateral aid, in order that longer-term industrial and commercial factors are taken into account.

Line to take

20 The BOTB should take up with Mr Raison the question of closer contacts on aid management issues: specific points would be discussed when he attends the BOTB's November meeting. Mr Raison already holds periodic meetings with businessmen on aid issues.

III - BOTB ACTITIVIES

(a) greater BOTB involvement in export policy issues

21 The BOTB should have a greater say in export policy matters, including ECGD practices and ODA's deployment of aid.

Line to take

22 Fully accept that every use of the quality and seniority of the advising industralists on the BOTB and OPB for major trade issues. The Board will, for example, be looking shortly at the question of trade with South Africa. It will also be discussing aid issues with Mr Raison. If the Board wishes to express a view on any particular matter it should register the point promptly with DTI Ministers.

(b) BOTB finances : Exports stimulated

23 BOTB should advise on the level of PES bids for BOTB services, and have more say on the use of the money available. The BOTB budget should not be cut. Recent cost-effectiveness studies have indicated that additional exports and linked with spend on BOTB services, with a ratio of possibly 50 to 1.

Line to take

24 It is up to the BOTB to make representations to DTI Ministers on the level of BOTB funds. Arrangements have been made to integrate the Board's views into the detailed expenditure planning for the 1986 PES round. The cost-effectiveness studies are encouraging but they do not mean any automatic increase in BOTB funds, which still have to be looked at against other claims in the Department's PES provision to be settled in the 1986 PES round.

IV - FCO AND ECGD SUPPORT

(a) Maintaining FCO commercial Posts

25 The BOTB should have more say in FCO commercial posts.

Line to take

26 FCO Staff Inspectors are always briefed by DTI Overseas Trade Officials, who ensure that they are familiar with the view of the appropriate BOTB Area Advisory Group. If requested and if timescale permits, the AAG Chairman may also see the Inspectors.

999-80

(b) ECGD Services generally

27 It may also be claimed that the general tightening of ECGD services is harmful to the export drive.

Line to take

28 ECGD is determined to provide as much support to exporters as it can. But it is charged to break-even and has to operate as commercially as possible. The heavy cost of the international debt crisis has meant more caution in markets with doubtful creditworthiness, the need for self-financing in schemes like the tender to contract scheme (designed to protect exporters tendering in foreign currencies).

V - MAKE-UP OF THE AID PROGRAMME

29 The proportion of UK aid taken up by contributions to multilateral agencies is increasing and is already well above that of our competitors. The effect is that bilateral aid support - including bilateral capital aid tied to UK goods - is falling, with direct reduction in exports.

Line to take

30 It is HMG policy to reduce the UK share of the new programmes of the multilateral agencies (MLAs) and this has been achieved. Despite this, the overall level of our multilateral aid has increased. Yet UK procurement through MLA contracts has exceeded our contributions to the MLAs.

31 Given the important role of multilateral aid it is important that UK industry is successful in obtaining MLA contracts. In some areas (Consultants) our performance is strong. In others (works contracts) it has been weak. Overall, we have some way to make up with countries like Japan, France and Italy. In consultation with the OPB and some 2 dozen leading companies DTI are preparing a campaign to help companies gain the larger works contracts.

32 The CBI does not have access to the ODA's Aid Framework to 1988/89 and is not aware that this envisages a further fall in bilateral capital aid (by one third in money terms).

PEP3
10 September 1985

EXPORT SUPPORT - BACKGROUND

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Annex A - Main cash headings of BOTB budget

Annex B - CBI paper "Practical Measures" Lords Committee on Overseas Trade (see particularly paras 17-28)

"EXPORT SUPPORT" - BACKGROUND

MAIN ELEMENTS OF EXPORT SUPPORT

		£m
DTI vote -	Export Promotion	
	BOTB budget	28
	Proportion of DTI salaries	8
FCO Vote -	Export Promotion	
	Proportion of salaries of FCO overseas commercial staff	60
ODA Vote -	ATP	66
ECGD Vote		
Interest support (excluding contingent risks and cost of meeting guarantees)		
	(a) Past Commitments	339
	(b) New commitments 1985/86	5

(Note - the rest of the ODA Programme of £1.2 billion also provides varying elements of export support).

BOTB EXPORT PROMOTION

2 The main budget headings of BOTB support are shown at Annex A: Overseas trade fairs and seminars (£14m) account for about half the total net spend. Schemes such as the Overseas Project Fund, the Export Marketing Research Scheme and the Market Entry Guarantee Scheme are amongst the next most costly headings.

3 With a forward net cash provision of about £27m a year the BOTB budget is falling in real terms. A consultation exercise during the winter on the changes following the reduction in budgets met with a substantial response. Most respondents commented critically on the reductions. Some 80 Ministers' cases were received, 30 PQs and 2 Adjournment Debates also resulted. The cut in overseas trade fairs was most evident to exporters, but the improvement in the sterling exchange rate has led to some easement in 1985/86.

AID AND TRADE PROVISION

4 ATP was first allocated in 1977 to match the soft financing practices of other countries. Typically, ATP is offered as 25% of the UK element, with the remaining UK content covered by ECGD guarantees. So far some £340m of ATP has supported 90 cases involving UK exports of some £1.6 billion. These have involved 47 different companies as the lead contractor : but the benefits will have spread through sub-contracts to hundreds of small and medium-sized firms.

5 With multiple objectives, a complex administrative structure, and controversy over the merits of such export support, ATP has been subject to almost yearly reviews. But at EX on 22 May, the Prime Minister indicated that the existing ATP arrangements were working to the disadvantage of UK industry, and that the UK could not afford a more reluctant attitude than other major industrial countries. Subsequently EX endorsed on 22 June a variety of administrative changes - including the removal of an "initiation" limit, the eligibility of China and some other developing countries, etc.

6 EX also agreed in principle to ATP being provided in the form of soft loans. Indonesia has indicated that such loans will be required for many projects : other Asean countries may follow suit. To reduce the P.E costs of such loans it is envisaged that they would be made by banks with HMG providing interest top-up or lump sums in lieu. Discussions with the City are going well.

7 With £66m a year, ATP can win business of some £250m a year. Doubling this level of business won would involve extra ATP funds of the order of £16m in 1986/87, £41m in 1987/88, and £57m in 1988/89. This bid will be discussed shortly in the PES round.

ECGD - FREF SCHEME

8 The Fixed Rate Export Finance Scheme enables our exporters to operate under conditions of official export credit finance comparable to those of our competitors. The decade up to 1984 contained many wide fluctuations in interest rates, and considerable disparities with the OECD consensus rates, and has resulted in heavy costs for ECGD. The Consensus mechanism was revised in 1983 so that its rates should reflect international rates more closely, and on present forecasts FREF could result in net inflows to the Exchequer in 1988/89.

ODA's OVERALL PROGRAMME

(a) make-up of programme

9 The aid programme has fallen in cost terms by 16% between 1978/79 and 1985/86, and on present plans will fall further.

10 Within the aid programme multilateral aid has increased from a proportion of 29% in 1979/80, 41% in 1985/86 and a projected figure of 45% in 1988/89. HMG's policy has been to reduce the UK's share of the programmes of the multilateral agencies. While some reductions have been achieved increase in multilateral outgoings have occurred or will occur from existing programmes or expected increases in EC aid, which are attritbuted to ODA's programme.

11 Bilateral country aid programmes have been squeezed by constraints on the overall aid programme, and the increases in multilateral outgoings. In cost terms bilateral aid has fallen by 35% since 1979/80. On present planning a further fall of 14% in forecast by 1988/89, with the main cutback being in capital aid.

(b) commercial returns

12 With 25% grants and ECGD support ATP has been the most "commercially effective" part of the aid programme with a ratio of aid to exports of about 1 to 3 with account taken of the ECGD support.

13 Bilateral aid is generally tied to UK goods and services (except where local costs are covered), but the ratio of aid to exports is lower at about 1 to 0.75 (ie assuming 100% grants and about 75% of goods and services are purchased from the UK).

14 ODA analysis suggested that over the three years 1982-84 our contributions to MLA s (£372m) were exceeded by our procurement returns (£435m).

15 Nevertheless, there are grounds for concern about our performance with MLA contracts, Our consultants are at the top of the tree and our performance on equipment orders is respectiable. But on works conracts our performance is below par. Accordingly DTI, in consultation with industry, is preparing a "Large Works Project Excericse" to support UK companies in their efforts to gain MLA contracts. This involves early warning of projects, discussion of lists of major projects to determine UK bidders, co-financing with ATP or other support in selected projects, support for bidding costs, and active lobbying for key projects. It is hoped to launch this exercise in October.

PRACTICES OF OTHER COUNTRIES

16 All our major competitors provide a range of export promotion services and export credit support within the OECD Consensus.

17 Variations in export support, both direct and indirect, are most obvious in the field of aid. In particular the Japanese and French have bilateral aid programmes between 4 and 5 times the size of ours. Again the Japanese and French have made very extensive use of mixed credit or soft loan mechanisms to gain business. But Germany, Italy and more recently Canada - along with the UK - are also substantial users of such mechanisms. Moreover, virtually every member of OECD has introduced or increased activities in this area. While the US (with UK support) campaigns against these trends there appears little prospect of really effective curbs being negotiable with the Japanese and French in the shorter term.

POSSIBLE FRENCH CUT-BACKS

18 Our Embassy in Paris has reported that a study by the French 'Inspection des Finances' has recommended some shift in export promotion support perhaps away from trade fairs to market exploration assistance, etc. But this has met with some opposition. Also the French Tresor wish to see a reduction in subsidised credit, but there is concern that this could spark off an attack on credit subsidies for exporters which could harm French prospects of winning large contracts. On both aspects little is likely to happen before the elections next March.

BYATT REPORT

19 The 1982 report by an interdepartmental group of economists, led by the Treasury's Chief Economic Adviser, concluded that the scale of support for capital goods was substantial, that there was little evidence that capital goods exports generated follow-on business, that credit support and ATP were an expensive way of reducing unemployment, and that the fact that other countries supported their capital goods exports was not an economic argument for the UK to do likewise.

20 Industrialists and various bodies, including the CBI, NEDO and the ECGI, have challenged the Byatt conclusions. The Chairman of the Process Plant and Heavy Electrical EDCs has sent the Chancellor a detailed critique, and also an illustration of follow-on benefits of supported projects.

21 In some aspects the Report's assumptions are out of date : the cost of ECGD interest make-up should be considerably less with the adjustment of Consensus rules and the more orderly behaviour of international rates.

PS/SOS

cc PS/MFT
PS/Sir B Hayes
Mr Roberts
Mr Benjamin
Mr Bromley ECGD
Mr Wild ECGD
Mr Baker PEP2

PRIME MINISTER'S MEETING WITH THE CBI:
ECGD'S TENDER TO CONTRACT SCHEME

At today's briefing meeting a note on ECGD's Tender to Contract Scheme was requested.

Possible CBI Line

2. The substantial increases in charges and modified terms of cover typify the tighter attitude of ECGD to export support, and place a heavy burden on capital goods exporters.

Line to Take

3. The review last year showed that the earlier terms were inadequate to make the scheme self-sufficient.

4. A further review of the modified scheme will be undertaken in due course. Particular attention will be paid to any indications that bid prices might have been pushed too high, or bidding discouraged, by the modified terms. The CBI's views on these points will be welcome.

Background

5 The scheme protects exporters against certain exchange risks in tendering in foreign currencies for major export projects. ECGD is presently obliged to account for the scheme as a separate Trading Activity and the review should be consistent with financial self-sufficiency. The scheme has lost heavily (£65m net loss).

J CHAPMAN
PEP3
VS/212 Ext 5455
11 September 1985

999-80

ANNEX A

BOTB MAIN CASH BUDGET HEADINGS - 1984/85

ACTUAL NET SPEND

	1984/85 £ million
Overseas trade fairs and Seminars	14.0
Outward Missions	1.7
Inward Missions	0.6
Publicity and promotion for UK firms and BOTB services	2.1
Overseas Projects Fund	3.5
Export Marketing Research Scheme	2.7
Market Entry Guarantee Scheme	1.6
Simplification of International Trade Procedures Board	0.5
Technical Help to Exporters	0.3
Area Advisory Groups and launch aid assistance to export promotion bodies	1.1
All other expenditure and receipts	0.3
TOTAL NET	28.4

ANNEX B

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Director-General
Sir Terence Beckett CBE

Secretary
Denis Jackson

CBI

IA 84 85

26 March 1985

SUPPLEMENTARY PAPER BY CBI FOR HOUSE OF LORDS SELECT COMMITTEE ON OVERSEAS TRADE

"PRACTICAL MEASURES"

INTRODUCTION

1 When the CBI President and his team gave oral evidence to the Select Committee on 28 November, the Committee asked for a supplementary paper on the practical measures which needed to be taken to achieve the goal (mentioned in paragraph 8 of the CBI's initial written evidence) of compensating in balance-of-trade terms for the anticipated decline in the overseas earnings derived from exports of North Sea Oil.

ORDERS OF MAGNITUDE

2 The 20% of our overseas earnings at present generated by oil exports has at current prices a value of £15 billion. On the assumption made in the CBI paper that these oil earnings might decline by one-third in the next decade, the target figure for the increase of non-oil exports (or import savings) required to maintain an unchanged standard of living in UK would therefore be £5 billion.

3 It is impossible to forecast in any detail how such an increase in the value of non-oil exports (visible and/or invisible) might be achieved. All that can be said is that it will be easier to attain increases in market share, and thus in aggregate value:-

(a) in those sectors where Britain is more rather than less competitive;

(b) in the industries with a high added-value;

(c) in conditions of world trade growth, and thus of rising demand, than in conditions of stagnant or slow growth;

(d) in conditions of freer rather than more restricted trade, permitting the exploitation of comparative advantage.

4 Given factors (a) and (b), we must look for prospects of growth in exports to those industries where the UK is or ought to be relatively well placed in comparison with low-cost producers, ie. to capital-intensive rather than labour-intensive industries and to those employing high technology and a technically well-educated workforce, with continuous product-development.

5 These industries include chemicals, pharmaceuticals, defence-related and aero-space manufactures, information technology and software, specialised engineering products, and flexible manufacturing systems, food processing and biotechnology, and the up-market consumer goods industries. To the extent that demand for major projects business may revive, they also include the power-generation machinery and major civil engineering sectors. They also include banking and financial services in which the City has a leading international position.

6 Both these "promising" sectors and most others are of course affected in their competitiveness, not only by their level of efficiency and production cost but by prevailing exchange rates, and the task they will be set is correspondingly hard to quantify in financial terms.

7 There is one service industry with considerable growth potential which is especially vulnerable in this regard: namely tourism, where customer demand fluctuates sensitively from year to year in direct reaction to the parities between the currencies involved (notably for inward tourism to UK).

8 If it is assumed that the industries described in paras 5 and 7 above, somewhat arbitrarily, as "promising" currently account for very approximately half our total earnings of foreign currency, and they alone are required to generate within 10 years extra business of £5 billion a year, this will imply an expansion of about 13%. But allowing for some contribution by other sectors, the target for the "promising" group of industries might be estimated at 10%, or an extra 1% per annum. With the right measures, this target should be attainable.

9 It is naturally immaterial for the balance of payments whether the required improvement is secured by exports of goods and services to foreign markets, or by successful import substitution in the home market in conditions of free competition. But it cannot be attained by artificially restricting imports, otherwise the overseas markets for our own goods and services are liable to be similarly restricted.

PRACTICAL MEASURES

10 There is a clear need for some long-term, slow-acting measures, eg. to change social and educational attitudes to industry and commerce. But it seems best in the context of the Select Committee's question to concentrate here on measures which can be expected to show visible effects and yield concrete dividends within the ten-year period to which the target relates.

Training

11 This is a large and important field, but given para 10 above, the relevant measures would be those having an impact on the acquisition of skills by persons either in the present labour force or due to enter it within say, 5 or 6 years. Some forms of training, however, such as the techniques of exporting and the acquisition of fluency in "commercial" foreign languages, are potentially much quicker-acting than others and lend themselves to crash programmes.

Innovation

12 This is the second main field in which relatively early results could be obtained. The development component of this process, leading to goods being sold in the market place, is particularly important. The Government should give it priority in its support schemes, and companies must place increased emphasis on it.

Marketing

13 British industry has long been weaker in export marketing than its analogues in Europe and North America. The ratio of export staff to production staff in UK industry remains much lower than in these countries, as it was at the time ofthe Barclays Bank study of 1979. This reflects a scale of priorities in the average British company which places marketing generally, and salesmanship abroad in particular, in a status lower than among our main competitors.

Board-room Commitment

14 This is further reflected - and with even more pervasive consequences - in the absence from many British company boardrooms of a real commitment to overseas sales, even where the company would have substantial prospects of making them in increased volume. There is a high correlation between board-level interest in and experience of foreign markets, and the success achieved by a company in penetrating them.

15 Some of the foregoing "practical measures" clearly lie with industry. No-one outside a company can change its philosophy on exporting, or upgrade the status and resources of its export team. To a lesser extent this applies also to training in vocational skills (eg export procedures and conveyance of goods to the market, and staff training in new technologies). The CBI of course preaches these lessons to its membership, but ultimately the measures must be taken in-company.

16 However, many other programmes for improving performance, at home and abroad, have by their nature to be joint efforts by Government and industry. This is well recognised in the assumption by Government of major responsibilities for creating a framework for industrial and commercial success. Five areas may be mentioned:-

(a) industrial training under the aegis of the MSC;

(b) official financial support for R&D in universities and institutes;

(c) special assistance to smaller firms (eg. start-up aid schemes);

(d) provision of export credit insurance through ECGD;

(e) advisory services to exporters through the BOTB.

ACTION BY AND WITHIN GOVERNMENT

17 Beyond these existing Government services to industry lie three major areas in which, by organisational steps and by an effort of political will, the Government and Opposition in combination could in our view produce significant improvements.

Greater Co-ordination of Policies

18 All Government measures affecting the competitiveness of our industry and commerce and the climate for their operations should be viewed as a whole, instead of piecemeal. The admired system of ministerial responsibility, which provides some of our cherished constitutional checks and balances, also tends to fragment decision-taking. Thus grants and places for overseas students are considered in isolation from our diplomacy and foreign trade : while the benefits of abolishing the national insurance surcharge are soon partly cancelled out by higher energy prices. Without going so far as to suggest an "overlord" Ministry of Industry (or Trade), one could surely envisage a far closer coordination of interministerial policies at Cabinet Committee level. (For comparisons, see our companion paper on practice in our competitor countries.)

Closer Consultation with Business

19 As Sir James Cleminson suggested in his oral evidence, we think it would be worthwhile the Committee considering ways in which a more continuous dialogue could be maintained between Government and business on national strategic objectives. Without going so far as to emulate the role of MITI in Japan, it does seem as if the coherence of Government policies affecting business could be increased by still closer consultation than exists through the NEDC and the existing liaison arrangements between industry and Whitehall departments. This would chime in well with the suggestion in the preceding paragraph.

All-party support

20 It is not to be expected that economic philosophies in the broad sense will converge from end to end of the political spectrum, and the Opposition parties are bound to offer different recipes for economic management from the party in office. However the fact remains that a prosperous overseas trade is a precondition of our national wellbeing, and every political proposal should be subjected to the test of how it will affect it.

21 Exports should be largely outside the sphere of party politics : but there seems to be a feeling that for politicians out of office to rejoice publicly at successes achieved abroad by British companies would represent an endorsement of Government policy. A more bipartisan approach to overseas trade than this should surely be attainable, as in other countries.

THE SCALE OF THE GOVERNMENT EXPORT PROMOTION EFFORT

22 It may be appropriate to conclude this paper on measures which should in our view be taken, with a recommendation on one which we consider should NOT have been taken.

23 In the recent public expenditure review, the net direct spend of the BOTB for the next three years (up to 1987-88) was set to reduce by about £0.4 million over the period in nominal terms. In real terms, assuming annual inflation of 5%, this represents a cut in real resources of £4.7 million or 17%.

24 Firmly as we support the Government's plans for reducing public expenditure and every effort (such as the BOTB makes) to obtain the best value for money, we are wholly opposed to such a reduction in the relatively modest resources allotted to the official export promotion effort.

25 If it is accepted that the investment of Government funds in aids to export does foster our overseas trade; and if it is further accepted that we badly need to increase our manufactured exports - both of which propositions the CBI does accept - we think any appreciable cut in BOTB resources quite illogical, smacking of "equal misery" between large and small spending departments and between the economically productive expenditures of Government and those which are simply socially beneficial.

26 We are equally concerned at the gradual erosion of ECGD services, (where however the sums at stake are much larger) and the cuts and closures in commercial posts overseas necessitated by the FCO Vote having to absorb the effect of sterling's decline against the dollar.

27 We reject the thesis contained in the Whitehall report of 1982 (and still apparently enjoying some credence in Government circles) that export support is a wasteful use of British public money, to be treated by "unilateral disarmament" rather than continued negotiating-down of the parallel export aids provided by the governments of our competitor countries.

28 In our view, the scale of the Government export support services should be maintained intact, while all possible efforts continue to improve their efficiency and make desirable adjustments within them. In the light of the national problem which is the subject of this paper, any other policy appears to the CBI to be thoroughly short-sighted.

IA13MKSHJ1L

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From
Sir James Cleminson MC DL
President

CBI

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Prime Minister.
I do not think
any further response
is needed RB

6th August 1985

Dear Prime Minister,

9/8

I would very much like to thank you for your letter of the 5th August which I received today.

You will appreciate that when I wrote to you I was merely reflecting what I thought might come out of the Quarterly Survey which at that time was still on the computer. I was anxious that you should be aware of the possibility of an adverse press reaction. I think you will agree that under the circumstances when the figures became available, it was handled very skilfully by David Wigglesworth.

There is of course nothing in your letter with which I could possibly disagree and I am as anxious as you are that economic progress should continue.

You will of course appreciate that the high level of present export business is to some extent a direct reflection of the Sterling/Deutschmark relationship in the second half of 1984 and early 1985. In certain highly competitive markets such as chemicals, orders have been obtained and covered for exchange during that period which are not being repeated. Since I wrote, the Deutschmark has come back a little further but undoubtedly industry would be extremely worried if it were to begin to creep up again; even as it is, quite a lot of our efficient members still find it uncomfortable.

I would also hope that it will prove politically possible over the next few months to make a further reduction in interest rates not only on account of the cost of money which is above that of our main competitors in real terms, but also on account of its effect on wage negotiations and to provide greater flexibility in the event of future unfortunate currency fluctuations.

Having said that, I am as anxious as you are that industry should not only continue to make progress but that it should also be seen to do so, and I do take very careful note of the points which you have made so clearly in your letter.

In the meantime I hope that you will have an enjoyable break on your holiday and I shall look forward to seeing you in September if not before.

Yours James.

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London, SW 1.

10 DOWNING STREET

THE PRIME MINISTER

5 August 1985

Dear James,

Thank you for your letter of 20 July. I am, of course, well aware of the CBI's concerns, and the strongly held views of many of your members. Equally, I am sure that you understand the Government's determination to take no risks with inflation; and that you would not wish us to do so. If that is right, any differences between us are about means not ends.

I recognise that exchange rate volatility can cause difficulty for business. This is an intractable problem in today's conditions but steadiness of policy can help to moderate it and it is our aim to do so. So far as the present level of the exchange rate is concerned, it makes little sense to base any assessment on a comparison with the short-lived low point reached in January. In fact, the current £/DM exchange rate is close to what it was throughout the second half of 1983. But since then, of course, our wage costs have risen relative to our competitors, and it is this, above all, that gives cause for concern.

As for interest rates, you will no doubt have been pleased to see the further cut of half a per cent in the Bank of England's dealing rates on Friday which led to a similar cut in bank base rates on Monday. Base rates have now come down by a full percentage point since the period when the

work for your new survey was being done and by two and a half points since the Budget. And the building societies have clearly signalled a reduction on the mortgage rate, to which you refer in your letter.

I naturally share your disappointment that your Survey indicates that manufacturing employment is expected to start falling again, especially after your April expectation that it might stabilise. But the overall message that emerges clearly from the Survey is that the steady growth of output which we have seen for more than four years is set to continue.

Rises in output have now been recorded for ten successive surveys and capacity utilisation is at the highest level since 1973. The expectation is for a further increase in both output and new orders over the coming months. Order books for exports and in total stand at around the best levels ever recorded in these surveys. And the balance of firms expecting to raise prices is historically very low indeed.

Finally, I am sure we are agreed on the importance of presenting your surveys with great care and in a balanced way. All the signs are that output will continue to rise in 1986. But the prospects of this and of continued prosperity for business are not assisted by propagating the idea that the expansion is about to end, which can only damage business confidence. It would also be helpful if, as you say, you can keep your pressure on interest rates "very low key". High key pressure makes it harder not easier to lower interest rates, for markets may think that the Government has been pushed into taking risks with inflation, which could be very damaging.

Yours ever

Margaret

Sir James Cleminson, M.C.,D.L.

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From
Sir James Cleminson MC DL
President

A

CBI

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218

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

16th July 1985

Dear Prime Minister,

As you know the CBI has been very concerned in recent years about the increasingly critical role that financing has assumed in winning major overseas contracts. With world competition for capital projects intensifying, British firms have lost business not so much because of poor competitiveness on technical or commercial grounds but due to their rivals receiving government support in various forms.

We have noted with pleasure recent indications that Ministers are coming to appreciate this problem more fully and would urge HMG to maintain this more positive and imaginative attitude in backing British capital goods exporters. Here I should make it absolutely clear that we are in no way arguing that any deficiency in British tenders should be rendered competitive by government subsidies: we simply wish to see viable business won on equal terms rather than lost through inability to match the support enjoyed by our competitors as the realities of the market place require.

The CBI Council believes that a clear signal from HMG that they intend to take a supportive stance would encourage firms to make the heavy investment necessary to tender for major contracts - something which they are often deterred from doing at present. Speeding up the decision making process during the course of negotiations would also be of great practical assistance.

When successful - as clearly demonstrated by the NEDO study, to which some of our members contributed - the benefits of winning such orders accrue not only to the main contractors but to a large number of smaller firms to whom a high proportion of the work is sub-contracted. The follow-on business generated is also a very significant factor in furthering British exports and keeping people in jobs.

Finally, may I say that whilst we strongly favour Government efforts to ensure observance of existing agreements such as the OECD Consensus and also to develop multilateral controls on the use of mixed and soft credits we should meanwhile take care not to risk losing valuable business.

If you would like to discuss these issues, I would be happy to call on you with some of our senior members most closely involved in this area.

I am sending copies of this letter to the Chancellor, the Secretaries of State for Foreign and Commonwealth Affairs and for Trade and Industry and to Lord Young. Copies are also being made available to the press.

Yours

James.

REVIEW OF CIRCULATION OF BRIEFING ON CBI INDUSTRIAL TRENDS ENQUIRIES

We are currently reviewing the service we provide for circulating information on CBI industrial trends surveys - both monthly and quarterly. Our main aim is to rationalise and simplify the system. At the moment we operate two distinct circulation lists - one for monthly surveys and one for quarterly surveys. The latter is subdivided between those who receive a copy of the CBI press notice and those who do not. From the July quarterly survey which should be circulated on 30 July we intend to operate a single list. This will consist of all current receivers of the monthly and/or quarterly briefing information. Everyone on the list will receive all the material we currently supply on the monthly and quarterly surveys except the CBI quarterly press notice which we do not intend to provide unless it is specifically requested.

If you are content with the new system there is no need to reply but if you

(a) still wish to receive the CBI quarterly press notice or

(b) wish to be removed altogether from our circulation lists please contact us by 23 July at the address below.

Please provide CBI quarterly press notice

Telephoned on 24/6.

Miss F Burgess
EC2A
R 171 1 Victoria Street London SW1H OET
215 5210

20 June 1985

TERENCE BECKETT (Speech) AT to see

Mr. Chairman, (Ladies and) Gentlemen.

Thank you for inviting me to speak to you on unemployment. It is a subject of great concern to you and it is a matter of great concern also to industry, commerce and the CBI.

What I should like to do is to deal with the subject under three headings. First the present situation and policies. Second, what future policy should we pursue. Thirdly what understanding do we and you in particular need to promote about unemployment.

On our present situation, I think we need a clearer understanding of where we actually are. There is a profound confusion in the national debate between the level of unemployment, attended by the feeling this encourages that our present policies are failing, and the progress that we are actually making with those policies in improving the effectiveness of the economy. These policies, in my view, represent the best hope we have for the future prosperity of the country and for dealing with unemployment in the best possible way.

What is our present situation? Growth in G.D.P. last year was 2 1/2% in spite of the Miners' Strike. Domestic demand this year as indicated in our Distributive Trades Survey last week is showing a healthy upward trend. Our latest Manufacturing Trends Survey released today showed export orders are at their highest level for eight years. Investment by industry and commerce as a whole is at an all time high in

real terms. And all the variables are on track to support a growth rate of 4% in G.D.P. this year over last, the fastest growth rate for twelve years.

Were it not for unemployment, everyone would agree we were beginning to make good progress, much better, in fact than we have done for a very long time.

On proferred solutions to unemployment we really cannot suppose we have inadequate demand today. Domestic sales, export orders and investment, as I have already said, are growing at a combined rate which could only be increased, probably, with a risk to inflation and a heavy adverse balance of trade. To attempt to increase a growth rate higher than we have known for twelve years could run us into the hot spots of skill shortages. Indeed these are already there and they are not only in High Tech. Increased demand could therefore trigger off increased inflation which we believe could be damaging to our future development and could well increase, rather than reduce, unemployment.

But let us continue to explore our present situation. Behind the 4% growth figure there are wide differences by industry and, indeed, by company. A single figure of national growth is really inadequate as a measure of what is going on! It represents the resultant of industries and companies still in contraction and others that are growing rapidly. But in a country that has postponed change much longer than our principal competitors in Germany, Japan and America, this degree of restructuring is overdue and essential for our longer

term survival and prosperity.

On the role of manufacturing in our economy with all the heat that this has generated in the last week it is a relief to hear that everyone is now saying what the CBI has been claiming for some years now, that "Manufacturing Matters".

Let me give you the numbers behind this proposition. Of the value added in all of our exports of goods and services half come from manufactured goods. Of the remaining half, a third of this value added is attributable to those services that get those goods to market: transport, shipping, finance and insurance. Therefore, sixty-five per cent of all of our value added in the export of goods and services is derived directly or indirectly from manufacturing. That is the importance of manufacturing to this country. Furthermore, if anyone ever supposed services could replace manufacturing in our exports, they must remember that if they did our service earnings would have to be three times as big as they are today. The conclusion I think we can all draw is that we need as large and flourishing a manufacturing industry as we can get.

Continuing to explore our present situation, we have been more successful than most people believe. You know that in fact we employ a higher proportion of our total population, available to work, than any other country in the EEC, except Denmark.

But I don't think it is also understood that we have actually created 650,000 more jobs - 650,000 net additional jobs -

in the last two years. With the growth rate of 4% this year that I spoke of a minute ago, we expect a further increase in additional jobs, this year over last, of 370,000. And so in the three years 1983 through 1985 we expect there will be a total net increase in jobs of 1,000,000. I repeat 1,000,000 net additional jobs. Comparing this with the U.S. as a proportion of our respective employed labour forces, we have done as well as they have done and they are usually held up as outstandingly successful in this field.

Of the 370,000 extra jobs that will be provided this year, 100,000 will be taken up by a larger working population coming to market and 250,000 jobs will be taken by those who are not currently registered as unemployed. So the total registered unemployed will not fall. But there <u>are</u> more jobs.

Because the total number of registered unemployed has <u>not</u> fallen, very little credit is given in the public debate to the Government, or to industry and commerce, for the fact that more jobs have been provided. If I may say so, it is our responsibility and yours to help promote this.

But we will need to change our ideas on what "a job" means.

We must recognise that the concept of "a job" constantly evolves. In most people's minds a normal "job" is one which they regard as being reasonably paid and giving secure work for one employer lasting about 40 hours a week, eleven months a year and ending in retirement at 65.

As recently as the 1970s the average male in employment could expect to work for the same firm 22 years.

These are recent conceptions which we think were also there. It was not always so.

For instance, going back to the middle of the last Century, a job normally meant a 60 hour working week. Today's 40 hours would have been considered part-time. No-one had paid holidays and any unpaid leave was made up for by overtime. We must remember that a school leaving age of 10 was introduced as recently as 1870 and a retirement age of 70 in the great social revolution at the turn of the century - 1908.

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One of the trends that has taken place - and by no means planned by the governments of the day over the last hundred odd years - has been a decline in working time for male manual employees of nearly one third. This was "paid for" - that's to say the economy absorbed the costs - by a six-fold rise in output per employee per hour. A large part of this gain helped to bring about a substantial increase in material living standards, but some of it was taken in extra leisure. And leisure is something mankind has striven for since the time of the Greeks. Indeed in the sixties and seventies work was a four letter word to many people.

The country must also come to terms with the probability that there will be more women at work in the 1990s than men. That fact alone should make us all more aware of the changes which are going on in the employment scene without most of us realising their magnitude.

Over the years there has also been a growing understanding that "a job" should have other functions.

Apart from its economic role in adding value and being a means of distributing incomes, a job has increasingly been seen as meeting a number of social requirements. It is seen as a way of achieving status, fulfilment and - by the individual involved - managing his time and the way he or she styles his or her life.

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There is no reason why "a job" should not still be able to meet some of these human aspirations even when the normally accepted concept of a job changes.

And the concept is constantly changing. The working time a job occupies is shrinking in terms of the working week, year and lifetime. Whether we like it or not, the relationship with the "employer" is constantly evolving. And this suits both employer and employee. We are seeing more self-employment, sub-contracting, temporary, fixed-contract and part-time working and - in general terms - greater flexibility and mobility. Some people combine two or three part-time jobs together.

The way our social security system has developed means that it is now a major provider of income and not just for those out of work. Some of the human aspirations previously attached to a full time working week have been diluted by other changes: there has been a growth in voluntary work, participative sports, hobbies, DIY and self-employment - all of which organise time and provide a means of personal development and a feeling of secure social standing.

All these changes are likely to continue in unforeseen ways, whatever we do. But I do believe that if we understand and accept them all then we can have the capability to manage and direct changes so as to achieve our objectives.

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Let me sum up this section of our discussion so far with three points:

1 Attitudes towards what a job means have been changing without many of us realising the extent of the change. Speaking politically, up until the last election there was still a significant section of our society which believed the creation of jobs was a political act. It was a matter of demand management. It could be carried out at a stroke by, for instance, injecting demand through massive public spending. That approach is increasingly rejected because it now lacks credibility. We can - and we do - argue about how much exactly (or within measurable figures) the Government can spend and borrow, but very few people now believe jobs can be created to order. And I think the people maybe ahead of some politicians on this issue. (And Sir Terence ahead of his membership!)

2 It's natural and understandable that politicians of all parties, trying to foster the creation of quick jobs, should concentrate on action to help labour intensive sectors. These of course have their place. But we have to maintain a <u>proper</u> balance because on their own, jobs created in this way could not generate sufficient economic growth and they are dependent on the higher value-added sectors. One US estimate, for instance, is that one "hi-tec" job supports 5-6 "low-tec" jobs.

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3 Having said all this, it seems that the natural job creation process is not going to affect significantly the core unemployment problem - the long term unemployed, or those in certain areas and communities. The hardship and damage of unemployment is unquestionable. This is particularly so when we get away from the headline figures and look at the long term unemployed and the communities, especially in the north, suffering exceptionally. There are obviously problems of geographical and skill mis-match. But it goes deeper than this. The service sector is growing while manufacturing continues to shrink in employment size.

Unless we recognise these facts there is the real danger that we could slip into one of the worse scenarios I have mentioned either through inaction or indecision.

A positive strategy involves two strands of policy, closely related. The first concentrates on generating and sustaining economic growth. The second focuses on re-organising work and the income derived from it.

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10 DOWNING STREET

Prime Minister ④

This is the speech by Sir Terence Beckett which Peter Hordern referred to at the meeting with the 1922 Executive.

It is an interesting and thoughtful piece, but it won't stop Sir Terence pressing for more infrastructure spending if his construction company members press for it

AT

5/6

PART 4 ends:-

Note on CBI Study. Undated

PART 5 begins:-

AT to PM 5.6.85

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