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PRIME MINISTER

FORWARD LOOK

In your letter of 16 September to Willie Whitelaw, you asked Ministers in charge of Departments to send you a "Forward Look" at their Departments' programmes for the next five years. I attach a note on how I see the work of the Department of Trade and ECGD developing over that period. You may find it helpful, however, if I summarise the conclusions reached under the headings in your letter of 16 September.

All manifesto fulfilled

Firstly, none of the 1979 Manifesto commitments remain to be fulfilled as far as my Departments are concerned: British Airways' privatisation was not specifically referred to.

British Airways to do.

Secondly, as regards proposals begun in this Parliament which will remain to be completed in the next Parliament, the obvious example is the privatisation of British Airways. As you know, the precise timing of this must depend on the corporation's return to profitability. The consolidation of the Companies Acts (the first for 35 years); the possibility of privatisation measures at the Companies Registration Office and the reform of investor protection legislation following the current Gower Review probably fall into this category. In many ways, however, the continuation of our trade policies as set out in Part I of the attached paper are equally important aspect of our current policies, even if they do not involve specific legislation.

Thirdly, as regards new initiatives, we need to bear in mind the case for a new Copyright Act (following the Green Paper consultation); a new Insolvency Act reflecting the examination of the Cork Committee (the first substantial reform for 100 years); and the possibility that rapid changes in the market place may force on us the need for new consumer legislation. It may also be that it should fall to the Department of Trade to follow up suggestions



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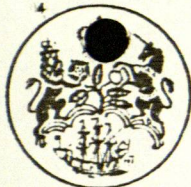
→ for a Pensions Supervision Act. We should perhaps also be thinking about new privatisation proposals, eg the possibility of privatising the airports. Finally, while new legislation is not required, we do need a suitable framework and recognition from all parts of Government of the importance of the overseas dimension and the ways in which the Government as a whole - not only my Department - can usefully and properly help United Kingdom industry and commerce to take advantage of overseas opportunities.

I am sending a copy of this minute to Cabinet colleagues and to Sir Robert Armstrong.

Department of Trade
1 Victoria Street
London, SW1H 0ET


PP LORD COCKFIELD

24 December 1982



FORWARD LOCK

I ENCOURAGEMENT OF OVERSEAS TRADE

Exports of goods and services have become increasingly important to the United Kingdom economy. Exports of goods and services now account for some 30% of United Kingdom GDP but our share of world trade in manufactures has declined substantially, and is continuing to do so. Our propensity to import continues to grow, to the point that our traditional surplus on trade in manufactures is now dwindling to the point of non-existence. At a time of industrial and trade recession and high and rising levels of unemployment internationally, the United Kingdom's trade policy and trade promotion activities assume particular importance.

For the future, the Government should:-

- (a) maintain and increase pressure to open up overseas markets;
- (b) remain cautious about demands for protectionism; and
- (c) continue its range of activities to assist exporters.

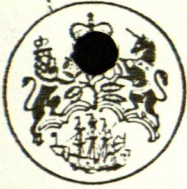
(a) Opening Up Overseas Markets

We must continue to seek greater parity of access for our exports, especially in those countries whose industries take advantage of the open United Kingdom and EC market. The main targets of these efforts should be Japan, Spain and - on a rather longer timescale - the NICs. Bilateral, EC and GATT initiatives have already been taken. The pressure must be maintained, and intensified. It will be in our interest to work as far as possible through the EC. Quite apart from its trade policy responsibilities, the Community's greater muscle is more likely to gain results without attracting damaging retaliation limited to United Kingdom exports.

Within the EC, pressing on with completing the free working of the internal market will remain a priority. Separately, the enlargement process seems like to proceed. On both counts, close attention will need to be paid to United Kingdom trade interests.

(b) Facing Protectionism

Overseas access will not be gained overnight. Meanwhile domestic sectoral difficulties, import problems, and instances of overseas protection can be expected to continue. We, and the Community, must be prepared to adopt a more robust line in defence of our industry, and to arm ourselves with weapons to counter American protectionism and penetration of our markets by Japan and the NICs. But we will have to work hard to persuade our own people, and other Governments, of the dangers of the world slipping into



widespread protectionism. As the leading trader amongst major industrialised nations, we could have most to lose.

(c) Export Promotion

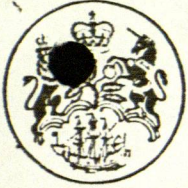
We have been struggling to retrieve an unprecedented loss of competitiveness at a time when world trade is - at best - stagnant. The prospects for a renewal of expansion are dim. Over the next five years our export promotion activities will take place against a background of yet fiercer competition for available business, and over-capacity in the number of industrial sectors with reluctance by the countries concerned to be the first to eliminate such over-capacity. We are moving closer to the time when North Sea oil will no longer be able to help pay for our import requirements and free our economy from balance of payments constraints.

Reorganisation within the Department of Trade has helped to produce a more cost effective export promotion system. The new organisation needs time to settle down, and for exporters to take advantage of the benefits which flow from the re-shaping and bringing together of a number of previously separate elements. Similar stability should be maintained in the FCO's provision of staff for overseas commercial work, and recognition of the importance of their work. Within this structure, we shall be carrying out a major effort on our information services to make greater use of modern technology in order to improve both the content and the efficiency of export promotion work.

Our export promotion effort has been concerned to concentrate on those tasks which the Government alone could do: for example government-to-government contact and deriving maximum commercial benefit from the existence of diplomatic representation in 200 overseas locations. The Government cannot, however, ignore the special support measures offered by other Governments to its own exporters. We must continue to seek greater order and restraint in the international auction of aid and credit. But we cannot unilaterally disarm our exporters of the support provided by the ECGD and CDA. ECGD should have greater scope to act as an instrument of export promotion: a measure of privatisation could help and allow ECGD's staff levels to be set by commercial possibilities instead of central Whitehall manpower targets. As regards CDA, the aid programme should continue to reflect a greater commercial emphasis.

II PROMOTION OF SERVICE INDUSTRIES AT HOME AND ABROAD

The service sector in the United Kingdom has now grown to a point where its GDP and employment contribution is about twice that of manufacturing. Its exports earnings are now roughly half those of all visible exports, with a regular and substantial balance in our favour. The Government can help these industries to flourish in the later 1980s by:-



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- (a) reviewing policies which at present discriminate against the services sector;
- (b) ensuring that the sector operates within a more liberalised framework domestically; and
- (c) works towards a liberal international trading system for services.

(a) Ending Government Discrimination

Our policies still do not give sufficient weight to the importance of the service industries, with clear preference being given to manufacturing industry. This is most notable in the fields of taxation and regional assistance. Corporation tax allowances - on plant and machinery and on industrial but not commercial buildings - are plainly of greater benefit to manufacturing than to services. Virtually all service activities are explicitly ineligible for the automatic Regional Development Grants. In theory, services can receive selective regional assistance, but in practice very little money has been spent on them. Indeed, most of our expenditure on non-regional industrial support also goes to manufacturing, rather than to services.

Most sectors of the service industry neither need, nor have asked for, cash assistance. In general, such assistance does not seem justified. But existing policies of assistance and taxation should be fairly balanced between various sectors of the economy, and it is important to ensure that new distortions are not introduced by any new measures. Representations have already been made to the Chancellor as to how the 1983 Budget could give particular assistance to the domestic tourism industry, with its predominance of small firms.

(b) Privatisation and Liberalisation

British Airways will be privatised as soon as adequate progress is made in the return to profitability. Separately, consideration is being given to introducing private capital into some of the British Airports Authority's activities. Beyond this, a wider reconstruction of the management of airports in the United Kingdom with the possibility of later privatisation is being examined.

The Government's general policy is to provide for more competition on air routes where there is sufficient traffic potential. This was reflected in the 1980 Civil Aviation Act. The potential for de-regulation of domestic routes is being closely examined.

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On shipping, the Department is exploring the scope for devolving more of its survey work to the private sector, Lloyd's Register.

On films, the Department intends to move towards dismantling the remaining special protective and assistance arrangements for the cinema film industry.

On tourism, the Department is concerned to remove unnecessary duplication and improve efficiency in the publicly funded bodies which promote domestic tourism.

(c) International Liberalisation

The GATT does not extend to services, and the application of the EC internal market is, at best, imperfect. The general international competitiveness of our own services sector makes it particularly important to work towards greater international free trade in services. Thus we will:-

- (a) work within GATT, and other multilateral organisations, for freer trade in services;
- (b) press within the EC to extend the internal market to cover more services: insurance is a notable area;
- (c) work within the EC, and bilaterally with other countries for greater freedom in air services;
- (d) resist international protectionist trends in shipping, and within the EC support provisions for strengthening shipping competition.

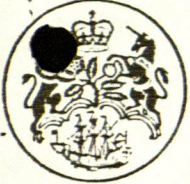
III FRAMEWORK FOR THE CONSUMER

After the flurry of consumer legislation in the 1970s, there are strong arguments for a period of stability. But some problems persist, and some may be expected to arise in the changing economic and technological circumstances of the second half of the 1980s. Consumers continue to face expense and obstruction in securing redress generally, with special difficulties where services are poorly performed.

A review of the provisions of the Trade Descriptions Act relating to statements on prices might reveal the need to alter the criminal law. Major inputs on civil law aspects may arise from the Law Commission Reports on Merchantability (1985?) and Services (1986?).

Improvements in the working of nationalised industry consumer councils, principally by furthering best practice through guidelines for their operations, are being worked out. More fundamental proposals envisaging legislation in the next Parliament, would bring about a further rationalisation of the Councils' functions, composition etc.

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In general, the Government's approach should be to continue the emphasis on self-help by consumers within the present framework of law, rather than new legislation which could be poorly understood and require additional enforcement burdens.

IV CLIMATE FOR ENTERPRISE

Although apparently unexciting, much of the Department's regulatory work forms the bedrock of commercial and industrial activity. It is essential, occasionally controversial, and increasingly creaking. The following areas are involved:-

- (a) The Patent Office. The need for modern Trade Mark and Copyright laws is increasingly recognised. Both have a EC dimension, and copyright law is a matter of increasing public and industrial concern. Separately, we need to ensure that London is the site of the EC Trade Mark Office if we are to maintain our international position;
- (b) The Insolvency Service. Legislation, flowing from the Cork Report, is badly needed possibly mid-way through the next Parliament. The present workload on the Service, and criticism of the legislation is unprecedented;
- (c) Company Law. After a recent flurry of legislation, the first pre-occupation must be consolidation - although there is strong public and political expectation of legislation, which is long overdue, on securities trading. Company fraud is also exciting increased concern;
- (d) Insurance. There is domestic pressure, on "consumer" grounds, from a more restrictive supervisory regime. Our present regime provides safeguards for the policy-holder without straight-jacketing the industry. Whilst it is still open to useful technical development, any radical change could only be in the direction of the prescriptive systems inimical to innovation, practised elsewhere in Europe. Consumer pressures could - unjustifiably - grow for a change in the regime (as against the resources applied to it) - should there be a significant collapse. Separately, there does seem to be a need for greater prudential supervision of private pension funds, and Departments - with the CPRS - are in the process of developing new initiatives in this field;

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- (e) The White Paper on Standards, Quality and International Competitiveness is being energetically followed. This Department, other regulatory Departments, and large public purchasers will need to be pressed hard in pursuing its objectives, and there will be a need for a campaign to win over standards makers and users in the private sector;
- (f) Competition Policy. No substantial new legislation is needed, following the 1980 Competition Act. But merger policy has continued to attract criticism, on the ground that the public interest test employed is too wide and ill-defined, giving too much weight to non-competition factors. This is being reviewed, but the answer does not necessarily lie in legislation: but rather the treatment of references to the Monopolies and Mergers Commission.
- (g) Shipping A substantial Bill to continue the revision of the 1894 Merchant Shipping Act, covering registration lights and perhaps historic wrecks, is proposed. Measures to improve the management and efficiency of the lighthouse service are being pursued.

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