


CONFIDENTIALPRIME MINISTERObjectives and Procedure, and Use of North Sea Oil
(EX(80) 2, 3, 4 and 5)

BACKGROUND

This is the first meeting of the Committee, which was set up on 11th July to ensure that major cases involving Government support of exports are dealt with quickly and efficiently and to keep under review the arrangements for promoting the United Kingdom's international trade objectives. As you have pointed out before, the fact that the Committee has not so far met can be taken as a mark of its success in stimulating Departments to find solutions. At your meeting with the Secretary of State for Trade on 20th October, however, you said that there was now a case for a meeting to discuss the general role of the Committee - Mr. Alexander's letter of 20th October to Trade.

2. There are now three general papers: by the Secretary of State for Trade (EX(80) 2), by the Chancellor of the Exchequer (EX(80) 3), and by the CPRS (EX(80) 4). The Secretary of State for Trade's other paper, EX(80) 5, discusses the use of North Sea oil in support of major capital projects.

3. The main point in the Secretary of State for Trade's paper (EX(80) 2) is that EX might in due course be asked to endorse clear objectives and priorities so as to encourage the most effective support for our industries. He does not however give any indication what they might be. His main point on procedure is that EX should be a court of last resort which might have to meet on occasions at short notice and which should not overlap with the responsibilities of other Cabinet Committees.

4. The Chancellor of the Exchequer's memorandum (EX(80) 3) does not make specific recommendations but summarises some general points on financial support which should be kept in mind. He points out that capital goods exports of the type which would be considered by EX represent only around 5 per cent of total exports. There is very substantial help for exports in general through Trade's export promotion activities and through the ECGD.

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This is already a heavy burden on the PSBR and public expenditure - the interest rate subsidy payable on fixed rate export credit leads to £500 million of public expenditure in 1980-81. It is important to try to reduce these costs through international consensus on support arrangements. In particular we do not want to precipitate a subsidy war. Against this background, the Chancellor's main conclusion is that any proposal for assistance in a particular case should be supported by full costing and an analysis of the subsidy involved with an assessment of the risks of repercussions (his paragraph 11).

5. The CPRS (EX(80) 4) bring these general arguments together. They recommend in their paragraph 3 that it is important to define priorities and new policy issues as soon as possible so that EX can then look at particular cases in the context of clear guidelines. As a first step they propose, in their paragraph 4, that an analysis should be made of the markets which our main competitors are pursuing, what they offer financially and how they are organised.

6. The Secretary of State for Trade refers in (EX(80) 5) to the possibility of limited supplies of United Kingdom Continental Shelf oil being used as leverage to secure major capital projects. The paper refers to some of the difficulties of this approach and the need to use oil in this way very selectively. The Department of Trade already have some work in hand on identifying priorities in terms of markets and new projects; and the Secretary of State proposes that officials should now look at the issues further and make recommendations.

7. The Secretary of State for Industry suggested in paragraph 8 of his memorandum (OD(80) 73) on defence sales that further consideration should be given to the possibility of using oil sales to secure defence sales. It was agreed that this should be pursued further in the context of the EX discussions.

8. The Foreign Secretary, in his minute of 26th November to the Secretary of State for Energy on refinery and disposal strategy, has proposed that to ensure full interdepartmental co-ordination a new Cabinet Office Official Committee should be set up to look at individual cases and to advise EX. I understand that the Foreign Office have in mind that the cases which will come to EX will, by definition, be complicated and the considerations finely balanced. They feel, therefore, that if Ministers are to reach decisions quickly on the basis of comprehensive advice, with the facts interdepartmentally agreed, an official committee would help.



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9. I am not persuaded that there is yet a case for setting up such a committee. A number of the issues are already dealt with under the Treasury's interdepartmental Export Guarantees Committee. This looks at particular proposals for ECGD underwriting in the national interest and also at wider issues on export credit. There will be other proposals for particular cases and package deals which the Treasury Committee would not deal with, but I see no reason why the Department of Trade should not take the lead in these. Provided that they are sensible in calling in all the other Departments involved, Ministers should get comprehensive advice with the facts agreed. You will however wish to sound out the views of the other Ministers on this question.

HANDLING

10. The Secretary of State for Trade, the Chancellor of the Exchequer and Mr. Ibbs will each wish to speak to their papers. Lord Trenchard and Mr. Ridley are representing their Secretaries of State (the Secretary of State for Industry is involved in a Debate in the House, the Foreign Secretary is seeing his Austrian opposite number and the Lord Privy Seal is abroad). The Secretaries of State for Energy and for Defence have been invited for the discussion of the use of oil

11. I suggest that you should first have a general discussion and agree on the areas where further work is necessary. You might then, in the light of decisions on further work, consider whether there is any case for an official supporting committee.

12. The main proposal for further work is that objectives and priorities should be identified. This ties in with the CPRS's proposals for an analysis of practice by our main competitors: the Committee will need to consider in particular whether this is worthwhile or whether sufficient is known already. The other main strand is the further work, proposed in EX(80) 5, on priorities for the use of oil in terms of markets and new projects. This can take account of the relevance to Defence sales in particular.

13. You will then wish to consider whether this general work, and the handling of particular cases which would not be dealt with by the Treasury's Export Guarantee Committee, should be undertaken with the Department of



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Trade in the lead or whether an official committee under the Cabinet Office should be set up. I am not convinced that this is necessary: the task could be given to the Department of Trade. If however the Committee feels that there is a case for setting up an official committee, I will put recommendations to you for membership and terms of reference.

14. Finally, you might take the opportunity to discuss briefly the correspondence following the Secretary of State for Energy's minute of 24th October about his visit to Mexico and Venezuela. You will recall that you suggested that there might be advantage in your hosting a small half-day seminar of industrialists and administrators to foster Government/Industry co-ordination in approaching these two markets - Mr. Alexander's letter of 28th October to the Department of Energy. The Secretary of State for Trade - his Private Secretary's letter of 1st December to Mr. Alexander - has now advised against this. The particular question of the Mexican market is being pursued by the Departments of Trade and Energy. The Secretary of State for Trade's main point, however, is that there might well be other candidates, deserving more priority, for high level seminars of the kind suggested. If this view is shared generally in EX you might invite the Secretary of State for Trade to consider the possibilities further, perhaps in the course of the further general work which the Committee commissions, and make proposals.

CONCLUSIONS

14. In the light of the discussion the Committee will probably wish to call for further work on:-

- (i) the identification of objectives and priorities;
- (ii) the analysis of our competitors' activities, as proposed by the CPRS;
- (iii) guidelines, and markets, for use of oil to secure major capital projects (including defence sales).

15. They will also wish to:

- (a) Decide whether this work, and the handling of particular cases, should be dealt with by the Department of Trade with full consultation with all the other Departments concerned or whether a formal official Cabinet committee should be set up to support EX.

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- (b) Invite the Secretary of State for Trade to consider further the possibilities for a high-level Government/Industry seminar on a particular market or markets.

REA

(Robert Armstrong)

3rd December 1980