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

30 January 1981

T.P. Lankester, Esq.,  
Private Secretary,  
10, Downing Street

*Dear Tim,*

NEDC, 4 FEBRUARY: STEERING BELIEF

....

I attach a Chairman's steering brief for the Council meeting on 4 February.

The section of the brief on overseas capital projects is based on a contribution from the Department of Trade.

We have not yet seen a copy of the TUC Economic Review, which is relevant to the first item on the NEDC agenda, "industrial trends and prospects". Copies of the Review should be circulated in the next day or two, and we hope to send over a short, supplementary brief on it early next week.

✓ Annexes C, D and E to the brief will be circulated later *(attached)*

I am copying this letter and enclosures to Richard Dykes, David Edmonds, Ian Ellison, Stuart Hampson and Julian West, whose Secretaries of State will also be participating in the Council.

*Yours ever,*

*Richard Tolkien*

R.I. TOLKIEN

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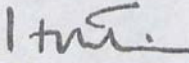
cc Chief Secretary  
Financial Secretary  
Minister of State (L)  
Minister of State (C)  
\*Sir D Wass  
\*Mr Ryrie  
\*Mr Burns  
\*Mr Middleton  
\*Mr Unwin  
Mr Dixon  
Mr Lovell  
Mr Patterson  
Mr Hawtin  
Mrs Gilmore  
Mr Buckley  
\*Mr A N Ridley  
Mr N Owen - DOI  
Mr D Coates - D/Trade  
Mr E Whybrew - D/Employment  
Mr Worsley - D/Energy  
Ms Williams - DOE  
Mr Stewart (PPS)

(\*without attachment; copy  
of brief already received)

NEDC, 4 FEBRUARY: PRIME MINISTER'S STEERING BRIEF

I attach a copy of the Prime Minister's steering brief for next Wednesday's Council meeting:

2. Annexes will be circulated when available to those attending the meeting. A short, supplementary brief on the TUC Economic Review will be circulated early next week.
3. The section of the brief on the overseas capital projects item is based on a contribution from the Department of Trade.

  
J E MORTIMER

30 January 1981



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NATIONAL ECONOMIC DEVELOPMENT COUNCIL: WEDNESDAY 4 FEBRUARY

CHAIRMAN'S BRIEF

THE COUNCIL: BACKGROUND

The Council was set up by Ministerial decision in 1962 with broad terms of reference to examine the economic performance of the nation. Over the years, a wide range of economic and industrial issues have been considered. When you last chaired a Council meeting, in January 1980, the main item on the agenda was technological change, industrial adjustment and employment. A list of current Council members is attached at Annex A.

2. The Council has no executive powers. Its role (and its strength) is as a forum in which the Government, management and the trade unions can exchange views. Whilst it provides an opportunity for the Government to explain its policies, its success depends on the Government demonstrating its willingness to listen, and to respond constructively, to the views of other members.

3. You will recall from your previous visit that the tone of the meetings tends to be informal and loosely structured. The practice has been for the Chairman to concentrate on inviting contributions from others to the proceedings and on drawing out, and summing up, on each item, any areas of agreement and points which need to be followed up by one or more of the parties. The Chairman normally leaves it to the responsible member of the Ministerial team to take the lead in responding for the Government on individual items of substance.

4. The meetings are held in private but the normal practice is for papers to be released to the press, if the Council agree, and for the Director General to hold a press conference immediately after the meeting at which he gives an objective account of the proceedings.

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5. The last Council meeting was at the beginning of January, when the main item discussed was international energy prices. It was argued then by NEDO and the CBI that some large UK industrial energy users paid higher prices for energy (especially electricity) than their counterparts overseas. It was agreed that a task force should be set up (with representatives from the CBI, TUC, Department of Energy, the Nationalised Energy Industries, and NEDO) to establish the facts. The task force will report back to Council in March. The minutes of the meeting are attached at Annex B.

AGENDA

Item	Suggested length of discussion
1. Macro-economic discussion: industrial trends and prospects	1 $\frac{1}{4}$ hours
2. Overseas capital projects	$\frac{3}{4}$ hour
3. Sectoral report: diesel engines	$\frac{1}{2}$ hour

6. Sir Keith Joseph will be some half to three-quarters of an hour late for the meeting. Mr Baker has agreed to stand in for him during this time. You may care to convey Sir Keith's apologies for his late arrival to Council.

7. Dr Frankel, Chairman of the Diesel Engines SWP, will join the Council for the discussion on the sectoral report.

OPENING REMARKS

8. You may care to open by thanking Council for inviting you to chair the meeting. You might say that you found the discussion at the meeting you attended a year ago last month most valuable. It confirmed your belief that the Council had an important part to play in improving our understanding of the UK's economic problems.

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You could add you are looking forward to the discussion on industrial trends and prospects and on overseas capital projects. Both items raise issues which go to the heart of our economic difficulties and what to do about them.

ITEM 1: MACRO-ECONOMIC DISCUSSION

Industrial Trends and Prospects (NEDC(81)6)

TUC Economic Review (NEDC(81)8), also relevant

9. You will wish to invite Mr Chandler to introduce the NEDO paper. You could then invite the reactions of the TUC and the CBI.

Sir Keith Joseph and the Chancellor will be ready to contribute for the Government side. The DOI brief prepared for Sir Keith Joseph is at Annex C.

10. With the Budget only five weeks away, there is a danger that the TUC and the CBI will use this occasion for putting forward their Budget representations. It is to be hoped, however, that the bulk of the discussion will be on the question in hand - industrial trends and prospects.

11. Background. Council has had a series of valuable discussions on macro-economic questions. In recent months, they have looked at the macro-economic effects of North Sea oil and gas, the relationship between pay, prices and unemployment, the Wilson Report, industrial profitability and trends in employment. Papers by Sir Keith Joseph and the TUC on industrial policy were considered last Summer.

12. In these discussions, the Government has tried to get others to understand the thinking behind its macro-economic policy, and to establish as much common ground as possible on what needs to be done. "Industrial trends and prospects" is designed to provide a fresh angle from which the macro-economic discussion can be approached. The hope is to avoid a discussion involving a sterile reiteration of entrenched views.

13. Further macro-economic discussions are planned for future months. Council will shortly be considering papers on the public and private service sectors (and the relationship between them) and on



"sources of growth", which will be an analysis of where growth might originate in the next upswing. A discussion on the lessons to be learned from the Japanese approach to industry is also planned.

14. The NEDO paper looks at past industrial trends and examines future prospects. It points out that, in the past, British industry has performed badly in relation to industry overseas. It argues that industry has been slow to adapt to the changing pattern of world demand and to seize opportunities. The paper goes on to say that growth over the next three or four years is likely to be slow. If industry is to succeed, it will need to come to terms with: sluggish growth in world trade; increased competition from the newly-industrialising countries; high energy prices; the rapid development of new energy sources; the continuation of a relatively high UK exchange rate; developments in technology (especially in relation to micro-electronics and biotechnology) and lower real levels of public expenditure. On the basis of work done by EDC/SWPs, the paper concludes by attempting to identify which sectors of the economy are likely to do well in the future, and which are likely to fall back.

15. Line to take:

- there is much to agree with in the NEDO paper - particularly with what it says about how badly British industry has done in the past, and about how industry will need to adapt to a changing environment if it is to succeed in the future. Do the TUC and CBI think that the two sides of industry are aware of how the business environment is likely to change and of the need to respond flexibly? How can the message be got across?
- the paper shows that some sectors will do better than the economy as a whole, some will do worse. The key point is that the opportunities are there for the competitive firm. The Government believes that small firms are particularly capable of responding. This is why, through income tax cuts, modification in capital taxation, and the enterprise package, Government policy has been to encourage small firms;



- paragraph 1 of the paper presents a fairly gloomy picture of the future. With a declining rate of inflation, however, the removal of restrictions to the free working of markets (eg pay, price, dividend and exchange controls) and a fairer balance of industrial power, the business environment will be improved;

- the Government cannot make industry competitive. Industry must respond by itself. Nevertheless, the Government does provide a generous measure of industrial support, including capital allowances (worth possibly £4½ billion in 1979-80) and DOI grants (worth something like £1100 million in 1980-81). Help is designed to stimulate additional investment, attract internationally mobile projects to the UK, help bring about major improvements in productivity, promote the adoption of new technology, and to provide help for the regions.

Cap allowances  
£4½ b  
DOI grants  
£1100m.  
80-81.

16. TUC views will be contained in the Economic Review. We have not yet seen a copy. A supplementary briefing note on the Review will be circulated later.

17. The TUC are unlikely to miss the opportunity provided by the NEDC meeting to criticise the Government over the level of unemployment. They will no doubt refer to the recently published figures which showed that, at the January count, unemployment (seasonally unadjusted, including school leavers and adult students) rose by 175,000 to 2.42m. (The seasonally adjusted figure, excluding school leavers and adult students, rose 103,000 to 2.24m.)

18. Line to take:

- Ministers are very concerned about the level of unemployment. But there is little that can be done about it consistent with a sensible strategy for economic recovery. Attempts to reflate demand would merely add to inflation and so quickly erode



any initial increase in output and employment.

The Government is attempting to create the conditions in which sustainable economic recovery can take place. The first priority must be to bring down inflation to acceptable levels. The long term answer to unemployment has to be founded on improved productivity and lower pay settlements which are now at last starting to show through.

19. CBI views. The CBI have not put in a paper for this discussion. But they are likely to support the broad thrust of the Government's macro-economic policy - in particular the need to reduce inflation through firm fiscal and monetary policies. Points they are likely to emphasise are the importance of reducing public expenditure further (especially the public sector wage and salary bill), and the need to reduce business costs (ie concentrating tax cuts, such as cuts in the NIS and business rates, on industry rather than on persons). They would also like a more positive exchange rate policy.

20. The CBI are at present working on a medium term strategy document, to be published on 5 March. The document will predict that unemployment will continue to rise through 1982 and 1983, with little prospect of a downturn. While it will talk about the need for industrial self-help, the document could well have something of an interventionist flavour, advocating, in particular, the use of North Sea oil revenues for industrial policy.

21. Line to take:

- the Government is aware of the heavy tax burden borne by industry. But significant reductions in the NIS and business rates would be enormously expensive (each 1% off the NIS costs about ~~£700~~ million in a full year);

- the CBI should not underestimate what the Government has already done to cut public expenditure. In 1981-82, public spending is likely to be about £6 billion less than the previous Government planned to spend in that year;



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- there is very little that the Government can do to bring the exchange rate down. The strength of sterling largely reflects the availability of North Sea oil at a time of uncertainty in world oil markets;
- the most effective way of helping industry in the medium term is by reducing public sector borrowing. This will ease the pressure on interest rates and help restrict the growth of the money supply, with beneficial effects on inflation.

22. Summing up:

- this has been a useful discussion. There are clearly fundamental differences of view on industrial policy, but there are also important areas of agreement between all parties. There is a general appreciation of the extent of our failure in the past, as well as the magnitude of the task in front of us, if we are to do better;
- the discussion has shown that the opportunities are there for competitive firms to do well. Particularly those, for example, producing high quality, up-market products; those operating in areas of rapid technological change such as micro-electronics; those engaged in producing energy-saving and energy-extracting equipment; those ready to respond to opportunities in the growth areas of world trade, such as the newly industrialising countries;
- small firms have a particular contribution to make. They are the seed-corn of industry. The Government has given priority to creating the conditions in which small firms can flourish;

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- while the Government can help by providing an economic framework in which industry can adapt to a changing environment, the bulk of the work in becoming more competitive must be done by industry itself.

ITEM 2: OVERSEAS CAPITAL PROJECTS

Memorandum by the Director General (NEDC(81)7)

Memorandum by the Public Sector Corporations (NEDC(81)4)

23. You will wish to invite Mr Chandler to introduce the NEDO paper and then Sir Peter Parker to introduce the paper prepared by the Nationalised Industries' Overseas Group (NIOG). Mr Biffen will be ready to speak in the discussion for the Government side. A copy of the DOT brief for Mr Biffen is attached at Annex D.

24. In recent months, Council has had a number of useful discussions on how to improve the competitiveness of British industry. It has discussed, for example, the importance of product quality as a factor in non-price competitiveness, and how the use of standards in support of health and safety legislation can contribute to, and detract from, the competitiveness of British industry. It has also discussed how public purchasing policy can be used constructively to strengthen industrial competitiveness. The overseas capital projects item provides a basis for considering how the competitiveness of this one important sector of the economy can be improved most effectively.

25. Although large civil export projects account directly for between 5 and 10% of overseas trade, they are normally highly visible; they provide a means of market entry both through the supply of spares and follow-on orders; they enable firms to develop and apply new technologies which will keep them in business for years to come. On the other hand the direct cost of supporting such projects is high as a result of officially supported interest rates for long-term export credits (at present levels of interest rates, this support can be equivalent to a subsidy of up to one-third of the value of the project). Also it is often necessary in order to win business in these highly competitive sectors, to find additional

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means of support (eg mixed credits) to counter the tactics and advantages of our competitors. The setting up of EX Committee ensures that this is done in an efficient and measured way. The new Division in the Department of Trade (Projects and Export Policy Division) is also devoted exclusively to this sector, as is the Department's Overseas Projects Board (an advisory body of businessmen) which is developing the capability to assist with the formation of consortia where appropriate, and also to advise on which British group should be supported where it is clearly necessary to have a national bid and where industry has failed to arrive at a solution itself. NEDO have also appointed the former HM Ambassador to Norway, Sir Archie Lamb, to look into the problems of the private sector and to report on ways of overcoming them. He will report to NEDO in the Autumn.

26. The UK's weakness in the market for large overseas capital projects was discussed last Wednesday at a meeting between the Chancellor and six Chairmen of EDC/SWPs. At the meeting, Sir Cyril Pitts, Chairman of the Process Plant EDC, said that he had received the impression from officials in the DOT that Ministers were doubtful about the value of winning additional orders for large overseas projects, and thought that such projects already received too much support from the Exchequer. It will be important to rebuff this notion. Doing well in this area is regarded by Ministers as a high priority, as reflected in the setting up of EX Committee and the PEP Division in the DOT.

27. The NEDO paper gives five reasons why the UK does not win its fair share of orders for large overseas capital projects. They relate to the UK's weakness in assembling bids, the tendency to put in too many UK bids for any one project, the financial weakness of many UK firms in this field, the relatively short-term marketing strategies employed by UK companies, and the failure by some firms in both the public and private sectors to give priority to export promotion.

28. The paper goes on to say that the Overseas Projects Board is working to remedy these weaknesses but action is required in other areas. It argues, in particular, that new "lead" organisations are



*Per order  
ed here!*

needed to help coordinate bids, and that a more positive role should be played by nationalised industry consultancies.

29. Line to take:

- the NEDO paper is right to say that the UK should win a larger share of the orders for overseas capital projects. But has the paper identified all the areas where improvements can be made? It does not discuss at all many factors which are central to competitiveness - such as price, quality and delivery - but deals primarily with institutional questions;

*Role of  
consultancies  
concerning  
financial  
institutions*

- the paper is possibly too generalised. The problems of different parts of the project industry require different solutions. For example, the need for stronger lead organisations and for the development of the supporting role of the nationalised industries is greater in some sectors than in others.

*Statutory  
controls*

30. The NIOG paper, which covers all overseas activities of the nationalised industries (including sales of aircraft and ships), shows that they already play an important role on projects, particularly by offering consultancies based on their operating experience. The paper also implies that there could be statutory or financial restrictions which prevent nationalised industries playing a lead role or taking major financial risks.

31. Line to take:

- in general, nationalised industries should support export efforts. However, the desirability of different industries playing a more prominent role, and the obstacles preventing them from doing so, vary from case to case;
- those industries that feel that their powers are inadequate should raise the matter with their sponsor Department and DOT;



32. Summing up:

- the two papers have been helpful to the debate on how the UK can improve its export performance in this area;
- it must be primarily for industry, together with the banks, to develop solutions to the problems that have been identified;
- nevertheless, the Government stands ready to complement the work of industry. The DOT's Overseas Projects Board plays an important role here. In addition, the Government provides both financial and political support for those bidding for, and engaged on, large overseas contracts;
- the nationalised industry consultancies should discuss with their sponsor Departments and the DOT any obstacles that they believe prevent them from playing a more positive role in export promotion;
- perhaps the Director General would be good enough to follow-up points raised in discussion and report back to the Council in the Autumn when he has received Sir Archie Lamb's report.

ITEM 3: THE PROSPECTS FOR THE UK DIESEL ENGINE INDUSTRY  
Memorandum by Dr Frankel (NEDC(81)3)

33. You will wish to invite Dr Frankel to introduce the report on the work of his SWP. Dr Frankel has been Managing Director of Staveley Industries since 1970; he was appointed Chairman last year. He was formerly Managing Director of English Electric - AEI Turbine Generators Ltd. Dr Frankel was born in Poland, and came to the UK in 1946. He is a mechanical engineer by training.



34. Dr Frankel's paper explains that UK production of diesel engines has remained static in volume terms over the last 15 years, although the world market is growing at a trend rate of 9% per annum. It argues that, to regain competitiveness, the industry needs to be rationalised with mergers or tie-ups involving diesel engine producers and equipment manufacturers (especially vehicle producers). It also argues that a more rapid improvement in productivity is needed, as well as additional long term financing, further Government support for selective R and D, and efforts by the Government to support UK equipment manufacturers through public purchasing, and in international negotiations etc.

35. Sir Keith Joseph will be ready to reply to these points for the Government side. He will no doubt argue that, on the most important of Dr Frankel's points - the need for the rationalisation of the diesel engine industry - action lies very much with industry itself. A copy of the DOI brief prepared for Sir Keith is attached at Annex E.

36. There is one point for the Treasury in Dr Frankel's paper. In paragraph 24, it is argued that many firms are finding it difficult to raise long term finance. Later, in paragraph 30, the paper talks about the need for new types of industrial bond. In reply, the Chancellor might say that it is true that few firms have been raising money in the industrial debenture market in recent years. The main problem here has been high nominal interest rates. If inflation can be got out of the system, interest rates should be lower, and this should lead to some revival in the industrial debenture market. It could be pointed out that the Government attempted to relieve some of the pressure in the long term money market by introducing its national savings package in November, thus reducing its need to borrow long term.

37. Sector reports usually go down well with Council, and there should be no shortage of comments or questions on Dr Frankel's paper from non-Government members of the Council. In conclusion, you will no doubt wish to thank Dr Frankel for his presentation.



NEDC MEMBERSHIP

Chairman

The Chancellor of the Exchequer

Government

The Secretary of State for Industry  
The Secretary of State for Employment  
The Secretary of State for Trade  
The Secretary of State for Energy  
The Secretary of State for the Environment

TUC

Mr Len Murray, General Secretary TUC  
Mr David Basnett, General Secretary GMWU  
Mr Moss Evans, General Secretary TGWU  
Mr Terry Duffy, President AUEW  
Mr Frank Chapple, General Secretary EETPU  
Mr Geoffrey Drain, General Secretary NALGO

CBI

Sir Raymond Pennock, President, CBI  
Sir Terence Beckett, Director General, CBI  
Sir Jeremy Morse, Chairman Lloyds Bank Ltd  
Mr Harold Whittall, Chairman Amalgamated Power Engineering Ltd  
Mr Ronald Utiger, Chairman British Aluminium

Nationalised Industries

Sir Peter Parker, Chairman British Rail

Independents

Sir Richard O'Brien, Chairman Manpower Services Commission  
Mr Gordon Richardson, Governor of the Bank of England  
Mr Michael Shanks, Chairman National Consumer Council

NEDO

Mr Geoffrey Chandler, Director General NEDO