



PRIME MINISTER

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Yes not

Prime Minister

Agree that officials should follow up the report's recommendations, subject to Lord Cockfield's two reservations overleaf?

A.F.C. 3/2

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

Following E Committee on 25 February last year, officials have been undertaking a review of the criteria for supporting large overseas projects.

.... I enclose the report by EX(0) Committee, the recommendations of which are summarised in paragraph 7. These are essentially:-

- (a) Procedures for better and more uniform assessment of proposals for support, looking towards the longer term benefits under market, product exploitation and productivity;
- (b) Procedures for some delegation enabling projects below a specified threshold to be dealt with by the Departments without Treasury involvement, with a view to speeding up the process;
- (c) Arrangements whereby above these thresholds could be viewed against identified priority markets and project fields;
- (d) Steps to be taken to improve arrangements whereby we are constantly identified as "initiating" proposals for mixed credit, when in practice we are "matching" on the basis of prima facie evidence.

These recommendations are potentially useful, and could help to sharpen our consideration of cases, particularly for the larger projects which come before Ministers.

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As the problem at (d) illustrates, however, the international disciplines on mixed credits are very weak. There is a risk that our ability to act flexibly - which was an inherent policy for the future Aid Programme that we accepted after the comprehensive review in February 1980 - might become lost in bureaucracy.

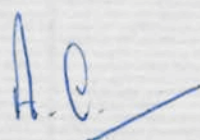
In addition, whilst it may be worth an examination of priority project areas and markets being pursued, I have grave doubts on its feasibility. The setting of these priorities would not be an easy task given the multi-faceted nature of projects which cut across sectoral boundaries, and given the volatility of export markets. In particular, we should need to weigh carefully whether we could publicly defend such choices.

N Subject to these reservations, I propose that we invite officials to follow up the Report's recommendations, so that we can test in practice whether the new procedures will lead to the desired increased speed and direction of support. At a time of world recession, it is even more important that our exporters receive adroit, flexible and speedy support, where appropriate, from Government. When we came to office, we decided that our aid policy should be more commercially orientated, and should be more flexible for this purpose. I am sure that these two aims should remain our main objectives.

I am copying this to other members of E and to Sir Robert Armstrong.

Department of Trade  
1 Victoria Street  
London, SW1H 0ET

4 February 1983

  
LORD COCKFIELD

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CRITERIA FOR SUPPORTING OVERSEAS PROJECTS

Report by the Official Committee on Exports (EX(0))

1 At its meeting on 25 February, when it discussed export support in the light of foreign competitors' practices, the Ministerial Committee on Economic Strategy invited the Secretary of State for Trade to arrange for EX(0) to review the criteria for support of large projects (E(82)6th Meeting, item 4).

.... 2 This report sets out EX(0)'s conclusions on this subject. They are based on a report by an inter-departmental working group whose report is at Annex I. Most of the analysis relates primarily to a relatively few very large projects, for which support may go beyond normal ECGD facilities and involve the use of aid funds from the Aid and Trade Provision (ATP) in a "mixed credit" operation as well as funds from other sources (such as the Industry Act and the Science and Technology Act).

Criteria and Procedure for Evaluating Projects

3 The Committee assumed that Ministers would wish in appropriate cases to make available support for the United Kingdom industry comparable in effect to that deployed by competitor Governments; but to confine that support to projects offering long-term benefits for national competitiveness and productivity. Two changes we recommend to facilitate the pursuit of those objectives are:-

- (a) Departments should assess possible cases for support in a better and more uniform manner than in the past, on the lines described in paragraphs 14 to 18 of the Annex.
- (b) At the moment all proposals for mixed credit operations with an ATP component are considered by the Official Sub-Committee on Aid and Trade (SCAT) and proposals for other special support are cleared with the Treasury. It is proposed that in future the Departments which have the formal responsibility for the expenditure schemes should have delegated authority to provide support for projects which fall within certain threshold conditions. (See paragraph 19 of Annex I.) For example, at current interest rates, the threshold for the total subsidy level in mixed credit cases would be 34%. This would mean that cases with an ATP grant element of 25% and normal ECGD-backed finance on Consensus terms would fall within the delegation provided they were merely matching competitors' offers and fulfilled the other threshold conditions.

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#### Priority Project Areas and Markets

4 The Ministerial Committee on Economic Strategy on 25 February rejected reviewing priorities for product sectors (rather than project areas or markets) and endorsed the view that the Government should continue the policy of backing strong and active firms which were already competitive in export projects or close to being so. To assist assessment of cases outside the proposed new threshold conditions, however, the interdepartmental group had recommended that the Departments of Trade and Industry should draw up lists of project areas and of overseas markets offering exceptional potential. EX(O) accepted the Group's recommendations that indicative lists of priority markets and project areas would serve as a useful aid to appraisal of cases outside the threshold conditions, particularly packages with an ATP component, and considered that such lists should be submitted for endorsement to Ministers who would then consider the need for some degree of public disclosure.

#### "Matching" and "Initiation" of Mixed Credits

5 Under the reporting procedures in the OECD Consensus, we are obliged, like our competitors, to report offers of mixed credit as either "initiating" an offer of mixed credit for a project or "matching" similar assistance offered by other countries. We appear, however, to adhere much more strictly to our OECD and European Community obligations in these matters than do many of our competitors; for example, ECGD will always notify as an initiation a mixed credit offer unless they have been formally notified of a previous offer for the same project from a competitor, even when there is evidence from other sources that such an offer has been made. As a result an unjustified proportion of the United Kingdom's mixed credit offers have been notified as initiations, which appears inconsistent with (and makes it more difficult for us to obtain support for) our general policy that all countries should reduce this sort of assistance to exports.

6 The Committee therefore recommends:-

- (a) that ECGD and ODA should press for the introduction of more satisfactory international procedures for reporting mixed credit;
- (b) that ECGD should in future report as "matching" any offer of mixed credit by the United Kingdom where there is reasonable evidence that another country has offered such assistance and there is no specific denial from the country concerned.

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Issues for Decisions

7 Ministers are invited:

to endorse the Committee's recommendations that

- (a) Departments should assess proposals for support in a better and more uniform manner than in the past.
- (b) Departments should deal with proposals for support which fall below the thresholds listed in paragraph 19 of Annex I without specific Treasury approval, and should draw up indicative lists of priority markets and project areas to be introduced, after endorsement by Ministers, as an aid to assessment of cases outside the thresholds.
- (c) We should attempt to improve the international arrangements for reporting offers of mixed credit.
- (d) Offers of mixed credit should in future be reported as "matching" whenever possible.

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Overseas Aid  
: Policy Review Pt 3



- 4 JAN 1983

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SECRETARY OF STATE FOR TRADE



To

Private Secretaries to Members  
of E + Sir Robert Armstrong:

The attached document should  
have been enclosed with Lord Cockfield's  
letter of 4 February concerning  
the criteria for support of  
overseas projects.

Apologies for omission.

Pat [unclear]  
PS/SOS (T) [unclear]  
8/2/83

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CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS  
REPORT OF INTERDEPARTMENTAL WORKING GROUP

REMIT

25  
This Working Group was set up following a discussion in E Committee on 25 February of UK trading policy and the practices of our competitors. The terms of reference of the Group were:

"To examine appropriate criteria for extending exceptional financial support for overseas project business, bearing in mind particularly the need to improve long term competitiveness."

- 2 The Group approached this remit by considering:
  - a the objectives of Government support for major project business;
  - b the various instruments of such support and the international environment in which they operate;
  - c the operational criteria for applying these instruments in pursuit of the stated objectives;
  - d the possibilities for refining and improving these criteria, so that scarce resources are used to best effect.

## WHAT ARE PROJECTS?

3 Project exports differ in several important respects from other exports of products or services, both in scale - normally at least £20 million of UK value and often much more - and in their multidisciplinary nature, often involving a number of different suppliers of goods and services in for example airports, irrigation schemes, or power stations. Projects arise mainly in the developing countries, and each is a "one off" in that the technical, environmental, political and financial circumstances differ every time. The skills of the lead contractor are crucial, even though most of the benefits from winning a major project - usually some 80% - go to a host of sub-contractors and through them to even more suppliers all selected competitively, not to mention the parallel benefits to those providing finance, insurance, shipping and other project services.

4 This dispersal of benefits makes it difficult to estimate the proportion of UK trade attributable to project business. Estimation is further complicated by the fact that neither the trade statistics nor ECGD's business figures identify projects separately, since project-related orders are not necessarily exported together. Our best assessment is that, in terms of initial sales, projects account for between 5% - 10% of UK exports. These first-order figures understate the value of such business in related orders and the gains to future earning prospects. Although most projects won by UK bidders benefit from ECGD insurance and interest support, only a small proportion of them receive additional and support from the Aid/Trade Provision or other official instruments.

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### WHY SUPPORT EXPORTS?

5 Funds to support large export projects are inevitably a scarce resource. Subsidies paid to win export orders involve a higher burden of taxation on the economy, including industry. In addition, the competitive pressures faced by other sectors of industry are likely to be worsened to the extent that the support for large projects pushes up the exchange rate, with the consequence that export of other goods are lower and imports higher. It is essential therefore to ensure that the benefits of project support outweigh these potential costs. This is most likely to be the case if the support raises the long term potential productivity and output of the economy by improving the competitiveness, profitability and future market prospects of British exporters as a whole.

6 The arguments for government support for project bids are discussed at Annex A. These arguments rest on the special risks and uncertainties of project business and also on the propensity of other governments to support their national bidders. However, the justification for agreeing support must look beyond the business immediately at stake and give predominant weight to the contribution that winning a particular project can make to the competitiveness and viability of the activities involved. In this respect, support for export projects should be designed to complement the aims of industrial policies.

### OBJECTIVES OF PROJECT SUPPORT

7 The central aim of industrial policy is to secure a profitable, competitive and adaptable productive sector by creating a climate conducive to enterprise, by helping to raise industrial efficiency, and by encouraging the development of new improved products and processes. Amongst the subsidiary means through which this central aim is pursued, those most relevant to the field of large overseas projects are:

- a Increased UK output and improved company performance assisted by selective financial instruments; and
- b Encouragement of the development and rapid adoption of key technologies to maintain competitiveness".
- c Tactical support for UK companies to ensure competition on equal terms in world markets.

8 Annex B gives examples of cases through which it is hoped that these broad aims may be realised more specifically by securing particular projects. Within the overall aims of industrial policy, support for projects is directed towards:

- a concentrating support on UK bids which would establish British competitors in particular markets, for example by setting reference points for future competitions, establishing market "beachheads" from which follow on business may accrue, or by establishing British technical standards in a territory;
- b confining support to UK firms which have clearly established their basic competitiveness, both on price and performance, and seeking to ensure that winning the project in question would further benefit a viable market strategy;

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c using the lever of Government support to encourage desirable activities which might otherwise not arise, for example new project groupings, closer links between consultants and contractors, international co-operation between suppliers, more aggressive pricing, or more imaginative marketing;

d seeking the elimination of "unfair" competition, both by working within international fora for voluntary constraints on the use of distortive measures, and by deploying our own support in ways which neutralise competitors'.

### SOURCES OF SUPPORT FOR PROJECTS

9 The main sources of Government support for UK firms bidding for projects overseas are:

DIPLOMATIC - representation on behalf on UK interests to purchasing Governments and their agencies by representatives of HMG, eg by visiting Ministers or from Post.

ECGD- has a dual role as export credit insurer and as a channel for interest support, providing buyer or supplier export credits guaranteed at fixed interest rates, and also additional special cover for tender-to-contract, bonding, joint-and-several, and other risks.

OVERSEAS PROJECT FUND - assistance with pre-contractual costs, including feasibility studies and consultancies.

SCIENCE AND TECHNOLOGY ACT - assistance for specified development or research costs arising from export projects.

INDUSTRY ACTS - assistance to companies incurring special capital costs in the pursuit or commission of projects.

AID AND TRADE PROVISION - offers of bilateral tied aid, linked to export credit used to counter uncommercial soft terms or other "associated financing" offered by competitors' Governments. Further details of these schemes are at Annex C.

10 This range of support is broadly comparable in scope, though not necessary in value to what is known to be available to exporters in other countries. Annex D illustrates the project support provided by our main competitors. It is believed, on the basis of reports and enquiries, that the scale and flexibility of the schemes operated by some - though not all - competitor countries (especially France and Japan) is significantly greater than in the UK. Moreover, a criticism from industry is that some of our competitors appear better geared to use their supportive measures for maximum impact in competitive situations.

### CRITERIA

11 Although the categories are not formalised under the present procedures, applications for support are examined effectively against three kinds of criteria:

a Qualifying - representing the test of eligibility and differing in certain respects as between one scheme and another; examples include the minimum scale of UK content in a contract and the requirement for "additionality" in OPF cases;

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the developmental and value-for-money tests applied to ATP cases; and the general requirement that any bid supported is intrinsically competitive.

b Quantitative/qualitative - common to all schemes and used to assess the strength or weakness of the particular claim to support. Reflecting the wide diversity of projects, their constituent parts and demands, a range of factors are considered in appraising cases eg market penetration, launching of new technology, the generation of employment, the maintenance of capacity etc.

c Background factors - these should take into account such items as evidence of other offers of soft credit and the room available under ECGD's country limits.

12 Comparatively little time was spent discussing the qualifying criteria. Many of them represent statutory requirements; all are intrinsic to the specific aims of the different schemes and are liable to review in terms of effectiveness and changing policy priorities. The Working Group considered that it would be best for such criteria to be reviewed individually as need arose.

13 The Group therefore concentrated around the second category. The current mechanisms of project support have evolved by adapting existing financial instruments and their associated criteria, not originally designed for the pursuit of overseas business on a commercial basis. One consequence, producing a valid criticism of the presentation of ATP cases in particular is that the open format too often encourages dispute on which factors are relevant in a particular case, as well as on their relative merits. The proposed changes outlined below should produce a more consistent and workable framework.

### THE EVALUATION PROCESS

14 The Group agreed, in line with the Financial Management Initiative, that the criteria for assessing applications for support must reflect as closely as possible the stated objectives of that support. They concluded that the list could be simplified and refined under four main headings as follows:

a PROJECT SPECIFIC INFORMATION - quantitative information related to the project and the support required. The following quantifiable aspects were identified as those which, to the extent that they were applicable, should be included in submissions:

- (a) Contract value.
- (b) Value of UK content.
- (c) Number and value of UK subcontracts.
- (d) Size of UK and world market for particular products or systems.
- (e) Employment.
- (f) Subsidy element.

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b MARKET EFFECTS - the establishment of a product in a new promising market or the introduction of British standards in a significant product area, or alternatively increasing marketshare/penetration through the establishment or reinforcement of a UK presence in a particular market.

c PRODUCT EFFECTS - the launching and establishment of new technology or improved mature products, for example by supporting reference sales which demonstrate UK capability in a key market in order to create opportunities elsewhere.

d PRODUCTIVITY EFFECTS - reinforcing the ability of a company to realise investment and improvements in processes, productivity, marketing potential, or project capability, for example through the improvement of production technology or maintenance or increase of throughput to sustain or achieve competitive unit costs and pricing.

15 In assessing market effects, the Group proposed that geographical country background assessments should be produced to assist the consideration of market based cases. It was acknowledged that the strategic importance of, or prospects in, a territory could only be one factor in the assessment of a case, and not necessarily a determining one; these considerations would, however, clearly be significant where the main claim to support rested upon future prospects in a territory. In this context the Group agreed that it would be valuable to have available a set of geographical assessments prepared by DOT. These assessments should include a statement of key market data for each territory such as population, GNP per head, imports/exports, debt ratio, ECGD rating and limits and other relevant aspects.

16 As regards product effects the Group considered that the clearest benefits were likely to arise from supporting cases involving the establishment or launching of new technology either in the product or the production process. Nevertheless, there may be other cases where benefits will arise from securing increased market penetration with projects based on relatively mature products, especially if this represents part of a strategy of achieving a higher world market share leading to an improved long term competitive position for the UK firms or industry in question.

17 As regards productivity effects it was agreed therefore that applicants should be asked how success in the project in question would help to improve their longer term competitiveness and viability. Normally this would entail relating the contract to the company's overall strategy in terms of marketing, production and product development. A statement of this kind will not only assist those concerned in judging the merits of a case but will also encourage companies to look critically at their reasons for pursuing a particular opportunity and why it is important to them. This approach also carries the presumption that only companies who can show a reasonable expectation of a longer-term competitive and viable future will qualify for support.

18 Two factors which have hitherto featured as key criteria in their own right are follow-on orders and the maintenance/generation of employment. In practice both concepts are covered by the headings listed above:

a) follow-on orders - represent the tangible realisation of the market, product or productivity effects. These benefits are difficult to quantify, especially at the stage of project evaluation. However, since it is clearly desirable in assessing applications to take a view of the applicant's own judgement of the probability and size of continuing or additional business on normal commercial terms, the Group agreed that this should be

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among the factors addressed in the submission.

b) whilst arguably less speculative than the prospects for follow-on business, the Group did not consider that employment should be included as a main criterion - not least because every successful project should lead to the generation or maintenance of some employment. Nonetheless, it was agreed that an applicant's assessment of the employment effects, identifying the localities where it is likely to occur, should be given for information in submissions.

19 The Group agreed that proposals making a strong case on all or some of these basic criteria should be dealt with on a delegated basis, provided the support requested fell within acceptable limits in terms of the level of subsidy sought, the availability of ECGD cover, and the defensibility (in terms of International agreements) of offering mixed credit. The following threshold conditions below which cases would be dealt with in this way, were proposed:

(a) cases involving the use of ATP with an overall subsidy level from all project specific sources (including Industry Act and Science and Technology Acts) greater than that implied by a "basic" ATP package (ie one implying a 25% grant element for OECD purposes and 75% ECGD cover on Consensus terms for the balance). The figure is calculated by discounting the total financial package at prevailing market interest rates, and will therefore vary over time as market rates change. At current medium term interest rates (around 12%) the implied subsidy threshold would be 34%.

(b) cases not involving ATP to be subject to another, but lower subsidy threshold currently under discussion separately between HM Treasury and ECGD.

(c) applications regarding follow on business in a market where the original project benefitted from ATP.

(d) cases involving "contract splitting" except those involving technical cooperation.

(e) cases requiring the initiation of soft or mixed credit (see discussion below).

(f) cases which either require an increase in ECGD's country exposure beyond that which the EGC is able to agree or which would leave insufficient room within the country limit for a reasonable amount of commercial business.

20 Exceptionally strong grounds - in terms of the criteria in para 14 - should be required for providing support beyond these thresholds. It was agreed that assessment of claims in this category would be helped by reference to a list of those project areas and those overseas markets offering particularly good prospects. The Department of Trade and Industry would assess the feasibility of drawing up such a listing - which would of course be subject to periodic review, and could not be exclusive.

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21 Procedurally, "exceptional" cases should be assessed as now through the interdepartmental machinery of SCAT and/or EGC. Where agreement cannot be reached by officials within a timescale consistent with competitive market requirements, it was proposed that a submission should be made by the sponsoring Department for collective determination by Ministers.

### MATCHING AND INITIATION

22 Ministers have agreed that, while limited and judicious initiation of mixed credit offers can be justified in support of strategically important project opportunities, the prime function of the ATP should be confined to matching competitors' offers of mixed or other tied aid credits which threaten competitive UK bids. Such a policy complements the UK interest in securing greater international control, and preferably elimination, of subsidies which distort trade, and within this aim, HMG's support for OECD and EC arrangements governing terms and notification arrangements for tied aid credits. In practice the majority of ATP offers have been notified within these Arrangements as initiations, apparently contradicting our general policy and weakening UK efforts to persuade other countries to curtail their own activities in this area. In many instances however, this apparent contradiction reflects the inadequacies of the notification Arrangements rather than policy derogations.

23 Our use of mixed credits, and the transparency of our activities in this area, is based upon strict adherence to the self-denying ordinances agreed within the OECD and EC Arrangements, described in Annex E. Our punctiliousness in this regard appears not always to be shared by others notionally bound by the same obligations, who have in particular proved adept at avoiding or evading prior notification requirements. In consequence, our use of the ATP (and of ECGD's rapid matching facility) for specific matching has been inhibited by the difficulty of obtaining specific and official confirmation that others have offered soft credit terms. In the absence of such formal confirmation, any offer of ATP is deemed an initiation, even when made in response to terms believed to be on offer from the competition.

24 This is clearly an artificial and anomalous situation, which the Group proposed should be remedied by pressure on other OECD and EC members to tighten up the notification Arrangements, and also by a more aggressive approach within the current rules. On the former front, ECGD would raise with their counterparts the apparent failure of the Arrangements to catch all the activities of national financing agencies in formulating mixed credit offers. In addition, ODA were pursuing the possibility of establishing a system of contact points in other aid agencies, as a basis for checking and eventually notifying tied aid credits and allied transactions.

25 On notification procedures, HM Treasury will continue to demand exceptional justification for ATP offers which ECGD feels constrained to report as initiations; they would however be content, when satisfactory prima facie evidence of competitors' offers is available for a responsive offer to be made provided ECGD can report it as a matching offer. When such evidence is available, it is proposed that ECGD make an enquiry of the appropriate counterpart agency, requesting confirmation or denial of the evidence within a short timescale; such enquiries would be copied to other Arrangement members. If no denial is forthcoming, an

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offer of ATP can be made and notified as specific matching, referring to the earlier enquiry.

26 Notification on this basis should significantly reduce the number of responsive ATP offers which become deemed initiations; it will not however eliminate them completely. For example, some countries require financial terms to be entered "blind", with no subsequent negotiation, at the time commercial bids are opened. There is no scope for specific matching in these circumstances, although the proposed network among aid agencies may elicit prior information about others' intentions.

### CONCLUSIONS AND PROPOSALS

27 Major projects can have a crucial impact on the future growth and viability of national industrial capabilities. Official financial support in various forms in present circumstances is an intrinsic feature of international competition for project contracts. Without access to comparable support facilities UK companies will be disadvantaged. However consistency with domestic macroeconomic aims requires that support should be confined to projects offering long-term benefits for national competitiveness and productivity. The widely varying natures and circumstances of different projects require that the decision whether to provide support remains essentially a matter for judgement of the particular requirements in each case, albeit based firmly on the criteria identified here. Accordingly, the Group recommended:

a cases for support should be prepared in a uniform manner on the basis of the quantitative and qualitative criteria specified in para 14. Case papers should make clear the grounds on which support is considered justified, linking the project to the strategic aims of the applicants and the general prospects of the market concerned. As background to the latter assessment, DOT should produce country summary sheets, as described in para 15.

b cases seeking support within the threshold conditions identified in para 19 should be dealt with on a delegated basis. Cases seeking support which would breach one or more of the threshold conditions must establish exceptional grounds, through the procedure outlined in paras 20-21. To assist consideration of such cases, the Departments of Trade and Industry should seek to identify those areas of project activity and those overseas markets offering exceptional potential.

c ECGD and ODA should press for improvements in the international Arrangements for notifying offers of mixed or tied aid credits. At the same time, ECGD should adopt a more positive policy on notifying matching offers, following prior inquiries based in apparently sound information.

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## ARGUMENTS FOR PROJECT SUPPORT

1 A wide range of arguments is used to justify industrial support in particular circumstances. Nearly all of these arguments may apply in some cases to firms benefitting from ATP. The arguments for support derive from some of the general characteristics of capital goods projects and firms involved. This area of activity frequently involves:

- i risky business with heavy dependence on overseas sales in developing countries;
- ii some element of technological innovation which may involve "learning curves" in production and sales;
- iii an intermittent flow of large individual orders;
- iv reputation and familiarity to purchasers are major factors determining success in obtaining orders. To some extent reputation rubs off on the main subcontractor firms in the industries involved and even on the country as a whole;
- v major orders generate significant additional business in spares, complementary products, servicing etc.

Not all these characteristics apply to every project. But there is a clear tendency for many of them to be present in assisted projects. Because a larger scale of operation allows R&D and other overheads to be spread more widely and because a more even flow of orders enables production to be organised more efficiently there is a presumption of significant economies of scale in most of the industries involved.

2 These features do not in themselves constitute a case for support. But their presence gives reason for thinking that a number of commonly accepted arguments for support would be especially relevant. It is likely, for example, that there may be benefits accruing to the economy in general but not just to the profits of the contractors directly concerned through the generation of related orders following the enhanced reputation of industry in overseas markets. It is also quite possible that technological and other expertise acquired by related R&D and practical experience may "spin-off" to other companies. A further argument is that these wider benefits could be lost because the lead companies are unduly risk averse, while financial markets may be too anxious to get quick returns in a situation where it may be necessary to accept a short-term loss in acquiring expertise or establishing new markets in order to build up a profitable long run position.

3 For a number of industries, project success is a crucial element in determining their ability to win continuing business in world markets. Manufacturers of process plant or transport systems, for example, cannot base their whole sales strategy on the supply of small quantities of equipment as sub contractors to foreign lead contractors nor rely solely on replacement orders. Projects are decisive for these industries in establishing a world position, in reputation, in capability and ultimately in competitiveness. In order to achieve project success, a main contractor has to create and maintain a project capability including management and design teams with the required blend



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of skills. The ability of UK lead contractors to support such teams in the long run determines whether the UK remains in particular sectors or withdraws to the detriment, not only of the large enterprises but also of the host of sub-contractors and suppliers which are dependent upon the main contractors.

4 These imperatives are of course not unique to UK industry, and we know that project business plays a key part in the industrial strategies of many of our competitors. This is stated clearly in French and Japanese economic plans, for example. These plans stress the strong secondary effects of project orders on domestic capabilities and future earning prospects for a broad section of manufacturing service industry. Moreover, they identify project business as a buoyant market area, growing at 10% pa in value through the current international trading recession, as developing countries have chosen to "projectise" their procurement from aid funding.

5 Competition for an improved or sustained market share represented by major project success is fierce, and virtually every foreign competitor for such projects benefits to some extent from concessional Governmental financial support, given with varying degrees of transparency, often incorporating aid funds tied to the specific project. Success in the world market cannot therefore necessarily be secured solely on the basis of price and performance. These are critical factors but over the last ten years a new factor has emerged: competition on the terms of finance. This is particularly important in the project field because the main opportunities lie in the developing markets whose Governments have become increasingly accustomed to receiving credit on soft terms as part of a project finance package. Frequently, the availability of such funding is a factor which determines the timing of investment as well as the choice of partner.

6 It has to be emphasised too that it is not just some countries which regard soft-terms as the norm. This expectation exists in most developing markets in SE Asia, South and Central America, the Middle East and Africa. For UK firms to compete in this environment, even when they are fully competitive on their basic price and technical performance, it is essential that the financial terms offered are at least equal to the concessional finance available from competitors' Governments. But, however necessary Government support may be to offset the practices employed by others, that is not a sufficient reason for providing support to every UK firm which find itself in such a situation.

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PROJECTS IN THE POWER GENERATION AND OTHER SECTORS SECURED WITH THE ASSISTANCE OF ATP.

1 The ATP is HMG's response to companies which have themselves secured a position from which they can win a contract. Their bid is competitive, they have convinced the customer of their competence to perform. The ATP is required to match others offers and to finally tip the scales in favour of the UK bidder.

2 The domestic market for power generation equipment is depressed. UK suppliers therefore need to look overseas for sales and projects in this sector arise largely in the third world. The UK's generating requirements differ significantly from those in the third world where it is vitally important to use natural or renewable resources to a far greater extent than necessary, in the UK. The industry has met this challenge by developing the following:-

- i Gas turbines combined cycle - the combination of gas and steam technology allows high fuel efficiency. By capturing and utilising waste heat from the gas turbines a significant additional power output can be obtained. In order that GEC and John Brown Engineering could establish reference plants in Bangladesh and Burma respectively ATP was provided. In the case of Bangladesh ATP of £4.68m was offered in support of a contract valued at £17.3m. At the then long term interest rate of 15% a subsidy of 48.9% was implied. For Burma an aid grant of £2.2m was provided towards the cost of a project valued at £11m. The implied subsidy was 32.6% on a long term interest rate of 13%.
- ii Hydro Electric - Until Balfour Beatty were awarded a large part of the project for the construction of the Victoria Dam in Sri Lanka (financed through the UK's bilateral aid programme) the UK had no track record of significance in the field of large hydro electric schemes. Since then Balfour Beatty have begun to work with a Swedish consortium in Indonesia for the construction of a large hydro scheme at Mrica. ATP was required in order to match a French offer and the aid was extended to cover the Swedish participation. In return the Swedish companies have provided a written undertaking to reimburse the UK by making available to Balfour Beatty genuinely additional business equivalent to the value of the remaining Swedish content. The ATP input was £12m against a UK value of £50m. The implied subsidy was 49% against a long term interest rate of 14.4%.
- iii Mini Hydros - There is a requirement throughout the developed world for power generation on a small scale using available water resources as the fuel source. Balfour Beatty working closely with a number of UK contractors in the power generation sector (a consortium DoT/DoI encouraged) have developed small hydro plants with associated or back up diesel units which can provide power in the required small amounts over a large network area. In order to take advantage of a requirement in the Philippines for this type of equipment and establish a reference point for further opportunities in that market and elsewhere ATP of £4.5m was provided to secure an initial order worth £14.5m. On the basis of a 12% discount rate the subsidy involved represents approx 34%.

iv Wood Burning - This is a direct response to the needs of the third world. As a substitute for expensive imported oil the use of wood, a renewable and natural resource, to provide the fuel for power generation has been developed. Such a project not only provides cheaper electricity but also direct employment to those engaged in the plantation. In order to establish the reference plant for such a unit ATP of £1.9m was provided to the Phillipines in support of the project valued at £8.6m. The subsidy was 37.4% in a 15% long term interest rate.

3 In the Telecommunication sector the use of aid the simple threat of using, ATP to match mixed credit offers from others was instrumental in helping secure orders for STC Ltd for underwater cable thus helping them develop their market share.

4 In the case of the India/Malaysia Submarine telecommunications contract it was a medium haul system at a time when all other new systems were short haul; it represented a major opportunity to establish STC in one of the first inter-country projects sponsored by ASEAN organisations. It also represented the first system in the new Indian Ocean market for submarine systems and was considered to be of major long term importance to maintain STC in their export sales to third markets at a time of increasing, French, Japanese and Asean competition.

5 Since award of the contract STC have won a number of similar contracts against fierce international competition on normal commercial terms case of Greece/Cyprus cable the threat of matching French concessional terms neutralised that competition and STC won the business without, in the event, the need for aid funding.

## INSTRUMENTS USED IN SUPPORT OF OVERSEAS PROJECTS:-

## a Overseas Projects Funds (OPF)

The OPF provides financial assistance towards the precontractual costs of large turnkey or package projects: also towards the costs of certain types of consultancy and feasibility contracts. The assistance is repayable if an implementation contract is won. Administered by the Department of Trade the OPF has a budget of £5.6M for 1982/83. In 1981/82 a total of 112 offers were made amounting to £7.6m. The value of assistance actually paid was £3.4m. As the guidelines for OPF have recently been revised it is likely that the number of cases, but not the total amount of assistance provided, will decrease.

## b Product Process Research and Development Scheme (PPRDS)

Under the Science and Technology Act 1965 financial assistance is available to encourage and enable companies to undertake development work which will improve the quality of their product and thus their competitiveness. The Project and Export Policy Division of DOT monitors that part of the PPRDS budget allocated for development work arising from project business overseas. This amounts to £5.747m in 1982/83. In 1981/82 the sum spent was £130,000. The assistance is provided in one of three ways: most usually a grant of up to one-third of qualifying costs, or a shared cost contract in which HMG will provide up to 50% of qualifying costs (in return for a levy on commercial sales), and thirdly the possibility of placing a Pre. Production Order (PPO) for items and equipment to be loaned to users for trials in their particular environments.

## c Industry Act.

Selective financial assistance is available under sections 7 and 8 of the Industry Act 1972 "to create, expand or sustain selective capacity in an industry, or in undertakings in an industry." Under section 7 assistance is provided where it is likely to provide, maintain or safeguard employment in an Assisted Area. Section 8 assistance is available for projects which are in the national interest. As in b above PEP monitors that part of the respective budgets allocated towards costs arising from expenditure in connection with the pursuit of overseas projects. Section 7 budget for 1982/83 is £3.24m and for section 8 £1.402m. The spend in 1981/82 under the Section 7 allocation was £1.95m. There was no spend under Section 8. From the main DOI Industry Act budget £4.7 spent in 1981/82 can be attributed to expenditure incurred on project related investment. Assistance can be provided in a number of ways: in the form of a direct grant to the company or as a guarantee of some kind to a bank that a loan granted will be repaid or to provide protection against changes in the exchange rate.

## d The Aid and Trade Provision (ATP)

The ATP is part of the bilateral aid budget. It was established in 1977 as a response to the aggressive use of aid funds by other countries in support of their firms seeking business in developing countries. It is essentially a matching instrument designed to offer aid in association with officially supported export credit to match offers of mixed credit from competitors for business being pursued by UK companies. In some circumstances an ATP-supported mixed credit may be offered in the absence of competing offers, in line with guidelines approved by Ministers. The ATP allocation for 1982/83 is £55.25m. Expenditure incurred in 1981/82 amounted to £53.7m. The number of projects with a UK content in excess of £20m considered for ATP funds currently amounts to 28%.

e Export Credit Guarantee Department (ECGD)

ECGD can provide buyer or supplier credits for UK companies pursuing overseas projects business. Under such arrangements credit finance at fixed interest rates (in accordance with the matrix agreed within OECD) is made available, involving in recent years a substantial subsidy cost falling on public expenditure. In addition insurance provision can be provided against a premium not only for the basic credit risk but also for bonding, joint and several and tender to contract liabilities. In 1981/82 the cost of ECGD support for fixed interest rate finance for exports on credit terms of two years or more was £586m. This is a wider area than "projects".

## OVERSEAS PROJECT SUPPORT: MAIN COMPETITORS

1 FRANCE

The distinctive feature of the French technique in pursuit of overseas projects stems from the absence of a fully effective capital market and the consequently essential role played by Government in the creation of French industry. Credit at subsidised rates is pervasive in the French economy. In 1979/80 44% of all loans and credit were subsidised, with the Government or semi-public institutions (regional banks etc) providing over half this amount. There has been a steady increase in the proportion of subsidised loans since 1974 following the introduction of new subsidies to encourage exports or investments. In 1979/80, 78% of loans to exporting companies were subsidised, involving a total of about £5 billion.

In France there is no single entity which performs the functions of our ECGD, but a similar range of facilities is provided through credit insurers (COFACE) and Government sources (DREE, Caisse Centrale, Banque de France, Trésor). A recent OECD study of Consensus participants estimated that French interest rate subsidies for 1980 were about £1 billion - much the highest figure recorded and more than double that estimated by OECD for the UK. For the two years 1977-8, French officially supported export credits on terms over 5 years totalled more than twice those of the UK, suggesting a heavy concentration on projects.

France's aid total is high: £1.6 billion in 1979 (W Germany £1.6 billion, UK £1 billion), 40% of which went to her overseas territories and departments. Fully tied bilateral aid accounted for £730m of total aid (UK £420m), 90% of which went to Francophone countries, largely on grant terms.

The French mixed credit programme is far more extensive than that of the UK: in 1980, notified French mixed credits totalled £2,120m of which the aid portion was £350m (UK £70m). The French are aggressive users of mixed credits and have little hesitation in initiating. It is also difficult to know whether there is a firm French offer to match, since the precise terms of mixed packages are rarely notified until after the contract has been won. The covert use of tied aid by the French is made more difficult to combat by their use of established lines of credit to part or wholly finance capital projects. In 1980 for instance the French notified us of 12 lines of mixed credit (worth £413m, aid portion £160m). By contrast, UK recently opened its first line of mixed credit with Malaysia for £77m.

Furthermore, the French have several means of assisting firms with pre-contractual expenses and unlike our own Overseas Projects Fund repayment is not required if the contract is won. They also have a military aid programme which is much more substantial than HMG's and is used very effectively.

2 JAPAN

The Japanese industrial structure is characterised by:

- (a) large industrial groupings comparable in size with multinational companies;
  - (b) a complex, highly efficient and Government-regulated banking system closely geared to the needs of industry;
  - and (c) intense competition between companies and between banks.
- Most of these industrial

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groupings are involved in overseas projects. They benefit from economies of scale; extremely efficient and flexible production; large R&D programmes often with major government involvement; and the resources to diversify rapidly into new and growing markets. The Government role in implementation, usually through MITI, is opaque to outsiders but highly effective, particularly in campaigns to penetrate new markets when a wide range of methods is used including manufacturing investment in the markets to be attacked.

The Export Import Bank (EXIM) and MITI offer the usual range of credit facilities within the Consensus and insurance but these are less extensive than ECGD. EXIM also offers import development loans at 6-9% interest repayable over 7 to 20 years to countries for the purpose of gaining access to resources which Japan needs. Aid development loans have a similar purpose and in theory are unrelated to export credit lines so that the Consensus does not apply. Japanese producers generally receive a higher than usual proportion of contracts financed in these ways.

The Japanese bilateral aid programme (\$2.6 billion in 1978), formerly concentrated in the Far East and SE Asia, has been extended to include some Middle East and African countries. Japanese aid is strongly motivated by commercial, and hence political, objectives, since the expansion of trade is a pre-eminent objective. An indication of this slant is reflected in the distribution of aid. In 1978 17% of Japanese aid went to recipients, including Iraq, Brazil and Algeria, with per capita incomes exceeding \$1000. The comparable UK figure was 5%.

Japan claims to have reintroduced mixed credits only fairly recently. The grant element has generally been above 25% and therefore has not required notification under the Consensus before contract award. Japanese firms can also receive assistance with their pre-contractual expenses for projects. There are indications that these are more widely available and more generous than those which UK firms receive.

### 3 GERMANY

In the Federal Republic of Germany, export credit and insurance are made available through two Government backed private companies (Hermes and AKA). AKA and the German Bank for Reconstruction and Development (KfW) are both able to provide a limited amount of domestic finance for projects at slightly below market rates. German exporters and their banks carry a higher risk factor than their French, Japanese or UK competitors. German officially supported export credits run at about the same level as in the UK. In 1980 the German figure was \$2.5 billion compared with UK £1.2 billion. However German support was more concentrated covering 14% of total exports compared with 35% in the UK.

The German aid budget, while lower as a percentage of GNP, is substantially larger in money terms than the UK's: 1979 disbursements were £1.6 billion compared to £1 billion for the UK. Government policy is to increase the aid budget at a rate of at least double that of Federal expenditure as a whole in the period to 1983. Germany formally ties a smaller proportion of its aid than its major competitors, but DIN specifications give German firms an inside track. Exploitations and safeguarding of raw material supplies in an important factor in

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determining the direction of the German aid programme. There is also evidence that the Germans systematically subsidise particular industries from their aid programme. In 1976 part of the aid budget was earmarked for purchases from the German Shipbuilding industry. This allocation was widened subsequently to cover other areas and in 1978 carried a ceiling of about £120 million.

While German aid disbursements in 1979 were less than twice the UK's, their offers of mixed credits (£260m) amounted to more than three times the UK's (approximately £80m), although this position was reversed in 1980. German use of mixed credit seems to be mainly directed towards capital goods' sales to developing countries and securing supplies of raw materials. A feature is the application of a grant element marginally over 25% to avoid prior notification. An unusual source of mixed credit can be made available through KfW. Normally the latter provides export credits by borrowing on the capital market and on-lending at fixed commercial rates without any official subsidy. However, they can blend such borrowing with funds advanced from the European Recovery Plan.

Germany has been increasingly channelling money through DEG, a government owned investment corporation, to give German industry a larger share of overseas mining projects. Allied to this, substantial tax incentives have been deployed to encourage investment in developing countries. Germany has also been dispensing considerable military aid for more than ten years, particularly to Greece and Turkey.

#### 4 USA

The US Export Import Bank (EXIM) provides direct financing, normally up to 55% of the contracts but occasionally for 100% and insurance to the project industry. Extended duration of loans is used as a mechanism for winning business

Despite decrying the use of mixed credits the USA is prepared to match French offers of mixed credits through EXIM long term soft finance. For instance this helped them win a £30m locomotive contract in Mexico against French, UK and Japanese competition.

US domestic manufacturing can establish wholly owned subsidiaries for the exclusive purpose of exporting. Such subsidiaries enjoy deferral of corporation income tax effectively reducing tax on profits by some 25%. GATT regards this practice as an illegal export subsidy under GATT laws.

Financial assistance towards pre-contractual expenses of US firms is available on lines similar to that provided by DOT. Indirect assistance to UK firms involved in overseas projects comes from Government domestic cash and military spending exemplified by massive federal programmes such as that on space.

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## MATCHING AND INITIATION: THE NOTIFICATION PARADOX

1 The Aid and Trade Working Party and the Aid Review both emphasised the links between the deployment of ATP and our commitment to international moves to limit the use of similar instruments by others. Thus, the Aid Review recommended inter alia that ATP should be available to match competitors' offers of mixed credits or hard aid loans, while the ATWP proposed more specifically that we should stand ready to use ATP to match notified offers from competitors which has a grant element in the range 15%-25%, but that we should not ourselves initiate ATP offers in this range. In principle, this policy complements the agreements to which we subscribe within the OECD and the EC, on notification of tied aid credits. In certain cases it has proved hard in practice to reconcile the policy of protecting UK exporters from predatory aid-supported financing with our wider aim of containing the spread of such activities by ourselves adhering to the notification Agreements.

2 These notification Agreements are complex. Within the EC, members are required to give at least seven days' prior notice of all officially-supported credits with repayment terms longer than five years. Within the OECD, members are required to give ten days' notice of tied aid credits (any mix of aid with officially-backed finance) with a grant element less than 25%, and to notify "promptly" any such offers above 25% grant element. No

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prior notice is necessary if a member country is "matching" an aid-supported offer which another country has already notified, though it remains necessary to advise other participants of the intention to match. While these Arrangements work well enough for "normal" export credit financing, they frequently prove inadequate when other sources of finance become involved.

3 The problems appear to arise from the institutional differences between companies, in the ways which they have devised to inject aid into financial offers to overseas customers, in the domestic relationships between the various agencies concerned. In these circumstances, national export credit agencies do not necessarily know what financial terms, if any, are being offered by other national agencies for a piece of business, although there is supposedly an onus on those agencies to give general notice of their intentions through their respective export credit agencies. In fact, they - like us - naturally prefer to keep their intentions secret until the last minute. It is thus often impossible to obtain timely confirmation of soft terms believed by UK firms and Posts to be on offer from competitors, even when strong prima facie evidence exists to support this belief, and hence impossible formally to match them. At present, any UK response in these circumstances involves ECGD cover, and is regarded by ECGD as caught by the Arrangements, and therefore notifiable as an initiation. This opens ECGD to (often disingenuous) criticism from other export credit agencies. Moreover, since we adhere to agreements not to initiate mixed credits with a grant element below 25%, it entails our making

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every ATP offer with a grant element of 25% or more, even when we are confident that harder terms would still match the competition.

4 The problem with matching is thus not necessarily that other countries are abusing their reporting obligations - although they sometimes do - but rather that those obligations do not invariably require prior notification; neither do they always catch the full range of credit softening devices available to other countries. Even when they do, the national export credit agency often seems to be among the last to learn of what is proposed. French mixed credits, for example, are usually assembled through two or even three different agencies, with Coface as a minority (and usually last minute) participant. German financing is similarly routed through agencies like the KfW, which the current Agreements do not always catch. The Exim bank is seldom involved in Japanese soft loan offers. Other countries, notably the US, are able to provide export funds on advantageous terms from commercial sources, also outside the Arrangements. It is therefore not possible to match, in the sense of responding to terms notified through the Arrangements, the activities of these countries; and UK "matching" using ATP is automatically deemed an initiation.

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INDUSTRY VIEW

The Overseas Projects Board held a special meeting on 2 December to discuss the CSOP report at Appendix I of EX(0)(82)23. After detailed consideration, the Board reached the following main conclusions:

- (i) while there was no clear evidence that current criteria were unsatisfactory, the general aim of refining them further was reasonable provided that they continued to be applied flexibly and dynamically as under present arrangements;
- (ii) while employment effects were implicitly taken into account, the criteria ought to accord added emphasis to this factor;
- (iii) more factual evidence should be provided to illustrate the extensive and growing support activities of competitor governments;
- (iv) launching new technology should not be regarded as a key criterion for overseas projects, both because it was commercially sounder to try out pilot programmes in domestic markets, and because there was a danger of discrediting valuable opportunities involving conventional technology;
- (v) identification of priority product sectors or geographical markets was not a practicable means of discrimination, and could only be arbitrary. They themselves could not suggest any basis for such discrimination;
- (vi) it was extremely serious that UK should be identified as initiating when others had taken the first step, and this procedure should be corrected;
- (vii) to put ATP to best effect the UK should be prepared generally to initiate more aggressively - this was consistent with matching the procedures of others.
- (viii) contrary to the argument put forward in the report support for overseas projects in sterling does not have an early ~~adversive~~<sup>upward</sup> effect on the exchange rate since no impact is possible until repayments begin several years after the start of the project. Even then it is highly dubious whether any identifiable adverse impact would result considering the complex compound of factors



FILE

RW  
Overseas  
Aid

10 DOWNING STREET

*From the Private Secretary*

8 February, 1983

E Cttee:-	HO	LPS
	FCO	DInd
	HMT	D/T
	DES	D/Trans
	NIO	Chief Sec.,
	MOD	CDL
	MAFF	D.Energy
	DOE	D.Emp

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

The Prime Minister has seen your Secretary of State's minute of 4 February enclosing a report by EX(O) Committee on the above subject.

Subject to the reservations expressed by Lord Cockfield and subject to the views of other members of E, the Prime Minister agrees that officials should be invited to follow up the Report's recommendations.

I am copying this letter to the Private Secretaries of other members of E Committee and to Richard Hatfield (Cabinet Office).

A. J. COLES

J. Rhodes, Esq.,  
Department of Trade

cc RJ



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

22 March 1983

*D. King*

*AR 23.  
3  
h.c.*

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

I have seen your minute of 4 February to the Prime Minister copied to other members of E Committee about the report by EX(O) Committee on the criteria for the support of overseas projects. I have also seen the Prime Minister's reply and comments by other colleagues.

Subject to your reservation about the feasibility of establishing priority project areas, which I believe would be particularly difficult to apply and defend in the multifarious construction industry, I am content for officials to follow up EX(O)'s recommendations. I believe that these will lead to worthwhile improvements in the process of evaluation of proposals for Government support of overseas projects and more flexible and speedier decision-making.

I am copying this letter to the recipients of your minute.

*Tom King*

TOM KING

OVERLOOK AND

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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Lord Cockfield  
Secretary of State for Trade  
Department of Trade  
1 Victoria Street  
SW1H 0ET

7 March 1983

N. B. P. R.

AR<sup>2</sup>/<sub>3</sub>.

*Dee Arku*

#### CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

Thank you for sending me a copy of your minute of 4 February on this subject to the Prime Minister, a copy of whose reply I have also received.

I entirely support your wish to see adroit, flexible and speedy support from Government for overseas projects where this is appropriate. I therefore welcome the changes proposed in the report by EX(O) Committee and I believe these could take us a long way towards achieving our objectives in this field. I would hope that we can give officials clear guidance that, in implementing the system, we wish to err in favour of assisting worthwhile projects provided our competitors do not explicitly deny that they are offering mixed credit. As we all know, the problem of obtaining "reasonable evidence" of what other countries are offering is a notoriously difficult one, and we can be sure that certain of our competitors will not be within the spirit of the rules even if they are within the letter of them.

Paragraph 18(b) of Annex I (the Working Group's detailed report) recommends against employment being included as a main criterion for assessing applications for support. I think there are cases where the location of the jobs generated by a



*Overseas Aid  
Policy Review P+3*

particular project could make employment a crucial criterion. In the case of British Rail Engineering, for instance, the task of restructuring the industry so that it can supply BR efficiently and so win more overseas orders, is particularly difficult given the location of many of the workshops in the depressed areas. The fact that BR recently secured the Congo order for the Shildon Works (happily without the need to resort to mixed credit) is proving very helpful to them in carrying through their restructuring plans. So I would hope the location of employment will continue to be given proper weight in appropriate cases.

I hope that under the new arrangements, my department will be kept fully in touch with ATP applications, and not just those involving British Rail Engineering as at present. Assistance has been given to a variety of projects with a large transport content, and some of the biggest projects coming up in Asia are transport projects, as I have seen from my recent visit to the Far East. We keep in close touch with the transport equipment, services and supplies industries, and with their overseas markets; and we have sponsored conferences and seminars to promote UK interests. I should therefore wish my officials to be kept in touch so that we can help in making the fully coordinated effort that is required.

*Yours*

*David*

DAVID HOWELL



cc RJ  
Overseas  
AHL

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

21 February 1983

The Rt. Hon. Lord Cockfield  
Secretary of State for Trade

N. S. P. R.

*John Armstrong*

A. J. C. 22/2

#### CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

Thank you for sending me a copy of your minute of 4 February to the Prime Minister enclosing the report by officials. I agree that officials should follow up the recommendations.

I note what you say about priority project areas and markets. However, it is important that we should be highly selective in our use of abnormal subsidy levels and mixed credit initiations. Otherwise we shall only provoke yet further use of export subsidies by our competitors and in the end we shall be the losers from this process. I therefore regard the drawing up of criteria which will help us to be more selective in cases above the "threshold" as an integral part of the package of proposals.

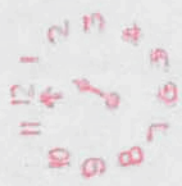
I am copying this minute to the Prime Minister, other members of E and Sir Robert Armstrong.

*Geoffrey Howe*

GEOFFREY HOWE

Trade,  
New-Tamp Barnes,  
NY 3

22 FEB 1983





Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB  
 TELEPHONE DIRECT LINE 01-212 3301  
 SWITCHBOARD 01-212 7676

18 February 1983

Lord Cockfield  
 Secretary of State for Trade  
 Department of Trade  
 1 Victoria Street  
 London SW1

N. B. P. J.

A. J. C. 2/2

Dear Arthur,

## CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

You copied to me your minute of 4 February to EX(O) Committee members on the review of the criteria for support for large overseas projects, and the Prime Minister's comments on 8 February.

2 I go along entirely with your view of our overall objectives and your concerns: there are just a couple of points that I would like to underline before officials begin to work.

3 First, the growth of officially supported competition for major capital goods business in third markets means that our exporters are having to look increasingly to the Government for help. The value of any new procedures will be directly proportional to the extent to which they enable cases to be dealt with more speedily and effectively. I attach particular importance to a real measure of delegation as an alternative to the present bureaucratic straight jacket which inhibits decision making, introduces unnecessary rigidity, delay and uncertainty, and results in far too high a proportion of cases having to be referred to Ministers. From that standpoint, I would hope that it will not be assumed that projects above the specified thresholds are necessarily controversial and require Ministerial decisions.

4 Secondly, we really must tackle the problem of "initiation" effectively. It is intolerable that our greater scrupulousness and honesty in observing the spirit of the Consensus guidelines should lead to our being placed continually on the defensive, often by those who cynically exploit the laxness of the present disciplines. I go along with moves for a more effective and tighter regime for mixed credits. But until this is achieved, we must not place ourselves at an unnecessary disadvantage in competing for those major overseas opportunities that our companies contest competitively - as you have also pointed out, themselves only a small minority of such ventures.



5 I share your qualms about the practicability of setting priorities for project areas. This would appear to be not far removed from the establishment of sectoral priorities, a course which we rejected during a discussion in E Committee last year, and I certainly share your scepticism about our ability to defend such performances unless based on clearly enunciated criteria.

6 Subject to these reservations, I would wish officials to follow up the report's recommendations with all speed, so that the new procedures and the system of delegation can be introduced at an early date.

7 I am sending copies of this letter to the Prime Minister and other members of E Committee, and to Sir Robert Armstrong.

21 FEB 1955

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SECRET



TRADE

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MO 21/8/5

15th February 1983

N.B.P.R.

A.S.C. 48/2

n-a.

*[Handwritten signature]*

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

I am generally content with the proposals in your minute of 4th February 1983 and in the EX(0) Committee Report which you attached. I particularly welcome the emphasis on flexible and prompt support for overseas projects, to which we attach equal importance in the defence sector.

Although my Department is not in a position at present to offer mixed credit facilities in support of defence sales business, we particularly welcome the more positive approach to reporting mixed credit offers as "matching" whenever possible. This is one of the areas in which I believe we are at a distinct disadvantage, from time to time, with our competitors, and where further flexibility could be of real advantage to the Defence Industry.

I am copying this to the recipients of your letter.

*[Handwritten signature]*

Michael Heseltine

The Rt Hon The Lord Cockfield

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TPM  
with ASC

18 FEB 1983

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5678



FCS/83/30

SECRETARY OF STATE FOR TRADE

✓cc RJ

N. B. P. M.

A. J. C. <sup>14</sup>/<sub>12</sub>.

Criteria for Support of Overseas Projects

with AS?

1. Thank you for copying to me your minute of 4 February on this subject to the Prime Minister, whose reply I have now seen.
2. Subject to the views of other members of E, I am content that officials should follow up the Report's recommendations. I agree with you that they should pursue an examination of priorities; but that we should look carefully at the results of their work.
3. I am copying this to other members of E and to Mr Hatfield in the Cabinet Office.

(FRANCIS PYM)

Foreign and Commonwealth Office  
14 February 1983



4 APR 1983

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1983