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Treasury Chambers, Parliament Street, SW1P 3AG
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The Rt Hon the Lord Cockfield
Secretary of State for Trade

12 January 1983

Dear Arthur

SUPPORT FOR CAPITAL GOODS EXPORTS

I was very interested to read your letter of 17 December about the report on export credit subsidies by a working group of economists, and about the underlying policy issues on export subsidies for capital goods. I have since seen Patrick Jenkin's letter of 11January and I noted last week-end that our debate is being carried on outside, as well as inside, Whitehall.

2. You agree that export subsidies may well be an inefficient method of assisting domestic industry and commerce, but you say that the real question is whether, even if these subsidies are inefficient, we can unilaterally withdraw the support we give to our capital goods exporters so long as other countries give them subsidies.

3. I think that in the first place this poses the question in far too black and white a form. The immediate question is not whether we give up all subsidies on exports or capital goods. It is whether we should always be striving to match the subsidies of our competitors, however excessive they may be and however uneconomic the resultant exports become. The issue is much more one of degree than of principle. Of course I agree with you that we should put all the weight we can behind multi-lateral action to reduce and eliminate export susbidies. But I do not see that as an alternative to using prudence and commonsense in our subsidy action. The right policy is to pursue both courses.

4. I think the tests we should apply to export subsidies are very similar to those we should apply to forms of protection. You are right in your letter when you link protection and export subsidies. But what I miss in your letter is the sense that export subsidies, like protectionist

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action, had better be administered not just on the basis ofmatching the actions of other countries in the interests of particular UK traders, but by reference to the UK national interest as a whole. There is no merit in matching the export subsidies of other countries, especially in their more extreme forms, if the net result of doing so is damaging to the UK economy. In fact in some cases recently we have gone ahead of others in the subsidy race. That tends to be the result of regarding this as a race which has to be won. But export subsidies do not come free. Generally speaking, they operate as a subsidy to LDCs and as a tax on the generality of British industry and commerce which is not benefiting from the subsidy. We come back to your point that export subsidies are an inefficient method of assisting domestic industry and commerce.

5. In fact, the widespread use of export subsidies, slanted towards the better off and newly industrialising developing countries, has certainly contributed to the current debt problems of many LDCs. The temptation to undertake major capital projects (some of them economic, but some not) financed by cheap export credit has been very great. Sometimes bank credit has been drawn in to help support the same projects. The result has been an addition to indebtedness which in important cases is now having to be rescheduled, whether the debt is official or private. The competition in export susbidies has added to the strains on the system. Of course unilateral UK withdrawal from the subsidy race would not cause the LDCs to stop over-reaching themselves - but a multilateral effort to slow the pace would not be an unmitigated disaster for them.

6. You suggest that although export subsidies are an inefficient method of assisting domestic industry and commerce, it may be wrong to compare the sort of job provided or preserved in the UK by export subsidies with jobs provided through job creation schemes. But the cost of saving or creating jobs by export subsidies does not compare well with the cost of saving or creating normal jobs in manufacturing or commerce through other forms of subsidy or (what is very much better) through the reduction of taxation.

7. I come back to the need for great moderation and care in giving export subsidies and for limiting the extent to which we set out to match regardless the subsidies of others. As you know, I have made proposals to help in this direction in my minute of 19 October to the Prime Minister, and I hope we can reach early agreement on guidelines to give effect to them. I understand that officials will shortly submit proposals on criteria

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for supporting overseas projects, as requested at E Committee in February, and I hope we can settle these criteria swiftly also.

8. Perhaps I could take this opportunity to join you in praise of your Projects and Export Policy Division. I am sure you are right that they perform an invaluable function in bringing the efforts of British exporters together on overseas contracts but I am sure you would agree that their function consists in helping British exporters to compete rather than in stimulating the British Government to compete on the level of export subsidies.

9. I agree with you that a meeting would be useful, but I suggest that we should first have before us the results of the work by officials on both guidelines and project criteria.

10. I am sending copies of this letter to the Prime Minister, the Foreign and Commonwealth Secretary, the Secretary of State for Industry and Sir Robert Armstrong.

GEOFFREY HOWE