2

Prime Minister

MES 13/4

CONFIDENTIAL

THE PRIME MINISTER

EXPORT CREDIT SUBSIDIES AND RISKS

In his absence, Patrick Jenkin has asked me to comment on Geoffrey Howe's minute of 28 March.

We have no quarrel with the general thesis that we should aim for export credit arrangements which strike a balance between preserving the competitive position of our exporters whilst avoiding, as far as practicable through internationally agreed arrangements, the emergence of wide discrepancies between "consensus" and domestic interest rates as happened some 18 months or so ago. It is also right that when ECGD are paying substantial claims, we should attach due weight to prudential considerations.

On the other hand, I do not consider that Geoffrey Howe's proposals adequately reflect the views Patrick Jenkin expressed in his letter of 11 January, that support for capital goods exports is a necessary complement to our measures to enhance industry's efficiency, and that the adoption of a more restrictive approach eg on credit terms and on measures such as the Aid and Trade Provision (ATP), would have serious implications for the ability of many of our major firms to compete on equal terms with their overseas rivals. Our experience suggests that it will be a long and extremely difficult task to improve the OECD disciplines to the point where distortive financing is eliminated - that, after all, has been a continuing and unachieved aim since the 1960's. Moreover while other countries manipulate the rules, for example through the use of semi-official institutions through which subsidies and support can be applied covertly, I believe that it would be very damaging to our capital goods exporters if we voluntarily restricted our existing room for manoeuvre. Furthermore, we must bear in mind that there is a group of countries, which includes the more aggressive newly industrialised countries and Eastern bloc countries, which are not members of the OECD Consensus arrangements at all.

The signs are that competitive pressures, and the pervasiveness of distortive practices are growing. Our industries have had to adjust sharply over the past 3 years to market changes, and having maintained and in many cases enhanced their competitiveness in those areas which lie

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within their own control, it is not surprising that our exporters should look to Government to ensure that they receive export credit support commensurate with that provided by foreign authorities. In addition, unless we do support our firms by taking counter measures against aggressive competition, those countries which break the rules will continue to do so with impunity. I understand that the scope for countering the practices of foreign competitor governments, through for example the use of ATP, is now extremely limited, and we shall be subject to serious criticism unless we can demonstrate to industry that we are prepared to respond positively and flexibly so far as basic export credit support is concerned.

I also have reservations about the proposition that international agreement to harden payment terms for exports would not have a significant adverse effect on the UK's relative competitive position. This will only be true if such arrangements can be policed and enforced and experience with the present agreements does not suggest that this can be achieved entirely successfully.

Department of Industry officials are working closely with the Treasury and with ECGD in defining the appropriate UK approach to the forthcoming OECD sector agreement discussions on civil aircraft and nuclear power plant. I think that the agreed negotiating line in fact provides for more flexibility than your guidance suggests.

Finally, I notice that reference is made in a number of places in the guidelines to criteria for special support. I would just make the point that final conclusions have not yet been reached on the arrangements to be adopted following the review by the Working Group on Criteria for Support of Overseas Projects. In particular, we are waiting to see the outcome of the exercise presently being undertaken by officials on the practicability of adopting project sector and market priorities. I would not wish it to be assumed that we have accepted any conclusion in advance especially since I recall that in setting up this study (E(82) 6th meeting) we recognised that discriminating on the basis of sectoral priorities would be contrary to our general approach on industry matters.

I am copying this minute to members of EX Committee, to Michael Heseltine, the Governor of the Bank of England and Sir Robert Armstrong.

K. B.

M87/M87ABB

KENNETH BAKER

13 April 1983

CONFIDENTIAL

c. HMT
FCO
IND
TRADE

File VK
Trade

10 DOWNING STREET

From the Private Secretary

5 April 1983

Dear John,

Export Credit Subsidies and Risks

The Prime Minister has seen Sir Geoffrey Howe's minute of 28 March and, subject to the views of the other members of EX Committee, the Secretary of State for Defence and the Governor of the Bank of England, agrees with the proposed new operating guidelines for ECGD.

I am copying this letter to the Private Secretaries of members of EX Committee, the Secretary of State for Defence, the Governor of the Bank of England and Sir Robert Armstrong.

Yours ever

John Coles.

John Kerr, Esq.,
H. M. Treasury.

VK

CONFIDENTIAL

Prime Minister 2 3pp's

FCS/83/72

MHS 13/4

CHANCELLOR OF THE EXCHEQUER

Export Credit Subsidies and Risks

1. Thank you for copying to me your minute of 28 March to the Prime Minister. I have now seen her reply. TPM

2. I am content with the new guidelines, which seem to me a reasonable attempt to limit the growth of subsidised credit offers worldwide and to safeguard ECGD's financial position. It will, of course, remain important that decisions on Section 2 (National Interest) business should, while subject to the new guidelines, be taken in the light of all relevant factors - though clearly the prudential ones will often be decisive.

3. I am copying this to the Prime Minister and other members of EX Committee, the Secretary of State for Defence, the Governor of the Bank of England, and Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office

13 April, 1983

RADE : NON - TARIFF BARRIERS : Pt 3

CONFIDENTIAL

cc RJ

2

Prime Minister

MLS 20/4

MO 26/9

PRIME MINISTER

EXPORT CREDIT SUBSIDIES AND RISKS

Like Patrick Jenkin whose views were expressed by Kenneth Baker in his letter of 13th April, I am concerned at some of the implications of Geoffrey Howe's minute of 28th March.

2. The tighter regime reflected in the revised guidelines seems bound to mean a more difficult climate for export credit cover. It may still be necessary, in any case, to argue through defence sales cases on their merits, and I recognise that there are certain safeguards written into the terms of the operating guidelines which are no doubt designed to protect the Defence Industry's interest. But the result seems bound to affect the pace, if not the eventual scope of our response, and this in itself could be damaging to our commercial interests. I agree with Patrick Jenkin that we need to continue to respond rapidly and flexibly in view of the fierce competition which our exporters face. Indeed, my own officials are examining the question of whether the defence sector should have the support of its own subvention fund, by analogy with the Aid and Trade Provision in the civil sector.

3. I am copying this minute to members of the EX Committee, the Governor of the Bank of England and Sir Robert Armstrong.

Ministry of Defence

15th April 1983

CONFIDENTIAL

Trade: Non Tariff Barriers

Pt 3

Trade Non-Tariff Pt 3

ccNO

2

Prime Minister

MCS 13/5

PRIME MINISTER

EXPORT CREDITS SUBSIDIES AND RISKS

— with MCS?

The Chancellor minuted you on 28 March : I have since seen the comments of Francis Pym, Michael Heseltine and Kenneth Baker.

In themselves, the proposed guidelines appear relatively innocuous. But everything depends upon the spirit in which the guidelines are applied. I am concerned, therefore, by the general tone of the Chancellor's minute. For instance, it tells only half the story to say that "export subsidies are an inefficient way of supporting industry and employment". They might not represent the ideal use of resources. But I consider them to be a great deal more efficient than a range of other more direct employment schemes operated by the Government at a great deal more cost. The amount of money available to help our exporters is too small, not too great.

More specifically, the proposed guidelines refer at a number of points to the criteria to be applied when judging cases which go beyond normal ECGD support. An exercise to elaborate these criteria is currently in progress. But I have to say that I, and several colleagues, have expressed reservations about certain aspects of the criteria. In particular, whether we should try to discriminate between particular sectors of industry as candidates for support, or to restrict assistance to a small number of priority markets. The conclusions finally reached on these different questions will evidently have a bearing on the implementation of the proposed guidelines.

I hope that these general comments, and those put forward by Kenneth Baker, can be borne in mind in the implementation of the new procedures. Upon that basis, I would be content that they should be put into practice. If practical problems arise, then we will need to review the system as the Chancellor has suggested.

Copies of this minute go to members of EX Committee, to Michael Heseltine, Kenneth Baker, the Governor of the Bank of England and Sir Robert Armstrong.

A.C.

LORD COCKFIELD

DEPARTMENT OF TRADE

13 MAY 1983

~~BF 31/3/83~~

Note

Treasury (Mr Carey) will do

their utmost to let us have a

note from Chancellor about export

credit either just before or

just after Easter

MCS

CF/ bf appropriately