

CONFIDENTIAL

NBAM

ce *[Signature]*

AT 2/11

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-2336106 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-2336106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

18 November 1983

[Handwritten signature]

FUTURE REGIONAL INDUSTRIAL POLICY: DRAFT WHITE PAPER *with AT*

Thank you for sending me a copy of your minute of 14 November to the Prime Minister.

I agree that the White Paper should concentrate in the main on the proposals for change in the Industry Act measures. But these still have to be related to the wider aspects of regional policy, as we ourselves did in the 1983 Manifesto. Otherwise the consultative exercise - which I welcome from the point of view of handling these difficult proposals in Wales - may start on the wrong foot. Inevitably the draft White Paper, by explaining the reasons for change, calls into question the efficacy of present policies. I fear that many readers of this White Paper will conclude that the Government would like to abandon regional industrial policy altogether and that our Manifesto message - that we will keep a good regional industrial policy but make it more cost effective - will be forgotten. It would be especially regrettable if potential inward investors misunderstood the position. Moreover, I would be very reluctant to see any changes in the text which suggested that the Government did not set high store by inward investment. Industry in Wales is also very concerned about the Government's intentions towards regional policy. I would accordingly like to propose a more positive opening to the White Paper (as at the Annex) which would enable us to show that our commitment to improving the regions is not diluted. The redraft includes wording from the Manifesto, and I hope that colleagues will agree that we should use it.

/My

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry



My officials have proposed drafting points. I would like to mention 3:-

(a) add to paragraph 27(g):

"The Government have already given a commitment that straightforward replacement investment will no longer qualify for automatic grant".

I would prefer not to give a date for the cut-off in what is essentially a consultative document.

(b) The penultimate sentence of paragraph 30 should read:

"The Government propose ... service sectors; and normally to exclude from assistance those relocation projects where there is no increase in the number of net jobs".

My officials advise me that this is a complex matter and that unless the SFA guidelines are carefully redrafted there is risk of excluding valuable projects which could fairly be assisted on regional grounds. In particular they (and I) would like to see the guidelines rewritten on the basis that SFA can be paid to transfer jobs into an Assisted Area where the alternative would be for the jobs to be completely lost. More work is I believe needed on this. I would prefer to qualify the White Paper by saying "normally" at this point.

(c) We have not ourselves considered the case for and against a map with 3 tiers and are therefore not really in a position to judge whether the justification for such a scheme is strong or weak. Since this is a consultative document we should, I believe, either refer to it neutrally or omit the reference altogether.

Finally, I wonder whether the White Paper has the European dimension exactly right. In my view the significance of membership of the EC for regional policy is the attractiveness of the United Kingdom as a base for inward investors who seek markets in Europe. Membership also requires our industry to be competitive in European markets and this is important for industry in the Assisted Areas as well as nationally.

Moreover, our regional policies need to ensure maximum leverage of European funds, especially where recourse to them is necessary to secure a favourable budget effect. It might be helpful to include these points in the White Paper.

/ I am sending a copy of this letter to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

John Major



ANNEX

REVISED INTRODUCTION TO DRAFT WHITE PAPER

The Government are committed to maintaining an effective regional policy to ease the process of change in areas which have been dependent on declining industries and to encourage new businesses in those areas.

Hitherto the main measures in support of regional policy have been directed towards alleviating imbalances in employment opportunities. Nearly £20 billion (at 1982 prices) has been spent on them over the past 20 years.

But other expenditure programmes have also contributed to this aim. Our modern communication system, which has enjoyed massive public investment since the war, has opened up opportunities for substantial new industrial and commercial development in the regions hitherto associated with the primary industries. There have been policies to stem the depopulation of rural areas. More recently attention has been given to stemming the decay of inner city areas; and the urban programme and latterly the use of Urban Development Grant is encouraging private sector involvement in industrial and commercial development. Various development agencies, some of them operating nationally, contribute to regional development by supplying industrial property for new businesses and expansions, while also helping to create a more attractive environment for investment and growth and supplying financial and advisory services.

There are other policies of national significance which are of special value for regional development. These include measures to stimulate innovative development and to upgrade technology throughout the economy; and support for small firm formation and expansion. The Government's assistance to the development of
Considerable effort has also gone into training schemes to equip the labour force for new technologies.



tourism is often important for regional development. At the same time, the Government has encouraged private sector contribution to regional economic development, notably through organisations such as Business in the Community and local enterprise agencies which are concerned to promote self-help initiatives among businessmen, local authorities and the local community generally. There are also experiments to examine other ways in which local economies can be stimulated, particularly the 25 enterprise zones and latterly the proposal to establish a limited number of duty free trading zones (freeports).

All these, together with our policies for reducing the burden of cost and administration on business, help to create confidence in the regions where industry and commerce can flourish with less dependence on public expenditure. The Government intend to continue to use them to bring about beneficial industrial and commercial change in the regions.

But it is essential to ensure that these policies are economic and effective in creating genuine jobs. The time is right to review the efficacy of our present system of regional industrial incentives which was introduced in its present form in 1972. Estimates of its effectiveness, though subject to wide margins of error, generally suggest that expenditure on regional industrial policies has had a significant impact on the economies of the Assisted Areas, and in particular has led to about half a million more jobs. Despite this there are still significant variations in unemployment levels between regions, and even sharper contrasts at local level. Taking account of regional multiplier effects, it is estimated that the cost per additional job created in the Assisted Areas in the 1970s was around £35,000 at 1982 prices. Many of the jobs said to be "created" would otherwise have come into existence elsewhere in this country and should thus be described as transferred.



There have been important changes in our environment since the present structure of regional industrial incentives was introduced. The United Kingdom has become a member of the European Community and, along with other countries, we have experienced a period of recession and inflation following the oil price rise. Unemployment is now high throughout the country; there are fewer mobile investment projects and increasing competition for them.

THE GOVERNMENT'S APPROACH TO REGIONAL INDUSTRIAL POLICY

(Then continue as from paragraph 5 onwards.)

REGIONAL FOR: Review
Pt 6.

21 NOV 1983
11 12 13 14 15 16 17 18 19 20