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PRIME MINISTER

3 September 1984

EXPORT PROMOTION

The paper offered by DTI on this subject is thin on analysis and does not merit an EX discussion.

The policy of export promotion is accepted uncritically. Exports should not be crudely equated with jobs because, as the paper acknowledges (but then ignores), although export orders mean more jobs for the lucky firms concerned, they can also affect other firms adversely - marginally higher Pound, higher taxes. Export promotion has more effect on the distribution of jobs in the economy than on their total number. Export promotion only makes sense if it leads to extra orders which cover their costs, including those of Government, by a worthwhile margin.

The only evidence offered in the paper that the policy is effective is a conclusion from a survey on the Export Intelligence Service (costing £5 million a year) that the EIS "leads to perhaps £1 billion of orders each year". We agree that the EIS probably pays for itself many times over: providing information is a natural role for Government and this is the last place to start looking for savings. The paper offers no help on the effectiveness of the bulk of the expenditure. The BOTB costs £27 million to run. In addition, DTI and COI spend as much again on export

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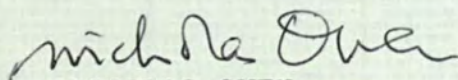
promotion and the FCO spends another £60 million. We are talking therefore about £100 million a year on export promotion, in addition to the £500 million subsidising capital export projects.

The kinds of things we would like to know are:

- Do the overseas missions (whose air fares are subsidised by 45%) consistently pay off, in terms of additional, profitable exports?

- Do first-time exporters who are helped to attend trade fares abroad actually establish themselves in those markets? The stated aim of helping first-time buyers to establish themselves is surely right but are we succeeding?

We recommend that the policy on export projects should be discussed separately at EX. DTI should be encouraged to complete its assessment of export promotion (promised "early next year") as soon as possible and be considered by EX then. There is insufficient meat in this paper to warrant a discussion at this stage.


NICHOLAS OWEN

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10 DOWNING STREET.

From the Private Secretary

5 September 1984

EXPORT PROMOTION

You wrote to me on 30 August enclosing a paper approved by your Secretary of State on export promotion, and asking whether the Prime Minister would wish it to be discussed in EX.

The Prime Minister finds the paper rather thin and does not consider that discussion would serve a useful purpose until more convincing material is available on the effectiveness of export promotion expenditure. The Prime Minister notes that a further study of this is in hand. She hopes it can be completed as soon as possible, at which point she will wish for a discussion in EX.

I am sending copies of this letter to the Private Secretaries to members of EX.

(C.D. POWELL)

Miss Ruth Thompson,
Department of Trade and Industry

SH



*Spoke to Ruth Thompson. Agreed
She would ensure no misspelled
institute. Agreed no further
letter required from her AT 11/10*

*NBSM
AT
19/9 CC 100*

DEPARTMENT OF TRADE AND INDUSTRY

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Secretary of State for Trade and Industry

18 Septemebr 1984

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Charles,

EXPORT PROMOTION

- file with 100

Thank you for your letter of 5 September 1984 giving the Prime Minister's views on the paper on Export Promotion which my Secretary of State had approved. My Secretary of State fully agrees that it would not be right for colleagues to consider the cost effectiveness issue until a proper study has been completed. Work is in hand on this. The support for UK exporters at overseas trade fairs accounts for nearly half of the BOTB net export promotion budget. An assessment of cost effectiveness based on these studies cannot therefore be valid until this major area has been covered. Data on export orders that flow from these events at the moment is very sparse and unreliable and a system has just been implemented to collect reliable data from participants in these events. A reasonable sample will not be available until early next year and then it will require careful analysis.

2 My Secretary of State is of the view that it would be wrong to ask colleagues to consider the cost effectiveness of the export promotion programme on data that could be open to criticism as unrepresentative or biased. He therefore thinks that a discussion of this aspect should be held over until early next year.

3 My Secretary of State would be glad to know whether the Prime Minister is content with this way of handling the matter. I am sending copies of this letter to the Private Secretaries to the Members of EX.

*Yours sincerely,
Ruth*

RUTH THOMPSON
Private Secretary

JH5BAE

Trade Pt 4
Non Tariff Barriers

19 SEP 1991

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ccyo ①

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PS/ Secretary of State for Trade and Industry

30 August 1984

CP

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

A rather thin and complacent
paper. Policy Unit ^{NO} advice attached.

Agree to postpone EX discussion
until the fuller study of cost-effectiveness
promised in para. 11 is available? And
to urge DTI to hurry up with it?

Dear Charles,

EXPORT PROMOTION

Following our conversation yesterday about the question of
collective consideration of the paper Andrew Turnbull
commissioned in his letter of 1 June on Export Promotion, I
enclose a paper, which my Secretary of State has approved, for EX
colleagues' consideration. Mr Tebbit would be very willing to
discuss the paper and its recommendations, but it may be that
such a discussion will not, after all, be necessary.

CJP
9/9

2 It would be helpful to have your views and those of other
interested Departments: I am therefore copying this letter and
its enclosure to the Private Secretaries of EX colleagues.

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Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

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EXPORT PROMOTION

This paper responds to the Prime Minister's request (her Private Secretary's letter of 1 June) for a paper on export promotion. It reflects a review of policy which I carried out earlier this year.

2 Support for British export interests is a general objective of our international trade policy and related negotiations. The specific export promotion activities and expenditures which are the main subject of this paper are the services supervised by the British Overseas Trade Board (BOTB), for which in 1984-85 we have provided £27.5m, in addition to which are related staff costs, and the element of export promotion involved in Ministerial and other visits abroad. Further details of the export promotion organisation and expenditure are in the Annex.

3 In addition, there is the Aid and Trade Provision within the aid budget (£66m in 1984-85), and ECGD (£479m, of which the largest part (£454m) is the cost of interest rate make-up). The status and role of ECGD are currently under consideration in the context of the Matthews report, on which I shall be reaching conclusions soon.

Is Government involvement in export promotion worthwhile?

4 My answer is yes, on certain conditions. About 30 per cent of our gross national product goes to exports. More exports means more jobs, at least in the short term, even if this may be offset by consequential changes in the exchange rate in the longer term. And firms which succeed overseas will be better equipped to beat off competition from imports at home.

5 But Government involvement in export promotion uses resources of staff and money. It needs to be justified in terms of additional exports which would not otherwise take place. The BOTB operation should therefore:

(i) be based largely on the contacts and knowledge of local markets of our Embassies and High Commissions, thus using, at no great extra cost, resources and expertise already in place;

(ii) concentrate on smaller firms, who often do not have the management resources or expertise to get into overseas markets on their own. (In fact over 80 per cent of firms using BOTB services have less than 200 employees);

(iii) be directed primarily at helping companies, of whatever size, to develop markets which, without BOTB backing, they might not otherwise penetrate - provided, of course, that these are markets which can pay for British goods and services.

6 These priorities are consistent with the existing BOTB policy of allowing the firms themselves to determine the

[But there is considerable cost in this: about £60 mn. C.D.P.]

markets and products for which the individual BOTB services, as described in paragraph 8 below, are used. I am not seeking to substitute the judgements of Whitehall for those of the market-place. But I do want the BOTB, in structuring and promoting their services, to concentrate on these priorities.

Aims and Methods

7 So the aim should be, at modest cost, to stimulate and help British firms who need such help to get into new markets, or into existing markets with new products, so as to obtain continuing business without further support. It is not, and should not be, to provide continuing subsidies to the normal export selling process. Thus Government export promotion operates mainly at the margin. But it is a useful margin.

8 The main services provided are intended to help firms to identify promising markets for their products, to investigate detailed opportunities in those markets, and to start actual selling. Specifically:

- Commercial staff in overseas posts, many locally engaged and with local business experience, provide the advice and assistance abroad, and feed back market intelligence for dissemination in this country mainly through the computerised Export Intelligence Service (available to subscribers). In addition, commercial posts operate the Market Prospects Service, a specific study of a product in a market, using literature in the local language and, where possible, samples.

- Relevant branches of the DTI provide advice, often through Regional Offices, to help firms to identify promising markets for their products. Data banks are maintained in the Statistics and Market Intelligence Library and the Product Data store.

- Financial support is given for professional market research carried out by private sector firms or by the company themselves if they have qualified researchers. Administrative and financial support is provided for British stands at selected trade fairs and exhibitions, and outward and inward trade missions.

- Limited finance is provided for market entry with the risk shared between the firm and the Government.

9 For most of these services the policy is to charge as high a proportion of costs as is reasonable while not deterring smaller firms, for whom the risks and costs of the market entry process loom large.

Does it Work?

10 It is difficult to quantify with confidence the effect on exports of this activity. We cannot know for sure what would otherwise have happened. But it is the strongly held view of industry and business that the services provided are valuable and result in continuing export trade which would not otherwise be obtained. Such surveys as have been made support this. For example one survey estimated that the Export Intelligence Service, which costs in all about £5m, leads to perhaps £1 billion of orders each year.

11 At the beginning of this year DTI officials began a new, more comprehensive attempt to assess more precisely against the full cost the achieved effect on exports of each export promotion activity. This study is due to be completed early next year. Inevitably parts of it will be judgmental.

Organisation

12 Since 1972 oversight of the detailed allocation of the resources in the programme has been given to the businessmen on the BOTB, currently chaired by Lord Jellicoe, with the Duke of Kent an active Vice-Chairman. Is the BOTB arrangement still sensible?

13 It is certainly unusual. In practice the Board has a measure of autonomy, in the detailed allocation of the budget. But I retain control over the total of this budget as part of the ordinary public expenditure process. I also control the numbers of BOTB staff. They are officials of my Department, who in many cases combine export promotion work with other responsibilities for trade relations with other countries.

14 I think that the arrangement is worth maintaining, for the following main reasons:-

(i) Over 250 experienced exporters, through membership of the BOTB and its 16 Area Advisory Groups covering the world, give their services free to helping and advising others. They are drawn from large and small firms, and from manufacturing and services. Without their participation, it would be much more difficult for any Government organisation to win the confidence of smaller firms in particular;

(ii) The practical experience of these exporters should make the BOTB services more responsive to what firms really need;

(iii) The BOTB, as an official body which is not part of the Government, has a particular role in relation to countries with whom Ministerial contacts are difficult or impossible. In the last 12 months Lord Jellicoe has led trade missions to South Africa and Taiwan. He and others in the BOTB organisation receive numerous overseas visitors, influential in the placing of contracts, who welcome some official contact but may not justify Ministerial time.

The Future

15 I believe we should continue a programme of export promotion through the BOTB broadly on these lines. The amount to be spent will be for discussion in the usual way as part of the public expenditure survey. My present proposal is to hold the BOTB budget flat in real terms.

16 I also propose the following guidelines for the BOTB and all concerned:-

(a) to concentrate their services on smaller and medium sized firms, on markets where payments are likely to be made on time, and on export potential which, without Government backing, is unlikely to be realised. The Board itself supports this.

(b) while continuing to exploit the resources available in posts abroad, not to substitute for or compete with

what the private sector can do for itself.

(c) subject to (b), to pay more attention to the growing "invisibles" sector and service industries.

(d) to seek to provide faster and better information services, especially earlier warning of overseas market opportunities, by developing further the use of technology in handling the market data obtained by posts and departments.

(e) to continue to strive for efficiency and effectiveness, by cost versus impact studies, and by charging as much as is reasonable for the services, subject to the objective of reaching and helping smaller firms with market entry problems.

Conclusion

17 I invite my colleagues to endorse the policy guidelines in paragraphs 15 and 16.

ANNEX

DETAILS OF THE BOTB OPERATION

A THE BOTB ORGANISATION AND POLICY APPROACH

The BOTB is chaired by Lord Jellicoe and made up of businessmen with experience in exporting. It has two functions:

(i) to advise the Government on a wide range of policy issues affecting international trade and exports;

(ii) to oversee the export promotion programme from day to day.

2 The 17 industrialist Board members come from a variety of backgrounds, including:

- major manufacturing and construction firms; the services sector (including the Chairman of British Invisibles Export Council);

- smaller firms (three from small companies, while a fourth, the Managing Director of Lucas, who is a former President of the Birmingham Chamber of Commerce, also takes a brief from the Association of British Chambers of Commerce. All four sit on the BOTB Finance Committee, which determines the allocation of money to specific services);

3 The BOTB services to exporters include:

- a wide range of information on tariffs, import restrictions, technical regulations, particular sales opportunities and so on;
- advice on market selection, entry and development, as well as on problems where diplomatic intervention may help;
- specific services such as support for British firms exhibiting at overseas trade fairs, market investigation and sales missions to export markets, and contributions to the costs of export market research.

4 In deploying their services, the BOTB priorities are:

(i) to help firms over the difficult period of getting into new markets. At that stage there is a high demand for reliable advice and information, and substantial risk, which may exceed the management and financial capability of the firm to handle.

(ii) to assist particularly the smaller and medium-sized firms, particularly newcomers to exporting or to particular markets, which have limited managerial and marketing resources.

(iii) to use primarily information available from the existing resources of Posts, but otherwise to draw on or complement facilities available in the private sector from banks or other specialists, and not to compete with them. But firms do not always make a profit in the initial stages of exporting or developing new markets.

The case for the subsidy element in the BOTB operation is that it helps them through this difficult initial period.

B USE OF BOTB FUNDS AND CHARGING POLICY

5 For the current year (19B4/B5) the BOTB budget provides for expenditure of £36.6m and income of £9.1m., a net budget of £27.5m. The net expenditure is for the following main groups:

	£m
Overseas trade fairs and exhibitions	11.1
Overseas store promotions, seminars etc	1.9
Outward and inward missions, support for trade fairs in the UK, Joint Commissions etc	2.5
Schemes to promote market research and market entry	3.5
Trade facilities (documentation and advice on technical requirements)	0.8
Support for UK firms bidding for major project orders (Overseas Projects Fund)	4.2
Support for UK and overseas export promotion organisations, education in exporting etc	1.2

Marketing and promotion of BOTB services to industry and publicity help for UK firms overseas

2.3

TOTAL

27.5

6 Charging policy is based on two themes. First, to provide a range of basic advice and information free of charge so that new firms can take the first steps before the potential commercial rewards of exporting can be reliably forecast. Second, to charge for specific definable services up to whatever level it is thought the market will bear, provided that the charges do not deter a significant number of those smaller firms it is the objective to help through the initial phase. The Board revises charges annually, and is due to complete a full re-examination of policy in this area later in the year.

7 Firms must show their commitment by a substantial input of their own funds. The subsidy to direct costs is usually not more than 50 per cent.

8 Some services are subject to a charge, such as UK group exhibitions at overseas trade fairs. Here an average recovery of 50 per cent of direct costs will be achieved in 1985/86 after 4 years of progressive increases.

9 Other services are subsidised through grants, such as the travel grant for missions (about 45 per cent of the air fare), which therefore only show in the budget as gross spend with the exporter paying the remainder direct.

10 Where the BOTB subsidy helps firms to use a service available from the private sector (eg professional market research, travel costs to distant markets) there is no restrictive effect on private sector activity. Such effects may occur, however, where the BOTB provides directly at lower cost a service which is, or might be, available from the private sector. While there are other minor examples, such as the provision of technical advice on overseas market requirements, the main case is the design (but not construction) of stands for overseas trade fairs. In stand design the capability of the Fairs and Promotions Branch of my Department is larger than that of any single UK private sector company in this business.

C USE OF THE SERVICES AND REACHING NEW FIRMS

11 Based on the statistics for the fourth quarter of 1984 we expect the following activity during the year:

- 20,000 firms will be helped through specific BOTB services.
- Over 7,000 firms subscribe to the Export Intelligence Services, and surveys show that up to 20,000 firms see some of the data at some time.
- About 18,000 firms will be given export information and advice at meetings at DTI Headquarters or Regional Offices, or on visits to the firms' own premises.

12 Within the constraints of the budget and staff numbers, there is a recognised need for initiatives from time to time to interest the prospects for expansion through exports:

- Surveys show that 80 per cent of users of BOTB services have less than 200 employees.

- For overseas fairs, where records are available, a great majority of participants are not regular visitors to the fair, and 60 per cent are specifically first or second timers (60 per cent also have less than 100 employees). The presence of a few firms experienced in a market can in fact be helpful to newcomers.

- The ten DTI Regional Offices have a combined target of 3,600 new contacts with firms over exports in 1984.

- A mail shot earlier this year resulted in 1800 requests for literature and 750 for a visit or an interview at the Regional Office.

- A report on the use of services by small firms, prepared by two BOTB members, who themselves run successful exporting businesses, was published in July and is being followed by a £150 introductory offer, cashable against BOTB services, for any firm capable of exporting which has not already used BOTB services.

- As part of the repackaging of DTI services to industry, the BOTB export promotion services are themselves being promoted in four sub-groups covering Market Advice, Getting Into The Market, Specialist Advice and Help, and Help With Major Project Business.

Trade 174

New Tariffs Barriers

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10 DOWNING STREET

From the Private Secretary

✓
bc Nick Owen
c. LPO
FCO
HMT
D/N
CDL
D/M
+ below

BT- 1 June 1984

Export Promotion

At its meeting in April, E(S) discussed trade policy and protectionism. The discussion gave greater emphasis to the treatment of imports and, in consequence, the Prime Minister would like a similar discussion on our export promotion policy. She would be grateful if your Secretary of State could prepare a paper on the way export promotion is currently working, and how it might be made more effective, how the export promotion effort might be better targetted on countries able to pay, and on whether support should be redirected to different sectors of industry or services. The paper should also consider the cost effectiveness in terms of job creation of support for exports and should take account of the consultations taking place on the future of ECGD, following the publication of the Matthew's Report. When the paper is ready it should be circulated for a meeting of E(S) (or possibly E(X)).

I am copying this letter to Private Secretaries to members of E(S), Steve Nicklen (Minister of State's Office, DTI), John Gieve (Chief Secretary's Office, HM Treasury) and Richard Hatfield (Cabinet Office).

(ANDREW TURNBULL)

Callum McCarthy, Esq.,
Department of Trade and Industry.

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