



P.01547

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PRIME MINISTER

Export Promotion Services  
(EX(85)4)

BACKGROUND

The Secretary of State for Trade and Industry has a long standing remit to review arrangements for export promotion. In August last year he sought your comments on a paper intended to form the basis for an EX discussion. Your Private Secretary's letter of 5 September recorded your view that the paper was rather thin, and requested more convincing material on the effectiveness of export promotion expenditure.

FLAGA

2. EX(85)4 examines both the justification for, and organisation of, Government help for exporters. Such assistance is largely provided by, or under the control of, the British Overseas Trade Board (BOTB.) The main services provided are:

- advice on market conditions and prospects;
- practical and financial help in setting up an operation and getting established in overseas markets.

The net cost is £95-99 million a year over the PES period, split roughly 60:40 between overseas posts and BOTB/DTI.

3. Mr Tebbit's main conclusions are as follows.

(a) Modest public expenditure to assist small and medium sized firms to break into markets is a good investment, but subsidising the normal selling process by established firms should be avoided;

(b) Up to 75% of the help provided goes to small companies; this emphasis should be maintained and developed;



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(c) The present organisation is broadly right, although there is scope for detailed improvements;

(d) The programme is cost effective; tentative estimates suggest additional exports of over £2 billion a year result, with a ratio of 1:50 between costs and additional exports.

#### Proposals

4. Mr Tebbit invites colleagues;

i. to agree the following guidelines for export promotion efforts:

(a) services should, in principle, be available to all firms for all markets; but

(b) should be concentrated on small to medium sized firms, newcomers to markets, and good payers;

(c) the private sector to be encouraged to help itself as far as possible, but Government to carry out activities best carried out centrally or which draw on the resources available in FCO posts;

(d) to seek value for money, including from a vigorous charging policy.

ii. to endorse the approach and organisation described in EX(85)4;

iii. to note that the detailed operation of the services is being reviewed.

#### MAIN ISSUES

5. There is likely to be general agreement among the Committee that the Government should, like our overseas competitors, continue to provide export promotion services,



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and that they should be targeted on small firms, and those entering the export business or new markets for the first time. The main issues for discussion are therefore likely to be:

- (i) whether the present organisation is the right one;
- (ii) the range of services to be provided and BOTB's charging policy;
- (iii) the size of the resources to be devoted to export promotion, in the light of the evidence on its cost-effectiveness.

#### Organisation

6. Details of BOTB's operations are set out in Annex A, and of its organisation and funding in Annex B of EX(85)4. As far as we are aware, no one is likely to question the basic structure of the BOTB itself, which is designed to draw heavily on the (unpaid) assistance of experienced industrialists, or the arrangement whereby support for exporters abroad is based on the resources available in posts.

#### Services and Charges

7. If it is accepted that help should be targeted on small and new exporters, who face substantial entry costs, then the basic principles of BOTB charging policy - a range of free basic information and advice aimed at helping firms assess the potential, backed up by more specific, chargeable services - is sensible. Views may however differ on the level of charges. These have been steadily increased to the point where, for example, they now cover, on average, 50% of direct costs incurred at overseas trade fairs; the eventual aim is to raise this

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to 75%. Obviously there is a point at which the basic aim of helping small firms could be endangered by a tough charging policy; Mr Tebbit's aim is to charge as much as the market will bear. The Chief Secretary might wish to argue for charges on a wider range of services, as well as for swifter increases in the general level of charging. It may be that there is scope for skewing of charges in a way which will benefit new and small exporters, and discourage established exporters who should be standing on their own feet.

#### Resources and Cost Effectiveness

8. The evidence underlying Mr Tebbit's assessment of BOTB's cost-effectiveness is summarised in Annex C. It is tentative, and does not extend to the wider effects on the economy. It seems unlikely however that significantly better evidence could be produced without disproportionate cost and effort. Judgements about the volume of exports which would not have taken place without help from BOTB are inevitably going to involve an important subjective element. The figures do show that a high proportion of users are small firms, that many are new exporters, and that 2-4 years after receiving BOTB assistance to enter a new market, some 50-60% of companies are likely to be still exporting to it.

9. The BOTB budget is set to decline in real terms over the PES period. This, together with the <sup>recent</sup> depreciation of sterling, will lead to some cut backs in services, even after higher charges. The Chief Secretary will probably argue that the efficiency drive Mr Tebbit is now promising will provide scope for further reductions, but he is unlikely to press the point in detail at this stage, preferring to wait until the public expenditure discussions.

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HANDLING

10. There may already have been some discussion relevant to export promotion services under Item 1 of the agenda, given the need to maintain a consistent approach to export policy across the board. If so, you might like to draw the threads together briefly before inviting the Secretary of State for Trade and Industry to introduce his paper, and the Chief Secretary to respond. Thereafter all Ministers present are likely to wish to comment briefly.

CONCLUSIONS

11. You <sup>will</sup> wish the Committee to reach conclusions on the following:

(i) whether to endorse the broad approach to, and organisation of, export promotion services described in EX(85)4;

(ii) whether to endorse the guidelines for export promotion services set out in paragraph 18 of EX(85)4;

(iii) what, if any, guidance to offer on the following matters to be discussed further as part of the public expenditure round:

(a) BOTB's charging policy;

(b) the level of resources to be devoted to export promotion by the BOTB and by Posts, in the light of evidence about cost effectiveness and the detailed review to be conducted by the Secretary of State for Trade and Industry.

*PLG*

P L GREGSON  
21 May 1985