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PRIME MINISTER

21 May 1985

FIXED RATE EXPORT FINANCE AND THE AID AND TRADE PROVISION

Norman Tebbit wants:

1. More money to be spent on the ATP (doubling it from its present level of £66 million).
2. To be allowed to use more of it for "initiation" (or "retaliating first") in the export subsidy war.

David Young agrees, and also wants aid to be offered to China in the form of soft credit.

Is this sensible?

Subsidising exports won't create many jobs: Jim Prior admitted as much in the House on 15 May, when pressing his employer's case. It will escalate the subsidy war and encourage importers to follow Indonesia and China.

Subsidies are not, as David Young asserts, about "transforming competitiveness". One subsidised order leads only to the next. Neither are these subsidies superior to our own infrastructure projects. When we build ourselves a motorway, we enjoy it. When we give away a power station, foreigners enjoy that.

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If we have to respond to calls from the projects lobby for greater help, let us at least work out how far we should go. You recently asked that the Manpower Group should consider the cost-per-job of all proposed employment measures. This proposal ought to be assessed in this way.

Where is the money coming from?

Little is said in the papers about where this money is coming from. There is no need for new money, for there are two obvious alternative sources:

1. Norman Tebbit could transfer some PESC provision to ODA if he considers that money will support industry better in this way than, for example, by selective financial assistance.
2. ODA should switch some funds from 100% grant aid to 25% ATP grants. The poorest countries should continue to receive 100% project funding, but creditworthy countries, such as India, should not. India is a significant exporter of wheat, and an aid donor itself. It doesn't need free power stations.

We recommend that you:

1. Invite colleagues to consider how far we should go in aiding projects, in line with acceptable cost-per-job

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limits (some of our rivals' offers to China are virtually gifts, and cannot be sensible).

2. Ask Timothy Raison to see how much 100% aid could be converted into ATP.
3. Ask Norman Tebbit to consider transferring some of his PESC provisions to increase the ATP.

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