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THE AID AND TRADE PROVISION

You wanted ATP arrangements which helped UK companies to compete more effectively. Departments have agreed on means to improve effectiveness - quicker appraisals and soft loans schemes - but have not volunteered any new funds.

Funding

The ODA and DTI claim to be short of funds; both departments have put in additional bids of around £60 million next year, rising to around £100 million in 1988-89. DTI don't want to transfer funds from export promotion (£40 million a year) to ATP because they claim that £1 of export promotion is associated with £50 additional exports, whereas using a mix of existing mixed credit and new soft loan mechanisms, each £1 of additional ATP subsidy would bring in the long term only £2 of additional exports. You could suggest to Norman Tebbit that he extends the moratorium on regional development grants to the new regional scheme and terminates selective financial assistance, to make room for a transfer to ODA.

It is difficult to see how ODA could sustain a credible aid programme and provide additional industrial subsidies with a bilateral programme which is falling sharply in real terms. Some money could be saved from the Indian programme, but ODA already have their eye on this to plug gaps elsewhere. There is therefore an impasse; the departments have failed to deliver this part of their remit.

The problem is a structural one. So long as ATP stays with ODA, DTI will be dissatisfied with the level of provision and its administration, but it will not offer a PESC transfer to increase the provision, so long as there is chance of getting ODA to provide more. The answer might be to transfer ATP to DTI altogether. We would lose the presentational advantage of being able to count ATP towards our aid programme. But it is surely better in management terms to put ATP with the Department responsible for industrial subsidies which can weigh its priority against other industrial subsidies.

The Department of Employment could make a contribution out of its Employment Measures Budget. The D/Em have declined to contribute so far because ATP is such a poor bargain as a job creator. D/Em puts its cost-per-job at over £9,000 per person per year - four times higher than that of employment measures. Although DTI have not accepted these figures, they are of the right order. The logic of this is that we would reduce jobs by switching D/Em funds.

Recommendations

It would undermine the PESC round if it was agreed now to fund more ATP. Better to suggest that DTI finds room for it.

Failing this, ATP could feature as an additional PESC bid, without prejudice to the outcome. Meanwhile, officials should consider how much additional exports we could squeeze out of the existing ATP provision, using the soft loans. Could we tap into low interest rate currencies, without significant risk of currency appreciation? Could British contractors improve their bidding tactics? It is said that the Bosphorus Bridge contract was lost partly because Cleveland Bridge did not offer a low basic price, with escalation clauses.

Finally, Departments might jointly consider whether the ATP responsibility should eventually pass over to the DTI.

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