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E(81) 34th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 24 NOVEMBER 1981 at 11.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for
the Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for
Education and Science

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for
the Environment
(Item 1)

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Chancellor of the Duchy
of Lancaster

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for
Employment

The Rt Hon Cecil Parkinson MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Lord President of the Council

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP
Lord Privy Seal
(Item 1)

The Rt Hon Sir Michael Havers QC MP
Attorney General
(Item 1)

The Rt Hon Lord Mackay of Clashfern QC
Lord Advocate
(Item 1)

The Rt Hon Michael Jopling MP
Parliamentary Secretary,
Treasury
(Item 1)

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr D J L Moore

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1. BANK TAKEOVERS AND MERGERS

The Committee considered memoranda by the Chancellor of the Exchequer (E(81) 104) and by the Secretary of State for Trade (E(81) 105) on the case for legislation in 1981-82 to ensure that the Government had powers to control takeovers of United Kingdom banks.

THE CHANCELLOR OF THE EXCHEQUER said that, under arrangements last confirmed in 1972, the Bank of England operated a non-statutory control whereby the banking system understood that proposals for takeover of United Kingdom banks were not to be pursued without the Bank's consent. By bidding for the Royal Bank of Scotland (RBS) without that consent, the Hong Kong and Shanghai Banking Corporation had shown that the present procedures were unreliable. Their bid had now been referred to the Monopolies and Mergers Commission (MMC), together with a parallel bid by the Standard Chartered Bank and it was hoped that the MMC would report by the end of the year. If the MMC were to conclude in favour of the bids, foreign banks might be encouraged to bid for one or more of the four main clearing banks in the United Kingdom. Given the special responsibility of banks, their pervasive role throughout the economy and their importance for economic policy, the Government would be open to strong political criticism if it were powerless to prevent such takeovers. He recommended an announcement when the MMC reported that the Government would take new powers to veto changes in control of banks on prudential grounds and for reasons of the public interest more generally, including questions of overseas control; these would be an obligation to give full reasons for the exercise of any veto. Irrespective of the outcome of the present MMC enquiry he would not wish this legislation to apply to the bids for the RBS.

THE SECRETARY OF STATE FOR TRADE said that he agreed that new powers should be taken but he recommended that they should be confined to prudential controls. To go further, as proposed by the Chancellor of the Exchequer, could have adverse consequences for inward investment, for trading policies, and for relations with the United States of America. The Chancellor of the Exchequer had recognised that he could not in practice

veto a takeover bid by a bank based within the European Community. This could lead to a situation in which a bid by an American bank could be rejected but not one by the subsidiary of an American bank based in the European Community. If the proposed powers were likely to be ineffective in practice there was no case for provoking controversy by seeking them. The better course was to rely on the MMC to take account of the public interest.

THE SECRETARY OF STATE FOR SCOTLAND said that if the Government were to announce now its intention to legislate on the lines proposed by the Chancellor of the Exchequer it would be essential to indicate that the new powers would apply to bids for the RBS. Otherwise it would seem that the Government were concerned to protect the English banking system but were indifferent to the RBS which was of major importance in the Scottish financial and banking system.

THE PRIME MINISTER, summing up the discussion, said that the Committee were not convinced that it was necessary or desirable to take new powers to control bank mergers and takeovers. United Kingdom banks had made important acquisitions overseas in recent years; the proposed legislation could inhibit such acquisitions in future and be generally embarrassing to the Government's inward investment and trading policies. The proposed powers would be limited in their effectiveness since they would not be applied to stop takeovers by bids by banks based within the European Community. If there were to be a bid for a United Kingdom clearing bank it might be necessary to consider the problem further. In the meantime, the right course was to continue to rely on the Bank of England's informal arrangements and on the powers of the MMC.

The Committee -

Agreed that no further action should be taken for the time being to introduce legislation for controls over takeovers and mergers in the banking sector.

2. REGIONAL DEVELOPMENT GRANTS
Previous Reference: E(81) 33rd Meeting, Item 2.

The Committee considered memoranda by the Secretary of State for Industry (E(81) 115) and by the Secretary of State for Wales and the Secretary of State for Scotland (E(81) 116) on possible changes in the system of Regional Development Grants (RDGs).

THE SECRETARY OF STATE FOR INDUSTRY said that he had looked further at the possibility of changes to the RDG scheme which might be introduced instead of the 2 per cent general reduction in the rate which he had previously proposed. Any significant changes would require legislation and could well be inconsistent with the Government's undertaking to maintain reasonable stability in the framework of regional investment incentives and to avoid abrupt changes during the present Parliament. He had concluded that it would be unacceptable, within the framework of present legislation, to limit grant payments either by reference to the numbers employed or to a ceiling on the amounts paid for a particular asset; either of these courses would create uncertainty, and so deter potential investment, and might be open to challenge in the courts. He advised against the exclusion by Order of particular capital intensive sectors on the grounds that this would deter internationally mobile investment unless selective financial assistance were to be offered, so reducing the savings. If public expenditure savings were to be made on RDGs, he remained of the view that they should be found by a 2 per cent cut in the rate; anything more would be inconsistent with the Government's undertaking. The estimated savings were £20 million in 1982-83 and just over £50 million in each of the two following years. He would be unwilling to accept such cuts unless they were presented as part of a package including measures helpful to industry's cash flow. At their last meeting the Committee had agreed that, provided the present criteria for payments were satisfied, RDGs should be paid in respect of the Sullon Voe and Flotta oil pipeline terminals. It was likely that Flotta would be eligible for payments; the position on Sullon Voe was uncertain but it was unlikely that any payments would be made before 1985-84 so that there would be some savings in the estimated total for 1982-83.

THE SECRETARY OF STATE FOR WALES said that he was strongly opposed to any across-the-board cut in the RDG rate. For the Government's industrial and regional policies to be effective, investors taking long term decisions had to be convinced that there was stability in the regime of grants on offer to them. Cuts in the rate would be particularly damaging to prospects for inward investment where the United Kingdom were faced with very strong competition from other European countries, notably Ireland. The present system of RDGs was not cost effective and little could be done to improve it without legislation. He recommended that legislation should be introduced in the next Session to remedy the present deficiencies by providing, for example, for tapering rates of grant above defined thresholds or differentially lower rates of grant for certain capital intensive industries. He realised this would not bring significant savings before 1984-85; on the other hand, it offered the prospect of a defensible long term solution which would help to guard against increases in the total RDG payments, which were demand determined, as the economy recovered.

THE SECRETARY OF STATE FOR SCOTLAND said that he agreed with the Secretary of State for Wales that general cuts in the RDG rate would be extremely damaging. The Government had to continue to convince those areas affected by the present recession that it understood the problems of industry and was keen to stimulate new investment and jobs.

THE CHIEF SECRETARY, TREASURY, said that the decision not to exercise discretion to withhold payments from Sullon Voe and Flotta meant that the prospects for savings on the Department of Industry's programme were substantially less than he had envisaged. This made it all the more important to secure savings by other means. He had proposed savings of £56 million in 1982-83 rising to £90 million in each of the two following years by cutting the RDG rate by 4 per cent in the Special Development Areas and by 5 per cent in the Development Areas. An alternative approach, set out in his minute of 23 November to the Prime Minister, might be to make an early announcement that five capital intensive industrial sectors were to be excluded from RDGs. Allowing for some additional provision for selective financial assistance to attract internationally mobile projects, his proposals might lead to net savings in the order of £50 million in 1982-83 rising to £100 million in each of the two following years. This change would both secure necessary public expenditure savings and also meet the criticisms of the cost ineffectiveness of the present RDG system.

THE PRIME MINISTER, summing up the discussion, said that some Ministers considered that a general cut of 2 per cent in the RDG rate would not in practice be damaging to the prospects for investment and would be the only way of securing savings with effect from 1982-83. The Committee recognised, however, that for the reasons put forward by the Secretaries of State for Wales and for Scotland, such a general cut in the rate would be criticised as damaging to industrial and regional policy. This pointed to trying to make changes in the eligibility for RDGs of those capital intensive projects which were not mobile in practice and which did not create significant employment. Any such changes would have to be considered in relation to the Government's undertakings to maintain reasonable stability in regional policy in the lifetime of the present Parliament. If legislation were necessary, there would be no savings in 1982-83 but there would be benefits in later years. The Committee had not had time to consider the Chief Secretary's minute dated 23 November but a number of Ministers saw difficulties in making five industrial sectors ineligible for grant. The Ministers concerned should now meet urgently to reach agreement on ways of reducing public expenditure on RDGs within the lifetime of the present Parliament which might be alternatives to a 2 per cent general cut in the rate of grant.

The Committee -

Invited the Chief Secretary, Treasury, and the Secretary of State for Industry to consider urgently with the Secretaries of State for Scotland, Wales and Energy the options for changes in the Regional Development Grant system, as indicated by the Prime Minister in her summing up of their discussion, and to recommend which course should be adopted.

Cabinet Office

24 November 1981