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From  
Sir Campbell Fraser  
President



Prime Minister (4)

5 October 1982

Noted To note x  
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MS

Dear Lord Cairns

As you may know the CBI has an Export Credit Committee, chaired by Lord Selsdon, which keeps under review the important field of export finance. We regard the financing of export trade as a major element in a company's success at winning foreign orders, especially when faced with difficult trading conditions: and Lord Selsdon's Committee reports regularly to our main Overseas Committee on this subject.

Earlier this year the Export Credit Committee decided to set up a working party under Mr Derek Glenton of Davy McKee, to review the Government's financial schemes for exports, in particular those operated by the Export Credits Guarantee Department, and to make recommendations concerning them.

I now have pleasure in enclosing a copy of the Working Party's report, which has been endorsed by the Export Credit Committee and the Overseas Committee. I am sure you will find this of interest; and I trust you will give serious consideration to implementing as many as possible of its recommendations.

The Working Party's report concentrates primarily on an examination of ECGD and its services. However the terms of reference also called on it to investigate the interest rate support provided by the Treasury under the OECD Consensus on export credit terms, and the Aid and Trade Provision in the ODA Vote.

I should emphasise that the CBI has in the past been generally satisfied with the quality of ECGD's service to its policyholders, on the basis that all UK export promotion services were maintained at a standard of effectiveness at least equal to those available to our major overseas competitors. Hitherto, therefore, our Export Credit Committee has only sought improvements to particular ECGD facilities or the creation of new forms of cover. However, in recent months there have been disturbing signs that ECGD's financial problems arising out of claims experience are affecting the quality of service. There are also some anxieties about the Department's organisation and structure: these are clearly not responsible for its present financial position, but it is at least questionable whether they are in the optimum shape to ensure ECGD's continued solvency and efficiency.

.../...



In putting forward its recommendations, the Working Party has avoided any proposal to increase beyond existing levels the public expenditure set aside for the promotion of UK exports. It has however suggested ways in which these resources might be refocussed in order to provide greater benefit to British exporters.

It is our intention shortly to publish the report, as a means of increasing awareness in the CBI membership of the valuable facilities provided by ECGD and promoting debate on how these might be further improved. Meanwhile I am copying it in advance of publication to those of your Ministerial colleagues who will be interested, and to certain senior officials, with some of whom it has already been informally discussed.

*Yours sincerely  
Campbell Fraser*

The Rt Hon Lord Cockfield MP  
Secretary of State for Trade  
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copy, with report,

to The Rt Hon Sir Geoffrey Howe QC MP  
The Rt Hon Francis Pym MC MP  
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UK EXPORT CREDIT INSURANCE  
AND FINANCE

Report by a Working Party  
of the CBI Export Credit  
Committee

**CBI**  
PUBLICATIONS



Confederation of British Industry  
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October 1982

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Mr R Granger

Credit Insurance Association

Mr D V Wilson

British Aerospace

This report was approved by the CBI Export Credit Committee,  
7 September 1982, and by the CBI Overseas Committee, 23 September 1982.

## FOREWORD

The importance of international trade to the United Kingdom economy is often overlooked. Those of all political persuasions who put forward widely diverging proposals for solving our economic and social problems, tend to ignore the vital and irreplaceable role of trade.

Apart from the obvious balance of payments considerations it is worthwhile reminding ourselves of two important points:

Firstly, exports of goods and services account for approximately one third of our Gross Domestic Product.

Secondly, some 3.5 million jobs in manufacturing industry are directly dependent upon overseas trade, and it is probable that a total of some 7 million jobs in this country are directly or indirectly supported by the economic activity currently created by our exports.

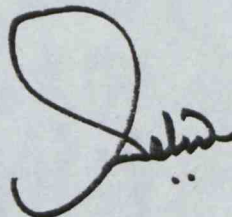
The relationship between finance and trade is historically a close one. However today export credit and bilateral or multilateral aid are not only important but often essential ingredients, without which export orders and markets will be lost to foreign competition.

My Committee and I are concerned that the importance of ECGD and the services that it provides, or could provide, are fully recognised. We also acknowledge the importance of the growing association between aid and trade.

We are therefore particularly grateful to the members of the Working Party who prepared this Report. As will be noted, they have a high level of knowledge and experience upon which to draw. They have also consulted closely with others in the public and private sectors.

In drawing up the report and its recommendations, the Working Party have concentrated upon the commercial interest of the UK. They would, I know, accept, particularly where bilateral aid is concerned, that political considerations may from time to time take precedence.

My Committee will now take steps to encourage the implementation of the recommendations made.



Lord Selsdon  
Chairman  
CBI Export Credit Committee



## SUMMARY OF RECOMMENDATIONS

The Working Party's recommendations are set out in three sections. We have put forward a proposal for formulating the long-term strategy of ECGD, followed by short-term recommendations, realising that such a strategy could not be implemented immediately. We have also identified where action is needed in the provision of interest rate support and aid funds.

### Long-Term Strategy for ECGD

- 1 ECGD as presently constituted cannot adequately meet the needs of the trading interests of UK exporters; the Working Party recommends that HMG should set up a Special Committee to examine the whole basis of ECGD's organisation and operation and to recommend what form the Department should take. The Working Party suggests one possible course of action: to establish ECGD on a more autonomous basis. (paras 21-25)

### For Immediate Action

- 2 ECGD to introduce new forms of cover for both capital and non-capital goods to encourage the regrowth of the Department's business. (paras 27-30)
- 3 ECGD to alter the method of premium payment for buyer credits to reduce the cost effect on exporters. (para 31)
- 4 ECGD in co-operation with the banks to develop improved schemes for the smaller exporter. (paras 32-34)
- 5 ECGD to establish a dialogue with the private sector insurance market to explore in detail how they can co-operate for the greater benefit of the UK exporter. (paras 35-40)
- 6 ECGD to undertake an internal study on the Department's staffing structure. (paras 41-45)
- 7 ECGD to promote the utilisation of export credits in the low interest rate currencies under the OECD Consensus to reduce the cost of interest rate support. (paras 46-48)
- 8 The substantial saving forecast from reduced interest rate support should be utilised to increase those funds available for other forms of export support. (para 47)
- 9 The City and the UK exporters to explore opportunities of commercial funding when interest rates are below OECD Consensus levels. (para 49)
- 10 HMG to increase the amount of aid funds under the bilateral programmes, which are tied to the purchase of British goods and services. (paras 50-53)
- 11 HMG to increase the Aid and Trade Provision substantially and to examine the mechanism of distribution. (paras 54-55)



## A INTRODUCTION

- 1 Since 1975 the UK's competitive position vis-a-vis other major trading nations has deteriorated sharply. Despite a slight improvement in our unit labour costs relative to our competitors since early 1981, we are still 30 to 35 per cent less competitive than we were seven years ago. This has been caused mainly by poor performance on both pay and productivity and compounded by a higher value of the pound sterling than our economic and trading performance could justify without the support of North Sea oil.
- 2 These factors have resulted in a decline in our export trade in real terms and in the relative profitability of our exports. In the last 10 years the UK's share of world export trade has fallen from over seven per cent to under six per cent. However, exports of goods and services still account for around a third of our gross domestic product, and must be considered as an essential part of the programme for the recovery of the British economy.
- 3 Financing arrangements, both commercial and assisted (including interest rate support and grant aid), play a more and more significant role in winning export orders. A major underpinning for exporters is the availability of export credit insurance, principally provided by the Export Credits Guarantee Department (ECGD), and also the provision of interest rate support in line with the OECD Consensus on export credit terms. This support and a pragmatic bilateral aid policy can do much to encourage exports and to provide employment and economic growth at home. The continued effectiveness of all forms of support for export financing is of major concern to companies engaged in international trade.
- 4 With this in mind, the Chairman of the CBI Export Credit Committee asked the Working Party in April 1982:

"To review ways of reinforcing UK industry's competitive power overseas, with special reference to ECGD's services and related financial aids to exports, and to recommend any necessary action."



B ECGD

The Present

- 5 The publication of ECGD's trading results for 1980/1 confirmed worrying trends which have been causing concern to those who closely follow the Department's progress. During the last 10 years the overall percentage of UK exports covered by ECGD has declined from a peak of 36.3 per cent to 30.8 per cent. In the same period total claims paid annually increased from £32.3 million to £287.8 million, an eight-fold increase, while premium income failed to keep pace, increasing from £22 million to £150 million, a six-fold increase. These results reflect both the effects of recession on individual buyers and the failure of entire markets in which ECGD has been heavily committed; for example, Iran, Turkey, Poland, and more recently, Argentina.
- 6 These difficulties have led some commentators to speak in extreme terms of the "bankruptcy" of the Department, and of the likelihood of drastic changes in its operations. As justification, they point to the requirement that it operates most of its business at no net cost to the taxpayer and to the serious depletion of its cash reserves. ECGD itself has referred to these factors in seeking to justify the three increases in premium rates it has imposed upon policyholders since April 1979.
- 7 As a Government Department, ECGD is able to borrow from the Consolidated Fund and it cannot be faced with bankruptcy in the way that would affect a commercial enterprise. However, although it would be open to the Department to borrow from the Consolidated Fund it would become liable for interest payments. The effect of such borrowing would in addition be likely to result in considerable pressure for radical economies and increased Treasury control over ECGD's day-to-day operations. Exporters would almost certainly be the losers if action was taken along these lines.
- 8 The Working Party takes the view that many of ECGD's problems stem from events over which the Department has no control. The world recession has adversely affected the economies of many of the UK's major trading partners. Furthermore, political and financial instability of key markets has hit credit insurers abroad with equal strength, and all have suffered from a sharp increase in claims stemming from both political and commercial causes of loss. It would thus be a mistake to assume that ECGD's current financial difficulties are a reflection of organisational weakness; for most of its post-war history the Department has not only remained in the black - it has also succeeded in providing a broadly efficient service which has met the needs of exporters.
- 9 Satisfaction with the quality of ECGD's service to its policyholders has been reflected in the CBI's policy, as recommended by its Overseas and Export Credit Committees and endorsed by Council. The CBI position has been that all UK export promotion services, including ECGD, should be maintained at a standard of effectiveness at least equal to those available to our major overseas competitors.
- 10 However, there have been disturbing signs recently that ECGD's financial problems have begun to affect the quality of service provided. Higher



premiums have encouraged policyholders to examine more closely the benefits they receive for their money, and there has been strong criticism when facilities have been withdrawn or cover restricted, particularly when this has happened at short notice. This criticism carries weight particularly since it arises predominantly from the larger holders of comprehensive guarantees who are in constant contact with the Department and who are best placed to make comparisons with facilities available abroad and on the private market.

- 11 The CBI Export Credit Committee has frequently called for improvements to particular ECGD facilities or the creation of new forms of cover. In some areas it has been critical, but it has not sought to question, or to review, the structure and financial mandate of the Department, nor the basis of its operation. The CBI has accepted the overriding requirement that ECGD should operate its Section 1 and Section 2 (of the Export Guarantees and Overseas Investment Act 1978) business on a break-even basis, taking one year with another, although recommending that this requirement be interpreted in such a way as to avoid imposing premium rate increases on exporters at times when trading conditions are at their worst.
- 12 The CBI has also accepted in the past that the comprehensive principle by which ECGD operates its short and medium-term business is in the best interests of exporters as a whole, keeping premium rates at reasonable levels in return for a wide spread of markets covered.
- 13 Events have thrown open these and other central policy assumptions. While ECGD's organisation and structure may not themselves be responsible for its present financial predicament, it is at least questionable whether they are in the correct shape to ensure the Department's continued solvency and efficiency.

#### The Future

- 14 In interpreting its terms of reference, the Working Party principally concerned itself with an examination of business done under Sections 1 and 2; with the funds provided for interest rate support to OECD Consensus levels; and with funds allocated to the Aid and Trade Provision, administered by the Overseas Development Administration in co-operation with the Department of Trade.
- 15 Given the development of the private market for certain types of cover in recent years, we addressed ourselves at the outset of our deliberations to whether it was necessary for the Government to continue to operate an export credits guarantee department at all. Our view was that within the foreseeable future there would remain a need for the Government to assume certain key risks in overseas trade which, either because of their magnitude or their duration, it was not practicable to expect the private market to assume unaided. We take the view, however, as outlined below, that there is considerable scope for the expansion of private sector co-operation with ECGD.
- 16 ECGD is called upon under Section 2 to operate certain facilities, which cannot be justified on a purely commercial basis, in the national interest. This Account has hitherto been kept in the black and has cost



the taxpayer nothing. However the taxpayer has been called upon to meet the cost of interest rate support for capital projects at a level of around £500 million in the last financial year ( this will eventually decline as market rates fall), and for the costs of Cost Escalation Cover and the Aid and Trade Provision, quite aside from the various BOTB facilities.

- 17 Radical critics are sometimes inclined to question the value of Government support for exports on any but the most temporary basis, especially in view of the UK's current trade surplus. They argue that exports of goods and services only have value in so far as they enable the UK to balance its payments. This is not the view of the Working Party. We believe that certain support is required to facilitate the sale abroad of the output of much of British manufacturing and service industry. Furthermore, this appears to be the experience in all other trading countries. The importance of maintaining the competitiveness of manufacturing industry as an "engine of growth" is attested by the record of West Germany and Japan, and it may not be possible to rely indefinitely on a large surplus on the invisibles account, given the increase of non-tariff barriers in this sphere. Many of the firms which benefit from export assistance are amongst the UK's most significant employers. Notably in the case of capital goods exporters, these are frequently located in areas of high structural unemployment and reliant on world-wide sales to provide an adequate market for their specialised products and to maintain their work forces.
- 18 The Working Party considered it neither appropriate nor practicable to arrive at a blueprint for the evolution of ECGD in the years ahead. The CBI does not have access to all the sources of information necessary for detailed analysis of ECGD's current financial situation and possible remedies.
- 19 At the same time our discussions have led us to believe that there are certain courses of action which can and must be explored in the interests both of the Department and of British exporters. It is our view that if ECGD is to continue to meet the needs of British industry in the years ahead then change will be necessary and Ministers and officials should give serious consideration to the form that it should take.
- 20 Our recommendations have been divided into three parts:
  - i the Working Party has put forward its recommendations for formulating a long-term strategy for ECGD;
  - ii realising that such a strategy is not amenable to early implementation, we have identified certain areas where there is scope for reform in the interim provided that it is preceded by careful discussion and consultation with all interested parties. This process should begin immediately, but its overall pace will be dictated by events;
  - iii the Working Party has put forward proposals in the fields of interest rate support and aid funds to assist further the UK exporter.



### Long-term Strategy - a Root and Branch Approach

- 21 The Working Party considered what form an organisation would take if it were established today to provide credit insurance cover and finance for British exporters of goods and services. Our unanimous opinion was that such an organisation would be structured along significantly different lines from that of the present day ECGD. We therefore concluded that ECGD needs to undergo substantial change over a lengthy period of time, despite the obvious transitional problems that would ensue.
- 22 We strongly advocate that the Government should set up a Special Committee to examine the whole basis of ECGD's organisation and operation and to recommend what form it should take in the future. It is suggested that this Committee should be made up of representatives of the Government Departments mainly concerned, informed representatives of the exporting community, and of financial and insurance institutions. The Committee, under an independent chairman, would consider evidence from all interested parties.
- 23 We consider that one possible solution would be to establish ECGD on a more autonomous basis, writing Section 1 business on its own account and, perhaps, continuing to act as agent for the Government for Section 2 business.
- 24 The Working Party envisages an arrangement which would afford the restructured Department the freedom to recruit personnel and to operate along self-determined commercial lines, no longer under so much political pressure to accept unprofitable business, but rather tailoring its policies and its premium levels to the market in consultation with both exporters and brokers. The National Interest Account business might then be directly under the control of either the reorganised ECGD acting as agent, or the Department of Trade, or, possibly, a separate Ministry of Exports, incorporating also the functions of the DoT's Projects and Export Policy Division and certain functions of the Overseas Development Administration. This would provide a single focus for decision-making on matters of export policy and support where Government assistance was required.
- 25 The Working Party feels that the point has been reached where ECGD is being asked to serve too many masters with different and sometimes conflicting motives and that it would serve industry better if it had greater freedom of decision-making within set financial criteria. We acknowledge the fact that such an agency would have the ability to be selective in its business. The interests of all exporters must be borne in mind in any recommendations that are made.

### The Shorter Term

- 26 The Working Party does not underestimate the task which would face this Committee but sees a real need for the fundamental examination proposed. However time is of the essence if exporters are not to be disadvantaged meanwhile by a curtailment of ECGD services. The Working Party has therefore concluded that certain steps should be taken immediately or in the short term to alleviate ECGD's financial problems and at the same



time benefit British exporters without prejudicing the need for more long-term change.

### Operating Flexibility

- 27 Over three-quarters of ECGD's business consists of insuring goods sold on short and medium-term credit and covered under its Comprehensive and Extended Terms Guarantees. Inevitably, many of the Department's most serious financial problems spring from losses suffered on this business. While in the past much attention has been focussed on export support for major project business, we welcome the increased discussion of how to ensure that ECGD services as used by most policyholders are as efficient, responsive to demand, and financially sound as possible. The formation of the Export Credit Insurance (Comprehensive Guarantees) Group, sponsored by the CBI and other trade associations, offers a very useful channel of direct communication between active industrialists and ECGD's Comprehensive Guarantee Division in Cardiff.
- 28 ECGD has adhered rigidly to certain central principles which have determined the development of its services since the war. The Department has not been prepared to separate political and commercial risks and allow cover for one without the other. It will not negotiate a lower indemnity in return for a lower premium rate. First loss cover and "datum line" cover have been tried experimentally, but little progress has been made as a result of ECGD's overriding commitment to the whole-turnover principle.
- 29 The Working Party recommends that the possibility of making new forms of cover available for both capital and non-capital goods in addition to the existing range of ECGD facilities should be actively investigated by the Department. The prospect of increased competition from the private market should result in ECGD being more prepared to tailor policies to meet the individual needs of exporters rather than simply offering take-it-or-leave-it terms. At present many exporters do not hold ECGD policies because the terms of the existing Comprehensive Guarantee do not meet the needs of their business. A greater range of special endorsements and options might serve to boost premium income significantly and avoid the vicious circle of decline which is a real prospect for the future. Private market experience suggests that a limited number of existing policyholders will opt for selective new forms of cover to the exclusion of general cover. The Working Party is therefore of the opinion that the introduction of new policies on the above lines will stop the decline and lead to the regrowth of ECGD's business.
- 30 On the more general issue of operational procedures, we welcome the consultations which have taken place so far with the Export Credit Insurance (Comprehensive Guarantees) Group on how this might be improved. The Working Party fully supports this development and hopes to see further progress ensue. As ECGD premium rates rise, exporters will increasingly scrutinize the services provided by the Department before renewing policies. It is central to ECGD's future viability that it is seen to provide value for money. Complaints about delays and inflexibility arise; sometimes they are without foundation, but too often they are not. Many industrialists who deal with ECGD frequently have



first-hand experience of procedures and service which would not be tolerated in a well-run commercial enterprise.

- 31 In the field of buyer credits the Working Party feels that ECGD's premium rates have increased to the point where they are imposing a considerable burden on exporters and can sometimes exceed the initial downpayments to be received under a contract. We recommend that serious consideration should be given by ECGD to changing the system in such a way as to enable these charges to be recovered in other ways designed to reduce their cost effect on exporters.

#### The Smaller Exporter

- 32 In 1980/1 15 per cent of guarantees accounted for 80 per cent of ECGD's insured turnover on short-term business. Very many of ECGD's 11,000 policyholders have a comparatively small export turnover; in some cases we understand that the premiums paid fail even to cover the expenses involved in administering their policies. The Working Party takes the view that it is essential that every assistance be given to these small firms to help them to export efficiently and to grow, and we welcome the moves made by ECGD to simplify the documentation and procedures with which policyholders have to contend.
- 33 Recently several banks have initiated schemes under which they provide group insurance with ECGD for smaller exporters. Not only do these schemes have the potential to remove a considerable administrative burden from ECGD; they might also provide greater access for small firms to specialist advice on a range of financial matters. If the scope of these schemes could be expanded - for instance by raising the existing ceiling for eligibility - then it would be possible for ECGD to move away from detailed administration of some of its policies and operate as a centralised insurer or even reinsurer of business written by the banks.
- 34 We therefore recommend that early talks should be held between ECGD and banking industry representatives to explore what can be achieved to enhance and safeguard the interests of the smaller exporter.

#### Private Market

- 35 Insurance against commercial risks, traditionally covering insolvency and default, is available in the private market. Political risk insurance is not only available in the Lloyd's, London, and international markets, but is also available in the company market. In all cases, it is exceptional for cover to extend beyond five years. The private sector normally offers insurance on a selective basis, tailored to an exporter's specific needs.
- 36 Recent years have seen the development, by new companies and brokers, of specialist forms of cover. Although in the past the private market has tended to concentrate on filling the gaps in ECGD services, there is an increasing tendency for it to offer forms of cover which are in direct competition with facilities offered by ECGD. The Working Party welcomes this competition as in the best interests of exporters and looks forward to its extension, but we recognise that it also presents ECGD with a challenge.



- 37 In our view it would be unfortunate if ECGD allowed its own position to be eroded to the point where it was left to provide cover only for business which the private market would not handle. It is vital that ECGD should not allow this to happen and that the Department rise to the challenge posed by new private market facilities.
- 38 The Working Party believes that there is scope for more co-operation between ECGD and the private sector. We take the view that their combined strengths in a number of areas could, if properly harnessed, contribute greatly to the expansion of export credit insurance facilities. The Working Party recommends that a dialogue should be established as soon as possible between ECGD and the appropriate private sector representative bodies to explore in detail how they can co-operate to the greater benefit of exporters.
- 39 We understand that there is a feeling among private sector underwriters that the whole-turnover requirements of ECGD impose a strain on the ability of the private sector to compete on equal terms, since exporters using the ECGD Comprehensive Guarantee are prevented from using the services of the private sector to obtain more specific cover for certain areas.
- 40 The Working Party is aware of the more flexible approach currently being adopted by ECGD to the whole-turnover requirement with more attention being given to the quality of business offered rather than to a rigid formula for the percentage of business covered. The introduction of new forms of ECGD cover which allow greater selectivity of risk by the policyholder is highly desirable. In addition, since the European Commission has adopted a European Parliament view that public and private credit insurers must compete on equal terms for intra-Community business, we recommend that immediate consideration should be given to reviewing the implications of implementing this in the UK, for ECGD's future viability, the private insurance market's capacity, and the cost and scope of credit insurance facilities for the exporter. This should be carried out with due regard to the obligation placed upon HMG by the Accession Treaty of 1973.

### Personnel

- 41 ECGD is unusual in that it is a Government Department, coming under Ministerial control and staffed by civil servants, which provides a service to exporters, operating on a commercial basis. Although ECGD is under an obligation to break even and its staff carry out tasks which are more related to the City than to Whitehall, the Department has far less autonomy than the nationalised industries. It is bound by Civil Service policy on rates of pay, recruitment, promotion, procurement and other restrictions.
- 42 CBI members frequently express their admiration for the high calibre of staff they encounter in ECGD, and within the existing constraints these personnel undoubtedly do all they can to be of assistance to policyholders. Nevertheless there is often concern at the restraints placed on the introduction of efficient and businesslike procedures within the Department.



- 43 The Working Party shares these concerns as to whether it is reasonable to expect ECGD to operate as a business, charging a commercial rate for its services and meeting competition from the private sector, while at the same time requiring it to operate within policies and procedures primarily intended for purely administrative departments. For instance, given the fact that ECGD's administrative costs are included within its trading account and have to be covered by premium income it is unfair to expect the Department to absorb staff cuts as part of overall Whitehall policy.
- 44 We believe that greater efficiency of operations must be central to ECGD's health in the coming decade and beyond, and we recommend that it should be tackled as a matter of the utmost urgency. In particular steps should be taken to initiate a staff structure comparable to those in both industry and commerce to avoid staff loss due to low emoluments.
- 45 We also consider that it would be to the benefit of the Department, exporters and the City financial institutions if there could be more frequent interchange of personnel between them. We would like to see an internal study undertaken by ECGD to ascertain how these recommendations might be implemented.



## C OTHER RECOMMENDATIONS

### Interest Rate Support

- 46 The provision of interest rate support for capital goods exports down to the levels specified under the OECD Consensus on export credit terms has become a major charge on public expenditure. The cost of this can be expected to decrease from its peak of around £500 million per annum as UK market rates fall, and as a result of agreed rates under the OECD Consensus being raised in July 1982. Nevertheless it is inevitable, against the background of a uniform interest rate matrix below commercial rates, that those countries with high domestic inflation and interest rates will incur a higher cost for the blanket support of export credit funding than countries with lower rates. Any upturn in UK market rates would again call for increased levels of support; meanwhile the cost of support on running contracts has to be met.
- 47 The Working Party recognises the immediate necessity of ensuring that the competitive position of British capital goods exporters is safeguarded in world markets. In the medium and longer term the successful management of the UK economy in reducing rates of inflation and interest will mean a reduction in the cost of interest rate support. We think it is important that the resources thus saved should be used to increase those funds available for other forms of export support, but bearing in mind the constraints placed on Government by the GATT Code on Subsidies.
- 48 The cost of interest rate support can also be reduced by the funding of export credits in the lowest interest rate currencies available, and we therefore recommend that steps be taken to encourage this. This implies that the facilities available to protect exporters against the effect of exchange risk, in both the pre and post contract phases, must be fully effective. The recent announcement of facilities for financing in yen of UK exports is therefore a step in the right direction; but the Working Party sees no reason why this facility should be a purely reactive one. On the contrary, exporters should be actively encouraged to use it aggressively to win business. If the commercial market is unable to raise funds in low interest rate currencies then the Working Party would welcome legislation to allow ECGD to do so.
- 49 It is possible in a cyclical interest rate down-turn, that there may be prolonged periods during which commercial interest rates in most currencies lie below the Consensus levels. We recognise that such a situation should provide opportunities for UK exporters working with the City to enable operations to be implemented on a pure cover basis, perhaps funded from other than banking sources, with terms (in particular final maturity) not constrained by the OECD limits. This would provide the UK with opportunities to match the very long periods made available from time to time from, for example, the Export Development Corporation of Canada. The Working Party hopes that exporters and financial institutions will be able to exploit these opportunities as they arise, and that international arrangements would not prevent this being done.

### Aid Funds

- 50 The development of the economies of the poorer nations of the world is a



political and humanitarian obligation on governments such as HMG, which industry accepts. A consequence of successful development is the creation of new markets and it therefore assists the overall growth of the world economy, which is a prerequisite for raising the level of prosperity for all nations. Industry therefore has both a direct and an indirect interest in the government's aid programme. Insofar as aid funds are spent on the supply of manufactured goods, British industry seeks appropriate commercial return.

- 51 The Working Party notes that in its evidence on Aid Policy to the House of Lords Select Committee on the European Communities in January 1981, the CBI called in the present circumstances for the greatest possible proportion of the UK aid effort to be channelled through bilateral programmes, as the greatest part of UK bilateral aid is tied to the purchase of British goods and services benefitting British industry in direct proportion to the funds made available by HMG. Bilateral aid is concentrated on Britain's traditional markets and the UK Government can determine its allocation. This compares with evidence which suggests that the UK's contribution to some multilateral aid programmes generates more business for our overseas competitors than for UK firms.
- 52 At present many of the most important opportunities for new capital projects arise within developing countries. Recessionary pressures mean that competition for these is particularly fierce, and success or failure may depend on the willingness of governments to make available aid funds to soften commercial credit terms. The present situation where these funds distort open market competition may well be regretted; however it cannot be ignored.
- 53 In these circumstances the Working Party takes the view that it is no longer adequate for the UK to pursue a policy which is essentially reactive and which places emphasis on the matching of competitors' terms. Competition between governments in the provision of assistance for the financing of key projects is now as much a reality of the marketplace as competition between manufacturers and contractors, and we hold the view that UK policy should take account of this fact. There have recently been welcome indications that the UK is prepared occasionally to take the initiative; this should happen more often.
- 54 For these reasons we recommend that the allocation of funds to the Aid and Trade Provision (at present around seven per cent of the total bilateral aid budget) should be substantially increased. The ATP has proved itself successful in generating substantial business in return for a relatively modest outlay. Since 1977 £1,110 million worth of export orders have been won with the assistance of £252 million in trade-related aid, ie £100 million of ATP generates business of £440 million. On the question of jobs the Minister for Trade stated earlier this year "..... if you take one broad estimate, each £17,000 of exports saves or creates one job in the short term .....". If we take this government estimate, then those export orders secured by ATP to date represent over 65,000 jobs. As ATP funds are used only to "top up" sound commercial bids, they represent outstanding value for the taxpayer's money. They can also be used to win new business in markets where the UK has not in the past operated a substantial aid programme.



- 55 The first step should, therefore, be to find a means of increasing ATP funds, to provide more resources set aside to assist commercial projects, which we believe is a prerequisite for UK firms to remain in competition for major capital project business on world markets. We feel that the potential for increased and effective use of the ATP concept is considerable. Such an increase in ATP could be brought about by an increase in the total aid budget over a period of time, or by placing greater emphasis on the bilateral allocation. The mechanism and the responsibility for the allocation of such funds would need to be re-examined with the object of giving the Department of Trade a greater or overriding say in determining priorities.
- 56 The Working Party sees, as a related problem, the disadvantages which certain of our firms suffer as a result of countries such as the US and France providing aid for the purchase of military equipment - a practice which the UK does not adopt.
- 57 We recommend that the Government should seek to discourage other governments from providing military aid of this kind, and should examine the ways in which exports of UK defence equipment should be financed in the future.



## D CONCLUSION

- 58 Our discussions have led us to believe that the time is right for a fundamental examination of ECGD, to ensure that British industry enjoys in the future a comprehensive range of export promotion services at a standard of effectiveness at least equal to those available to our major overseas competitors. In the short term we see the need for changes in ECGD's financial operations and schemes backed by discussions with banks and insurance brokers aimed at creating a more efficient operation.
- 59 In our recommendations we have sought to avoid the need to increase the public expenditure set aside for the promotion of UK exports beyond existing levels, whilst suggesting ways in which it might be redirected to provide greater benefit for British exporters, eg through a larger proportion of the Government's aid budget being given to the Aid and Trade Provision.
- 60 The Working Party emphasises that greater attention should be given to the short-end of ECGD's business, which takes up the greater proportion of time and resources. Although we recognise that the projects-end of the business is not perfect, consultation between the Department and industry has been very much more frequent in this area.
- 61 We stress that a piecemeal approach is no longer adequate to meet the demands of the situation, and that a general and thorough review of ECGD's area of operation must now be a priority for Government.