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F.

DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister for Trade

Prime Minister ②
DTI have accepted winding up of cost escalation scheme.
AT 12/12

Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London SW1

6 December 1983

Dear Peter,

I raised the question of the ECGD Cost Escalation Scheme in my letter of 2 November. In view of your reply of 8 November and the Prime Minister's views that the scheme has now outlived its usefulness, it seems right to let it lapse on the 26 March when the existing powers expire.

I am being urged by industry to make an early statement of our intentions, and I propose to do this in terms of the attached draft Parliamentary answer.

I do not foresee any problems over applications already lodged with ECGD: in only one case is there any likelihood that a contract could be signed in time to allow the issue of a guarantee before 26 March 1984, and we should of course have to honour our promise to do this if the exporter so wished but I think there is quite a likelihood that cover will not in the event be taken up.

As you know, the CBI, the Overseas Projects Board, and other representatives of the heavy end of industry, have urged very strongly that we should retain the powers to provide cost escalation cover, notwithstanding current inflation levels, as an assurance to companies contemplating bidding on major projects with long implementation periods that the cover could quickly be made available again should the need arise. Michael Heseltine's letter of 16 November also expressed the hope that the scheme might be re-introduced if economic conditions outside our control change. I do not think we need decide this now, but we may need to look at this again as circumstances change and when we next legislate for ECGD. I am copying this to members of E(A), Geoffrey Howe, Michael Heseltine, John Biffen, Michael Jopling and to Sir Robert Armstrong.

Yours,

Paul

PAUL CHANNON

DRAFT WRITTEN PARLIAMENTARY QUESTION AND ANSWER

ECGD COST ESCALATION SCHEME: RENEWAL OF STATUTORY POWER

QUESTION: To ask the Secretary of State for Trade and Industry if, in view of the current level of inflation, the powers under which the Export Credits Guarantee Department operates the cost escalation scheme, are to be renewed.

ANSWER: As a result of the Government's continued success in bringing inflation under control, very few applications have been made to ECGD for cost escalation cover in recent years. I appreciate that this scheme has in the past provided industry with considerable and valuable assistance in securing a number of major export contracts but I believe that it is no longer necessary in the current economic climate. I do not, therefore, intend to seek a further extension of the powers, and no further applications for this form of cover will be accepted. ECGD's existing commitments under cost escalation agreements already issued will, of course, remain unaffected.

FILE E(A) :- R M

Hc: N.O.

HMT✓ DOE✓ MAFF✓
NIO✓ LPS✓ Chief Sec✓
D.Energy✓ D. Trans✓
SO✓ CDL✓ CO
WO✓ D.Emp✓

10 DOWNING STREET

From the Private Secretary

13 December, 1983

ECGD COST ESCALATION SCHEME

The Prime Minister has seen the Minister for Trade's letter of 6 December to the Chief Secretary. She is content that an announcement should be made of the winding up of the ECGD Cost Escalation Scheme.

I am sending a copy of this letter to the Private Secretaries to the Members of E(A) and to John Kerr (HM Treasury), Richard Mottram (Ministry of Defence), David Heyhoe (Lord Privy Seal's Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to Richard Hatfield (Cabinet Office).

(A. Turnbull)

J. Rees, Esq.,
Department of Trade and Industry

Rev

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Paul Channon MP
Minister of State for Trade
Department of Trade
1 Victoria Street
LONDON
SW1E 6RB

9 December 1983

Dear Minister

ECGD COST ESCALATION SCHEME

Thank you for your letter of 6 December. attached

I am sure that it is right to make an early statement of our intentions and I am quite content with the terms of the draft Parliamentary Answer you have put forward. Similarly, I agree that we must honour our promise to give cost escalation cover in cases where applications are already lodged with ECGD and where the contract can be signed in time to allow the issue of a guarantee before 26 March 1984.

Finally, you suggest that when we next legislate for ECGD we should look again at the need for similar powers. Such an opportunity may arise quite quickly but you will understand from my earlier letter that I would see real objections to such a course. I therefore hope that those concerned in industry will be given no reason to expect such a step.

I am copying this letter to Members of E(A), Sir Geoffrey Howe, Michael Heseltine, John Biffen, Michael Biffen and Sir Robert Armstrong.

Yours sincerely

JSt. Giere

for PETER REES

[Approved by the Chief Secretary]

NBPM AT 7/12

Foreign and Commonwealth Office

London SW1A 2AH

ecNO

From The Minister of State

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London W1

6 December 1983

Dear Peter,

COST ESCALATION SCHEME

1. I refer to Paul Channon's letter of 2 November to you about the renewal of this Scheme.

2. In his letter of 5 January, Douglas Hurd supported the Scheme's renewal for 1983/84, but made the point that it has faced international criticism. I see that the UK has now told the EC Commission that if agreement is obtained for an extension of the Scheme beyond 26 March 1984, the benefit of the Scheme will be made available on equal terms to sub-contracts with companies in other EC Member States. This commitment is likely to increase the complexity and potential cost of operating the Scheme, with no additional benefit to UK exports.

3. A decision to end our Scheme would be welcomed by most of our EC and Consensus partners; therefore, in view of the current low level of inflation and the corresponding lack of demand for cover, I believe that ECGD's powers to provide Cost Escalation Cover should be allowed to lapse when they expire next March.

4. I am copying this to the recipients of Paul Channon's letter.

Yours ever,

Malcolm

Malcolm Rifkind

Trade ECGD Jan 80