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cc AO

ND PM

AT 29/10

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

26 October 1984

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1 Victoria Street
LONDON SW1

Dear Paul

Thank you for your letter of 15 October setting out the lines which you and Norman Tebbit propose to take in response to the recommendations of the Matthews Committee on ECGD.

On the principal issue - turning ECGD into a public corporation - I share your scepticism. The recommendation failed to take full account of important financial considerations, in particular the need for the Exchequer to continue as the ultimate guarantor and hence for controls over the enormous contingent liabilities involved and also the public expenditure and resource implications. It would certainly not provide an easy route to a more commercial approach.

However I fully accept your view that managerial and operational improvements are needed in order to give ECGD a more commercial outlook, within the framework of its present departmental status. I should therefore be happy to see the review you propose go ahead with the terms of reference attached to your letter. I attach particular importance to the review examining ways of bringing private sector attitudes to bear on the Department's business in a continuing way. The present Advisory Council's remit is far too narrow for this purpose.

Your letter also raised two other issues. On relations with the private sector, I agree that this needs further investigation and tht ECGD should be asked to explore and report back on the various issues in this area. However, I believe their terms of reference should go wider than simple collaboration, which may simply lead to suggestions that would require the Exchequer to stand behind the private sector. They should be asked to identify the types of business and risks where the private sector could be expected to provide more cover and to consider the possible withdrawal of ECGD insurance in particular areas.

I also agree that the Treasury, in consultation with the Bank of England, should take the lead in pressing on with active

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consideration of the idea of a private sector export bank. My officials have already had a number of informal talks with some of the institutions who have shown an interest. I suggest they should now take these forward more formally.

Subject to views of other colleagues, I am content with your proposal for an early statement to Parliament by Written Answer. No doubt your officials will clear the terms of that with mine.

I am copying this letter to the Prime Minister, to members of EX and to Sir Robert Armstrong.

Yours
Nigel

NIGEL LAWSON

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N BPM

AT 7/11

FCS/84/287

MINISTER OF TRADE

1. Thank you for sending me a copy of your letter of 15 October to Nigel Lawson about the recommendations of the Matthews Committee on ECGD.

2. I agree with the course of action you outlined and see that in his reply of 26 October, Nigel Lawson is generally content with what you propose.

3. I have one point to add. As you say, it is important that closer collaboration should not result in a worsening of the quality of ECGD's risk portfolio. Nigel Lawson has suggested that ECGD should consider the types of business and risks where the private sector might provide more cover and where ECGD insurance might be withdrawn. In doing that, I hope great care will be taken to avoid steps which would diminish ECGD's scope and ability to provide cover on contracts involving the national interest.

4. I am copying this minute to the Prime Minister, to other members of EX and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office

7 November, 1984

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Ex: FCO
HMT
DTI
(+CO)

10 DOWNING STREET

From the Private Secretary

8 November, 1984

ECGD

The Prime Minister has seen the exchange of correspondence between Mr. Channon, the Chancellor of the Exchequer and the Foreign Secretary. She is content with the direction in which it is proposed to take further work on ECGD.

I am copying this letter to the Private Secretaries to members of EX and to Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Steve Nicklen, Esq.,
Department of Trade and Industry

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MR OWEN

This is just to record that the Prime Minister saw the note prepared by yourself and David Hobson about the ECGD. She was not attracted by the suggestion that there should be a Board of the kind you propose on the grounds that she did not believe it would work. In these circumstances she did not wish to intervene in the correspondence between Paul Channon and the Chancellor.

TIM FLESHER

1 November 1984

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~~PP~~ please

Prime Minister:

Agree that Policy Unit suggestion should be put to DTI and the Treasury

JT 31/10

MR TURNBULL

31 October 1984

ECGD

The Chancellor has now responded to Paul Channon's letter on the Matthews Report.

We share the scepticism about the Matthews recommendation that ECGD should be replaced by a Corporation, but it is disappointing that, after another round of discussions, we seem no nearer to resolving the question: how can ECGD be run more commercially? To find the answer, a third round of work is now proposed. We suggest that it be steered towards the right answer: the appointment of an independent Board capable of resisting departmental pressures to provide cover beyond prudential limits.

We suggest that the Prime Minister should intervene at this point to suggest that the managerial review should be specifically directed to consider establishing an effective Board, with an independent Chairman of standing, and with powers to take policy decisions, in place of the existing Export Guarantees Advisory Council. This might help to provide the measure of independence from departmental pressures that ECGD badly needs.

I do not think this will work

N

David Hobson
DAVID HOBSON

Nicholas Owen
NICHOLAS OWEN

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Prime Minister (2)
To note direction DTI wish to go on ECGD AT 16/10

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5144
GTN 215) ....
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From the Minister of Trade

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15 October 1984

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Nigel.

Under cover of my letter dated 17 September 1984 to Peter Rees, I circulated the report by officials on the recommendations of the Matthews Committee on ECGD.

2 In discussion, we have agreed a course of action for which I now seek agreement from you and other colleagues primarily concerned.

3 The main recommendation of the Matthews Committee was that ECGD should be replaced by a Government-owned corporation performing broadly the same functions as ECGD. Norman Tebbit and I are sceptical about this proposal, the prospective benefits of which are far from clear, either for the export trade or for HMG. Indeed there is a danger that such a corporation would provide a more expensive and poorer quality of cover than ECGD, with no certainty that it would be more efficient.

4 To the extent that Matthews was trying to make ECGD more businesslike, I should prefer to seek managerial and operational improvements within the present framework, rather than making radical changes which would involve, inter alia, opposed primary legislation. I therefore support the proposal of a quick managerial and staffing review conducted by officials, but assisted by one or two outside consultants. Suggested terms of reference are annexed to this letter.

5 There are however two broader issues arising from Matthews which need to be followed up. The first concerns relations with the private sector. Matthews briefly dismissed the notion of privatisation, largely on the grounds that private sector involvement in export credit insurance, though growing, is still very small. Nevertheless, there may be some scope for encouraging the private market through closer collaboration with ECGD e.g

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through co-insurance or re-insurance arrangements. It is important that any such moves should not have the effect of worsening the quality of ECGD's own risk portfolio - which could have adverse repercussions on the cover given to the export fraternity at large; but the scope for collaboration needs to be investigated further than Matthews was able to carry it and, if you agree, I will ask ECGD to embark on serious discussions with those companies in the private sector which would be interested in collaboration.

6 Second, Matthews suggested that his proposed corporation should have the ability to raise its own funds. This thought was not developed, but it does lead into the possible need for an export bank. This is a topic that has been aired in the past but for various reasons has not been pursued. However, I know that a number of institutions in the City are getting interested in the scope which an export bank (with or without a Government holding) might afford for tapping cheaper long-term sources of export finance, and this is a subject which the Treasury and/or the Bank of England could perhaps study in more detail.

7 I am copying this letter to the Prime Minister and to colleagues on EX, as well as Sir Robert Armstrong. Subject to any comments which you or they may have, my intention would be to make an early statement to Parliament of the action we are taking. — Probably by Written Answer.

Yours,

PAUL CHANNON

Paul

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ANNEX

"To consider the scope for change in the management of the Department, without resort to a change in status and having regard to the tasks which ECGD is required to perform, and to make recommendations with particular reference to:

1. The organisation and staffing structure of the Department as a whole

2. The top management structure in particular

3. The role of the Export Guarantees Advisory Council

4. The need for specialist skills and knowledge in key areas

5. The methods of recruitment and training

6. The grading and remuneration structure".

JH1BBK